Aberdeenshire
COUNCIL

From mountain to sea

Annual Accounts 2017/18

For the Year to 31 March 2018

ANNUAL ACCOUNTS 2017/18 – CONTENTS

Management Commentary

Welcome to Aberdeenshire Council's Annual Accounts for 2017/18. The main purpose of the Annual Accounts is to set out the financial position of the Council for the financial year but also to demonstrate that appropriate governance is in place regarding public funds and that the expected levels of service delivery have been achieved.

The Annual Accounts have been prepared in accordance with the relevant legislation, regulations and the proper accounting practices, which primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

Aberdeenshire Council's Annual Accounts are a financial representation of the Council's strategic priorities and set out an annual investment of approximately £1 billion across local communities through the Medium Term Financial Strategy which comprises: the revenue budget, capital plan, Housing Revenue Account, reserves and the partnership arrangements of the Integration Joint Board.

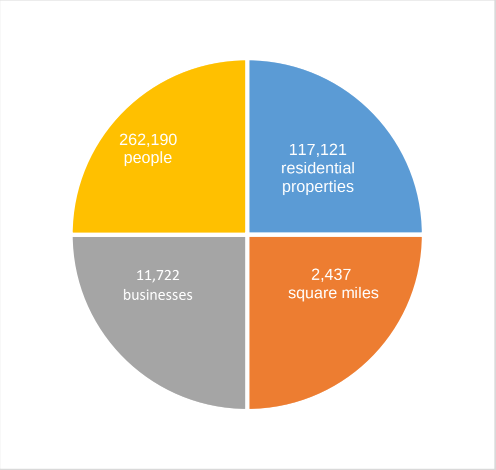
The Management Commentary is intended to provide a suitable overview to a complex document allowing the reader to determine the Council's overall performance for the year. The Management Commentary is structured as follows:

- Profile of Aberdeenshire Council
- Strategy and Business Model
- Performance
- Finances
- Principal Risks and Uncertainties
- Future Plans

As part of the accounts for 2017/18, Group Accounts have been prepared to reflect the Council's significant interest in the Aberdeenshire Integration Joint Board and the Trusts and Endowments for which the Council is the sole trustee. Therefore, the Management Commentary equally applies across the group of accounts.

Profile of Aberdeenshire Council

Aberdeenshire is Scotland's 4th largest local authority area by land mass and has a large number of towns, villages and small rural settlements and a population of just under 263,000. Geography and population distribution therefore have implications for the cost of providing services



Since May 2017, the Council has been led by an Administration comprising the Conservative group, the Liberal Democrat Group and aligned Independent Councillors. Councillor Jim Gifford was appointed Leader of the Council on 18 May 2017. The Council Plan 2017-2022 and the Scheme of Governance explain the role of the 4 Policy Committees and how Council services are managed and delivered.

Management Commentary (Continued)

The Audit Committee is independent of the 4 Policy Committees and this independence together with its broad scrutiny remit is one of the pillars of the Council's governance arrangements

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 2017-2022 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 organisations in the public sector, voluntary organisations and businesses.

The current Plan which covered the financial year 2017/18 was approved in November 2017 and was informed by the political priorities, the Strategic Assessment and a significant engagement exercise across Aberdeenshire and provides a clear direction for delivering on the Council's priorities.

The Council's Business Model is shaped by the Council's Priorities and these priorities determine the Medium Term Financial Strategy, which in turn prioritises resources allocated to an agreed scope and standard of service delivery.

Performance

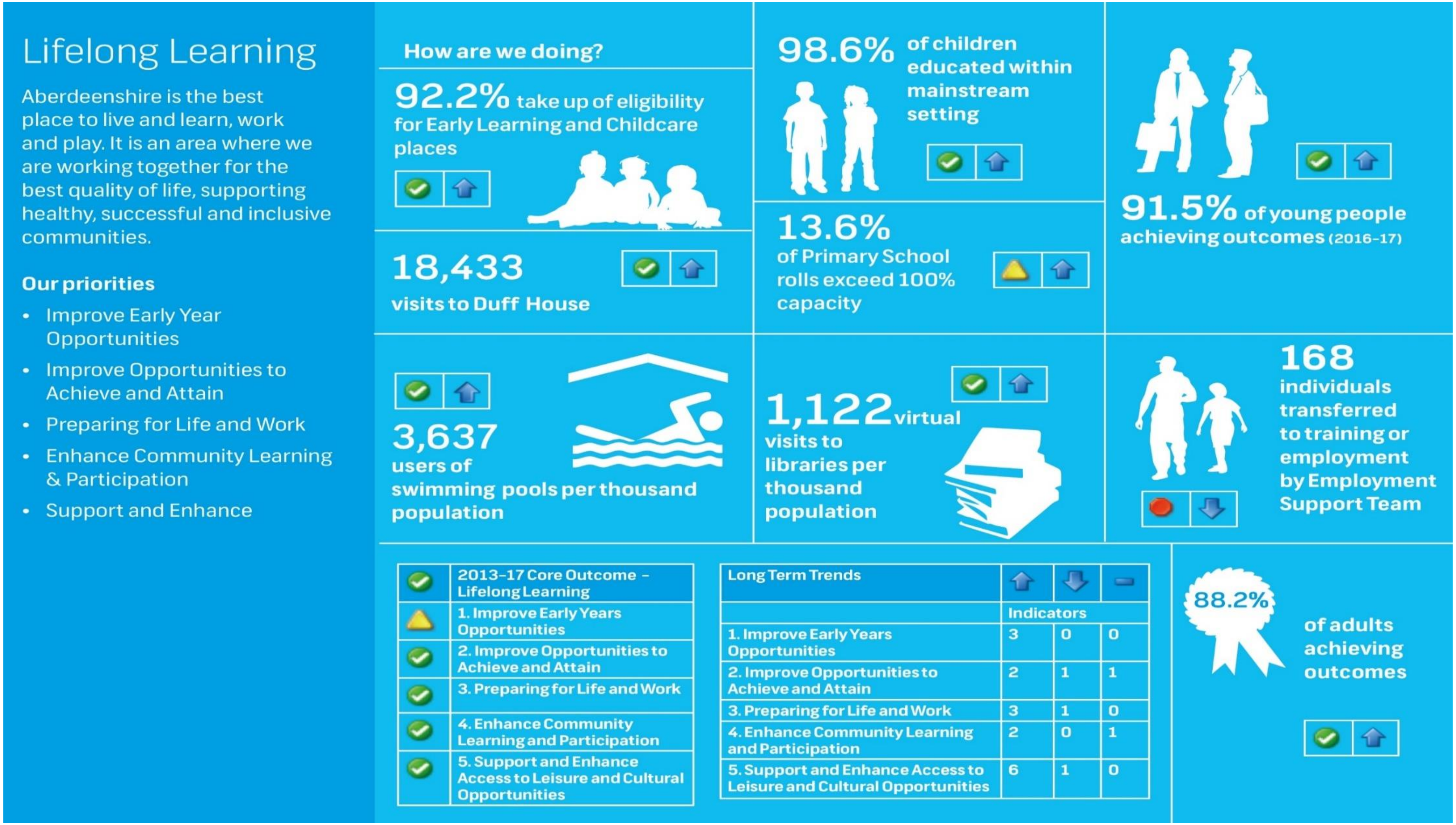
The Council is committed to being a high performing Council with a culture of performance improvement inherent in everything we do. The Council's performance and improvement framework, Aberdeenshire Performs, supports the delivery of the Council's vision and the priority outcomes identified in The Council Plan 2017-2022 which is being reported against during the transition year 2017/18. A new Council Plan was agreed in November 2017 and reporting on the priorities identified in the plan will start from 2018/19. The Council Plan is supported by a set or priority delivery plans with actions, key measures and targets against which progress can be measured, monitored and improved. Measures and targets include statutory performance indicators as required by the Accounts Commission Direction 2015 and a selection of these are used to enable residents, communities and external scrutiny to compare how Aberdeenshire Council performs against other Councils in Scotland.

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 2017/18 Annual Report will be considered by Aberdeenshire Council on 27 September 2018. The 2017/18 performance statistics show a steady improvement across the majority of performance measures, for example take up of early learning and child care places has increased as has the percentage of children educated within a mainstream setting. Business start-up numbers have increased as have visitor numbers to Duff House and to the Council's virtual museum. 95% of household planning applications were dealt with within 2 months and 96.4% of street lighting faults were completed within 7 days.

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 2016/17. 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 with the following key:

Key for annual performance:	
🔴	At least 50% of measures in this outcome are significantly below target (red)
△	At least 25% of measures in this outcome are slightly below target (amber)
✓	The majority of performance measures are on target

Key for trend analysis over life of Council Plan (2013/2017):	
⬆	Performance Improving over life of plan
▬	No Change or New Measure
⬇	Performance Declining over life of plan



Lifelong Learning

Aberdeenshire is the best place to live and learn, work and play. It is an area where we are working together for the best quality of life, supporting healthy, successful and inclusive communities.

Our priorities

- Improve Early Year Opportunities
- Improve Opportunities to Achieve and Attain
- Preparing for Life and Work
- Enhance Community Learning & Participation
- Support and Enhance

How are we doing?

92.2% take up of eligibility for Early Learning and Childcare places ✓ ↑

18,433 visits to Duff House ✓ ↑

98.6% of children educated within mainstream setting ✓ ↑

13.6% of Primary School rolls exceed 100% capacity ▲ ↑

91.5% of young people achieving outcomes (2016-17) ✓ ↑

3,637 users of swimming pools per thousand population ✓ ↑

1,122 virtual visits to libraries per thousand population ✓ ↑

168 individuals transferred to training or employment by Employment Support Team ● ↓

88.2% of adults achieving outcomes ✓ ↑

✓	2013-17 Core Outcome – Lifelong Learning
▲	1. Improve Early Years Opportunities
✓	2. Improve Opportunities to Achieve and Attain
✓	3. Preparing for Life and Work
✓	4. Enhance Community Learning and Participation
✓	5. Support and Enhance Access to Leisure and Cultural Opportunities

Long Term Trends	↑	↓	–
	Indicators		
1. Improve Early Years Opportunities	3	0	0
2. Improve Opportunities to Achieve and Attain	2	1	1
3. Preparing for Life and Work	3	1	0
4. Enhance Community Learning and Participation	2	0	1
5. Support and Enhance Access to Leisure and Cultural Opportunities	6	1	0

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

✓ ↑

96.4% street lighting faults completed in 7 days

1.4% half day truancy/ unexplained absences for Looked after Children

✓ ↑

⚠ ↓

71.5% of offenders offered unpaid work placement within 7 working days of court order being made (2016-17)

74.6% number of Trading Standards complaints dealt with within 14 days

✓ ↓

32.4% of over 65s with intensive care needs receiving care at home

✓ ↑

98.6% children educated in a mainstream setting

✓ ↑

91.8% of occupational therapy assessments carried out within target timescales

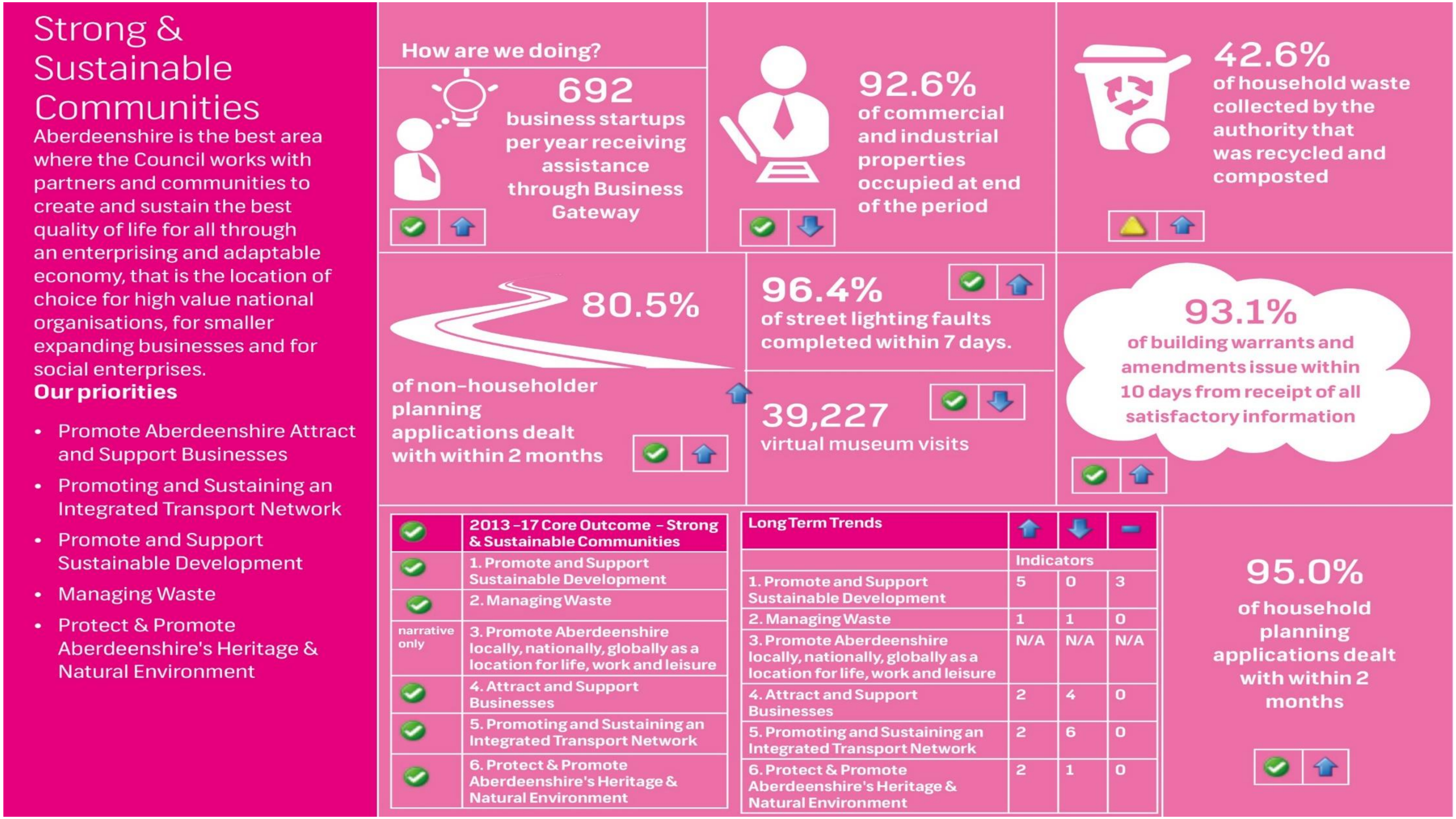
✓ ↓

⚠	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

Long Term Trends	↑	↓	–
	Indicators		
1. Promote and support safe communities	1	6	3
2. Providing quality public spaces	0	1	2
3. Support and protect vulnerable children, young people and adults	2	0	1
4. Support independence for adults and older people	2	1	0
5. Provide quality, affordable housing	0	2	0

● ↓

170 new affordable homes developed this year



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 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?

692 business startups per year receiving assistance through Business Gateway ✓ ↑

92.6% of commercial and industrial properties occupied at end of the period ✓ ↓

42.6% of household waste collected by the authority that was recycled and composted △ ↑

80.5% of non-householder planning applications dealt with within 2 months ✓ ↑

96.4% of street lighting faults completed within 7 days. ✓ ↑

39,227 virtual museum visits ✓ ↓

93.1% of building warrants and amendments issue within 10 days from receipt of all satisfactory information ✓ ↑

✓	2013 –17 Core Outcome – Strong & Sustainable Communities
✓	1. Promote and Support Sustainable Development
✓	2. Managing Waste
narrative 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

Long Term Trends	↑	↓	−
	Indicators		
1. Promote and Support Sustainable Development	5	0	3
2. Managing Waste	1	1	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	4	0
5. Promoting and Sustaining an Integrated Transport Network	2	6	0
6. Protect & Promote Aberdeenshire's Heritage & Natural Environment	2	1	0

95.0% of household planning applications dealt with within 2 months ✓ ↑

Public Service Excellence

Aberdeenshire is the best council. It is a dynamic, effective organisation aiming to provide excellent services by finding new and more efficient ways of doing things. The focus is on continuous improvement of the quality and efficiency of service provided with strong leadership and motivated employees.

Priorities

- A Focus on the Customer
- Effective Resource & Asset Management
- The Best Workforce
- Excellent Communication, Performance & Improvement

How are we doing?

92.8% first point of contact resolution for all service requests ✓ ↑

Shared Risk Assessment local scrutiny plan indicates all areas are 'No Scrutiny Required' ✓ –

65% highest paid 5% employees who are women ✓ ↑

96.5% investigation responses fully resolved within 20 working days ✓ ↑

91.43% of people who believe Aberdeenshire Council delivers value for money ✓ ↓

● ↓ **34.7%** of key projects delivered on time for property related construction projects

✓	2013–17 Core Outcome – Public Service Excellence
✓	1. Effective Resource & Asset Management
✓	2. Excellent Communication, Performance & Improvement
✓	3. A Focus on the Customer
✓	4. The Best Workforce

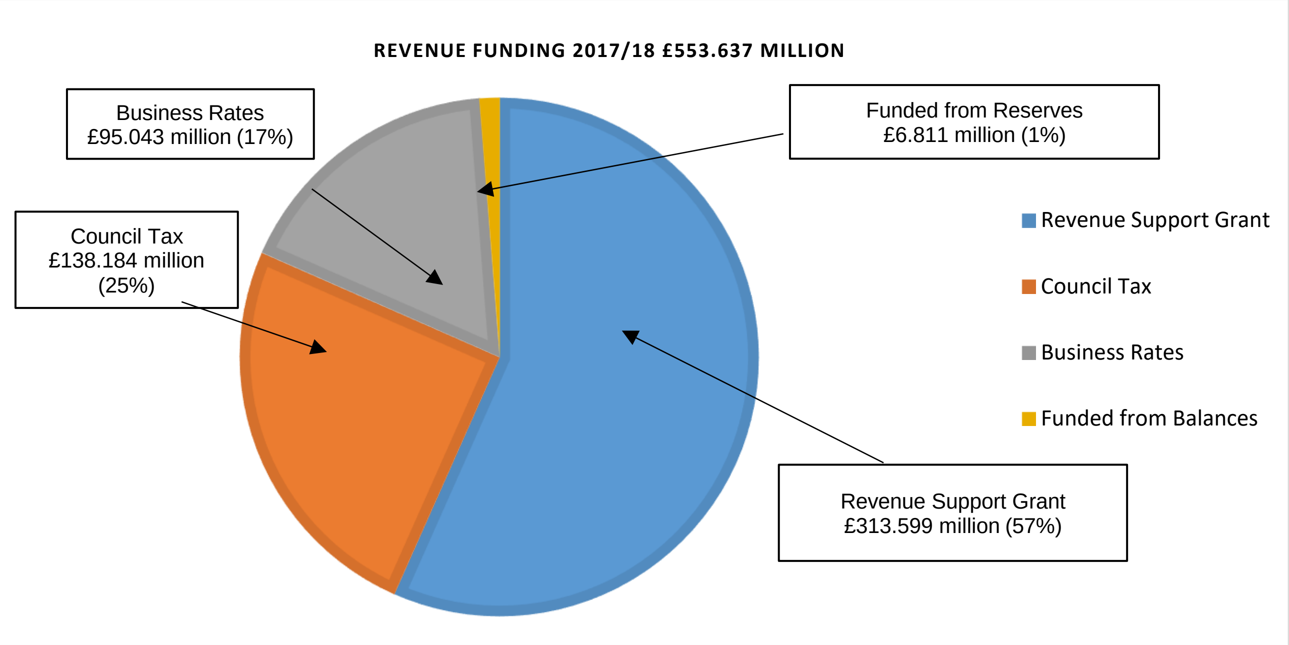
Long Term Trends	↑	↓	–
	Indicators		
1. Effective Resource & Asset Management	5	9	1
2. Excellent Communication, Performance & Improvement	1	1	1
3. A Focus on the Customer	12	2	0
4. The Best Workforce	4	2	0

93.55% of our clients felt confidence in our knowledge of the law and scoring either 'fairly' or 'very' confident in the Customer Feedback Survey ✓ ↓

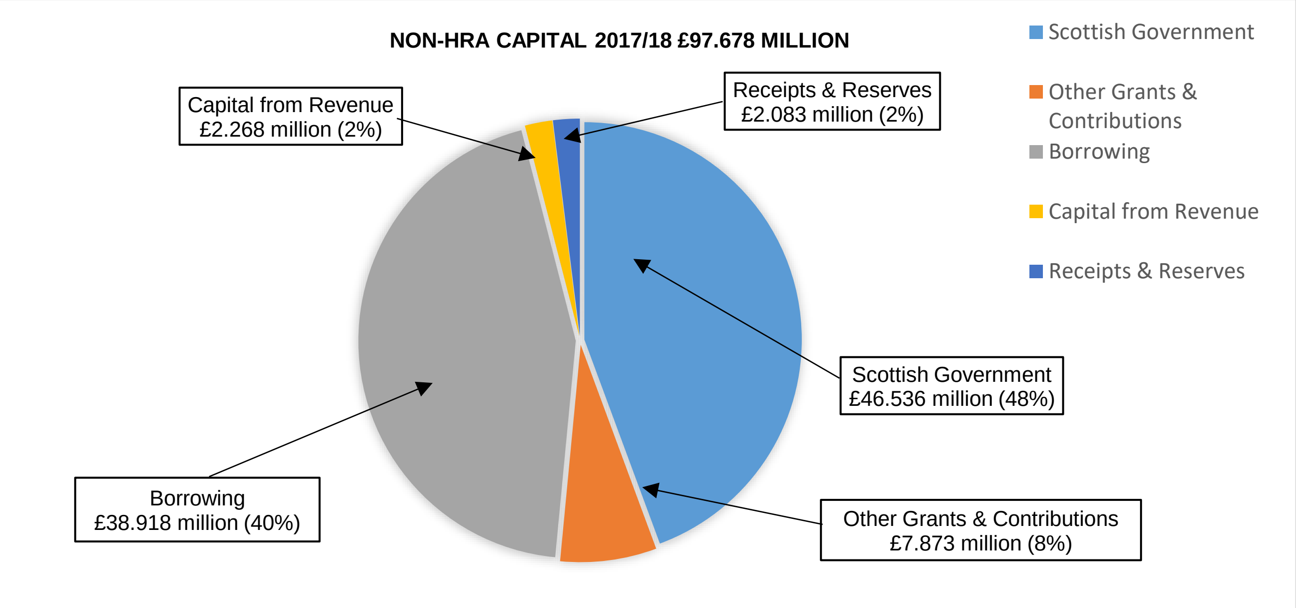
Finances

As part of the Medium-Term Financial Strategy, the revenue budget for 2017/2018 was approved by Council on 9 February 2017. Constraints on public expenditure at a time of increasing demand continue to present challenges for Aberdeenshire Council as it strives to utilise its available resources to deliver vital services to residents and businesses.

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on day to day costs associated with providing Council Services is revenue whereas spending on assets that have a useful value to the Council over many years is referred to as capital. The financing of revenue and capital expenditure comes from different sources:

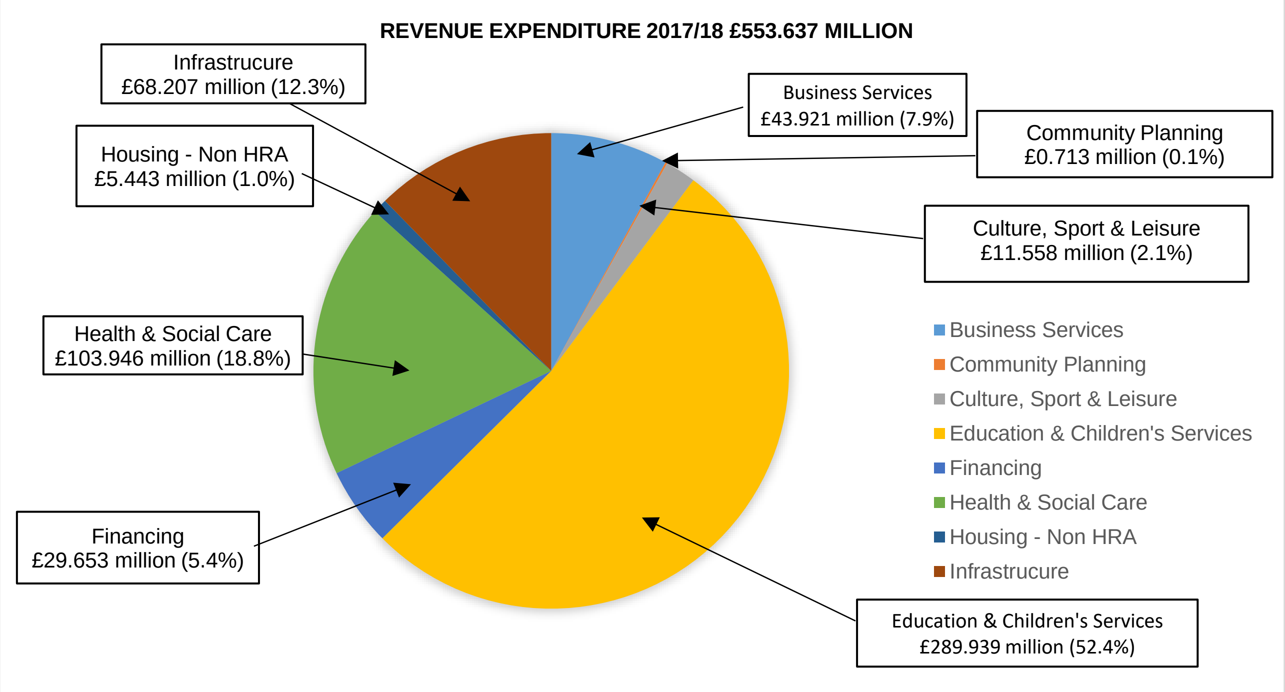


The funding information in the above chart reflects the decisions taken at Full Council's decision on 28 June 2018 in response to the 2017/18 Financial Year End position.



Actual expenditure was £553.637 million, which is £387,000 higher than budgeted and less than 0.07% higher than the agreed budget. The Council has to report on variances from budget of over £100,000 and the reasons for these variances. This information is available in the Report on the Financial Year End Position 2017/18 that was reported to Full Council on 28 June 2018.

The following graph shows an analysis of the Council's expenditure, which excluding the Financing figure of £29.653 million, reconciles to the Net Cost of Services of £523.727 million in the Expenditure and Funding Analysis on page 20 of the Accounts.



Every day the Council spends just over £1.5 million delivering a wide range of services to residents and businesses across Aberdeenshire. This includes providing for the staffing and maintenance of 87 nurseries, 151 primary schools, 17 secondary schools and 4 special schools, which on a daily basis educate almost 35,500 pupils. It also provides for 10 family resource centres, 3 children's homes, 8 care homes and 33 day-centres for our most vulnerable residents. Revenue expenditure also results in the maintenance of 3,430 miles of road, 44,696 street lights, 1,270 bridges, 229 burial grounds, 446 play parks and 113 car parks. The Council's expenditure enables a weekly waste collection for 117,121 residential properties and the provision of 45 community centres, 15 swimming pools, 36 libraries, 4 sports centres and 11 museums.

In 2017/18 the Council was responsible for billing and collecting £134.199 million in council tax, of which £1.243 million derived from council tax liability related to second homes was ring-fenced for the delivery of affordable housing. The accounting treatment for reporting ring-fenced council tax income from second homes was changed in 2017/18. Any balance at 31 March was previously carried as a creditor in the Annual Accounts. This income is now being recognised in the year it was collected and transferred to an Earmarked Reserve. Consequently 2016/17 has been re-stated to reflect this change in, resulting in accumulated balances collected in previous years being recognised in 2016/17. This has resulted in an earmarked reserve of £2.047 million.

In 2017/18 the Council's contribution to the National Non-Domestic Rates Pool was £112.879 million, this was after the retention of £954,000 of Business Rates Income Retained by the Council (BRIS). The Council was allocated £95.829 million from the National Non-Domestic Rates Pool, less £1.740 million related to the value of relief schemes which fell under the discretion of the Council.

The Council's borrowing is underpinned by its medium-term financial strategy and its treasury management policy. During 2017/18 the Council's long-term borrowing decreased by £18.631 million compared to 2016/17. The cost of financing that borrowing in 2017/18 was the equivalent of 5.35% of the Council's total expenditure and this reflects the relatively low interest rates available to the Council and the approach to borrowing set out within the medium-term financial strategy.

The Council operates a number of statutory and other Reserve Funds. The total opening balance as at 1 April 2017 was £48.827 million. A number of planned transfers into and out of reserves were approved during the year and these are detailed in the Movement in Reserves Statement. This resulted in a closing balance of £42.532 million.

In 2017/18 the Council's budget for capital expenditure was £134.917 million. Actual expenditure was £105.178 million or £29.739 million lower than anticipated. Whilst capital expenditure was lower than budgeted for in 2017/18, the Capital Plan delivers large scale projects which can and will take longer to deliver than sometimes expected. Therefore, the Capital Plan should be viewed as a series of connected years rather than just individual financial years and as such the majority of the £29.739 million will be carried forward into the new financial year to deliver agreed projects.

The Table below details the Council's capital expenditure.

Strategic Priority 2017/18	£'000
Adult Social Care	123
Business Services	16,227
Capital Funded from Current Revenue	7,180
Children	1,613
City Region Deal	13,821
Education & Learning	22,721
Housing - Non HRA	1,137
Planning	176
Roads, Landscape & Waste Management	28,367
Sport & Leisure	797
Transportation	5,516
Total	**97,678**

The capital expenditure of £97.678 million included 3 new primary schools: Uryside in Inverurie, Kinellar and Markethill in Turriff, £8.6 million on roads resurfacing, the completion of the Westfield Hub in Fraserburgh, £3.3 million on harbours, coast and flood defences as well as expenditure related to the initial design phase of Inverurie Community Campus and the creation of the Oil and Gas Technology Centre as part of the City Region Deal. Capital spending included £11.5 million in respect of the Aberdeen Western Peripheral Route. The Memorandum of Understanding between Transport Scotland, Aberdeenshire and Aberdeen City Councils limits each Council's contribution to the Project to £75 million. All expenditure incurred to date has been reflected within the annual accounts for the relevant years. The remaining balance of expenditure is provided for in the Council's Capital Plan and is reviewed quarterly.

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 HRA is underpinned by a 30-year Business Plan, which was reviewed in 2017/18. The HRA Revenue and Capital Financial Outturn 2017/18 was reported to Communities Committee on 31 May 2018. The major movement between 2016/17 and 2017/18 in the HRA relates to the Depreciation, Amortisation and Impairment of Non-Current Assets. In 2016/17 this figure was £179.922 million, compared to £25.553 million in 2017/18. This movement relates to the impairment of assets following a review in 2016/17.

HRA capital expenditure in 2017/18 amounted to £31.604 million, which was mainly spent on improving the existing council housing stock including expenditure on energy efficiency measures, which will reduce fuel bills for tenants and ensure compliance with the Scottish Government's Energy Efficiency Standards, and building new council houses. Capital Expenditure was under the agreed budget by £4.861 million. Again, the HRA Capital Plan should be viewed as a series of connected years rather than just individual financial years and as such the majority of the £4.861 million will be carried forward into the new financial year to deliver agreed projects. The Movement in Reserves statement provides details of the General Fund balance and the Housing Revenue Account balance.

The North East Scotland Pension Fund (NESPF) is a local government pension scheme for a range of organisations including Aberdeenshire Council, Aberdeen City and Moray Council. The pension fund has 10,707 active members in Aberdeenshire Council and there are currently 4,718 pensioners and dependants who were employed by Aberdeenshire Council or the predecessor authorities in receipt of a pension and 7,065 deferred pensioners.

The Fund was subject to its triennial actuarial valuation as at 31 March 2017 and the asset value has increased from £3.810 billion to £4.146 billion as at 31 March 2018, an increase of 8.8%. The Council's share of the asset value of the Fund at 31 March 2018 is £1.241 billion, whilst its share of the liability is £1.496 billion, which when compared to the 2016/17 figures shows an improved net position of £137.838 million.

The triennial valuation prepared by the Actuaries concluded that the Fund's total assets are predicted to be sufficient to cover 108% of its liabilities and it set the employer contribution rates at 19.3% for the period 1 April 2018 to 31 March 2021. In accordance with International Accounting Standard (IAS) 19 the Actuaries determine the pension asset/liability to be included in the financial statements. An IAS 19 assessment generally involves adjusting the most recent triennial valuation to reflect the latest available data i.e. a roll forward approach. Due to the roll forward nature of IAS 19 reports and the date on which the report was prepared, differences between estimated figures provided by the Actuary (e.g. assets) and the actual experience of the fund may have a material impact on the net liability position. This was case for most Councils in 2017/18. The revised information from the Actuary in August 2018 confirmed that the asset values in respect of Aberdeenshire Council had improved by £43.747 million and as this is a material figure the accounts have been amended to reflect the improved position.

The Aberdeenshire Integration Joint Board (IJB) forecast an overspend position throughout the year on a budget of some £300 million. When the Council set its budget on 9 February 2017 it agreed to contribute £105 million towards the funding of the IJB, which included £2.676 million related to the ring-fenced grant from the Scottish Government for criminal justice. The actual outturn position for the Board showed an overspend position of £3.483 million and in accordance with the Scheme of Integration the Council and NHS Grampian have been asked to contribute additional funding sufficient to enable the IJB to break even. The Council agreed to contribute additional funding of £1.479 million for 2017/18 at Full Council on 28 June 2018.

The budget pressures experienced by the IJB are illustrative of the demographic challenges faced by the Aberdeenshire Health and Social Care Partnership as it tries to address an increasing demand for its services, particularly given the complex needs of its clients. The Reshaping Care at Home Programme, which was reported to the IJB on 23 May 2018, is one part of the Partnership's strategic priorities specifically aimed at addressing the most appropriate use of acute and community resources.

The Programme is a good example of early intervention work by a multi-disciplinary team aimed at improving and enabling older people to increase their own capabilities so that they are less reliant on home care services and this involves the increasing use of digital health care technology.

Principal Risks and Uncertainties

The Council's risk management and business continuity activities focus on the key elements and themes documented in the Risk Management and Business Continuity Strategy. The principal risks and uncertainties facing the Council are broadly similar to those faced by many organisations in the public sector.

The risk management process uses a Risk Register structure which is aligned to the Council structure and it differentiates between strategic and operational risk. The Corporate Strategic Risk Register is aligned to 10 Principal Risks, which include for example budget pressures, legislative and policy changes at UK and Scottish Government level, business and organisational change and cyber security. Each of these will be managed by a Director and assigned to an appropriate Head of Service. The Risk Manager prepares a Quarterly Management Review for the Strategic Leadership Team, which then goes to the members of Audit Committee and Business Services Committee via Ward Pages. This is currently under review with consideration being given to reporting directly to an appropriate Committee. The Corporate and Business Services Risk Registers are available on the Council's website.

The Future

The Council faces a number of opportunities and challenges as a result of legislation and policy changes, some of which are already in place, that will affect the Council's future business, performance and finances:

- On 8 March 2018 the Council agreed to adopt a new model for the delivery of culture, sport and leisure facilities across Aberdeenshire. The Culture and Sport Business Unit will be designed to provide a genuinely different service environment, which can deliver the Council priority of improving health and wellbeing.
- On 26 April 2018 the Council approved an Office Space Strategy that will see the retention of Woodhill House, the replacement of Gordon House with an extension to Inverurie Town Hall incorporating a service point, civic space and community space, the refurbishment of offices in Stonehaven and new build offices in Ellon.
- Innovate Aberdeenshire is the Council's digital strategy and it clearly defines how technology and digital services can support delivery of the Council vision and enable improvements in service delivery and efficiency for example through the Reshaping Care at Home Programme or the Office Space Strategy.
- Aberdeenshire Council's Medium Term Financial Strategy represents a structured approach to financial planning across Services and sets out a complete view of the Revenue Budget, Capital Plan and Reserves allowing the Council to consider and plan the full financial impact of decisions taken now on next year's budget and an indication of the impact on future years.
- The changing demographics in the area continue to have a major impact with a forecast substantial rise in the number of adults aged over 75 during the next decade.
- Welfare reform by both the UK and Scottish Governments will impact on the workload and delivery of financial assistance and support to financially vulnerable households. Universal Credit rolled out in part of the Kincardine and Mearns area in November 2017 and rolled out across the three Jobcentre Plus areas serving the North of Aberdeenshire in June 2018.
- 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. The Education and Children's Service continue to implement the provisions of the Act.
- The Waste (Scotland) Regulations 2014 have been implemented in part, with a ban on municipal biodegradable waste going to landfill by 1 January 2021 expected. The Council is working collaboratively with neighbouring authorities with regard to the future management of residual waste.
- Aberdeenshire Council has for the first time set a Carbon Budget for the financial year 2017/18. The Carbon budget is the first to be established by a local authority in Scotland. Carbon Budgeting is a tool which can be utilised to ensure that each service is accountable for reducing its carbon emissions and allows the Council to better manage its emission targets.
- The Planning (Scotland) Bill which was introduced to the Scottish Parliament on 4 December 2017 will result in changes to the Scottish Planning system. A Report on the Planning (Scotland) Bill was debated at Infrastructure Services Committee on 25 January 2018 and it highlights the changes to the planning system.

Given these challenges and uncertainties, the Council continues to demonstrate a long-term plan to support a shift towards prioritised spending, supporting early intervention and service redesign where appropriate whilst meeting agreed outcomes. In February 2018, the Council agreed a budget for 2018/19 with provisional budgets for 2019/20 – 2022/23. These provisional budgets indicated a potential investment resource available to the Council of some £1 billion per year across revenue budgets, capital plans, Housing Revenue Account, reserves and the Health & Social Care Partnership resources. The prioritisation and balancing of this resource, aligned to the Council priorities is the focus of the Medium-Term Financial Strategy.

Jim Gifford	Jim Savege	Alan Wood
Leader of the Council	Chief Executive	Head of Finance

On behalf of the Councillors and Strategic Leadership Team

20 September 2018

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 Audit Committee at its meeting on 20 September 2018.

Signed on behalf of Aberdeenshire Council

Councillor Jim Gifford
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 and its Group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2018.

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

Annual Governance Statement

Aberdeenshire's Vision

The Council Plan articulates a shared aspiration for Aberdeenshire as the best area and best Council and sets out a clear strategic direction for creating a successful and sustainable region by supporting people and communities to realise their potential.

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 2016 the Council approved the current Scheme of Governance to ensure that there were appropriate arrangements for the governance of the Council's resources. On 23 November 2017 Councillors agreed the strategic direction for the Council through the approval of the Council Plan which informs the setting of the Council's Medium Term Financial Strategy. Priority plans and Head of Service Business Plans are shaped by the Council Priorities. The Council's performance management and reporting framework in conjunction with the Council's Risk Registers are the tools which Councillors will use to scrutinise delivery of the Council Plan.

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 (2016) as set out in *Delivering Good Governance in Local Government: Framework (2016),* 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 and extends to the entities included in the Council's Group Accounts.

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 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 2018 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 it in practice. The Governance Code has been reviewed and although initially it was thought that the review would be considered by Full Council it was agreed that the scrutiny of the review sat within the remit of the Audit Committee.

The review took account of *CIPFA's Delivering Good Governance in Local Government: Framework (2016*) and was reported to Audit Committee on 24 May 2018. A copy of the Governance Code Report and the Self-Assessment is available through the attached link.

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

- The Council's Scheme of Governance, comprising Standing Orders, Delegations, Financial Regulation and Guidance;
- 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 Education Scotland, 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 including:

- The Council and its Committees, including the 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, the Head of Finance and the Chief Social Work Officer. 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 to 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;
- 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 Education Scotland, the regulation and inspection of care services by the Care Inspectorate and housing service inspections by the Scottish Housing Regulator: and
- Regular self-assessment and evaluation using the council's corporate framework 'How Good Is Our Council?'. A thematic self-assessment and evaluation focused on the Governance Code was undertaken in March 2017 and a range of improvement actions identified including increasing awareness of the Governance Code across the council

The Council's Governance Code 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 can include recommendations for the Council to address. The Council recognises the importance of these recommendations and developed an Action Plan which was reported to Audit Committee on 21 September 2017. 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 Accountancy Finance Manager.

There were 4 recommendations in the action plan arising from the 2016/17 Accounts. This compared to 11 recommendations in the action plan for 2015/16. The Governance Code of Conduct Self-Assessment has been completed and this was reported to Audit Committee on 5 July 2018. Budgets only change in year as a result of approved virements in accordance with the Council's Scheme of Governance and the Revenue Budget Monitoring Reports, which go before the Council's Policy Committees separately identify planned and unplanned virements and recent changes to the Reports better enable Councillors to see the impact of virements on the original budget.

Council property valuations are now supported by an increased number of physical inspections and in 2018/19 this will be based on a sample that is reflective of the Council's property categories. There is now a planned programme whereby around 50 properties will be inspected each year with any variation being agreed and documented in the terms of engagement. The Table below shows the number of inspections which took place in 2017/18.

Year	Industrial	Miscellaneous	Cost-Based	Residential	Commercial	**Total**
2017/18	20	2	14	8	2	**46**

The Council has increased the use of I-Procurement and the number of suppliers who have implemented e-invoicing, which reduces the risk of inappropriate or unauthorised expenditure but there is still more work to be done on this. A review is being undertaken to clarify the level to which budget responsibility has been delegated by service budget holders, the limits of that authority and this is expected to be completed by the end of November 2018.

The Chief Internal Auditor has the responsibility to review independently, and report to the 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 framework of governance, risk management and control in the year to 31 March 2018.

However, as in previous years, some significant concerns have been identified throughout the year. Recommendations graded as "major" have been made in 7 reports in 2017/18 (10 in 2016/17 and 10 in 2015/16): Health and Safety, Payroll System, Timesheets and Allowances, Compliance with Procurement Related Legislation and Financial Regulations, Proposed Sport and Culture Trust, Gas Servicing Procedures, and Education Procurement. The outcome of these audits, along with others, and concerns regarding the implementation of previously agreed recommendations have been reported to the Audit Committee throughout the year.

Recommendations made regarding the issues identified have been agreed with management and Internal Audit will be ascertaining progress with implementing these during 2018/19. Progress made by Services will help inform Internal Audit's annual opinion for 2018/19.

In addition to the above, it is important to include that areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports.

In December 2017 Internal Audit was subject to an External Quality Assessment by Dundee City Council's Internal Audit Section and a draft report was received in May and has been responded to. The outcome of the Assessment will be reported to Audit Committee on 20 September 2018.

Aberdeenshire's Integration Joint Board (IJB) for Health and Social Care is now well established with full delegation of functions and resources. The revenue budget for the IJB is reported to the Board, which includes the Chief Financial Officers of NHS Grampian and Aberdeenshire Council. The Council's contribution to the IJB is part of the Revenue Budget Monitoring Report that goes to Communities Committee and Full Council, which is in accordance with the Scheme of Governance.

Aberdeenshire Council Budget 2018/19

The Council used the feedback from its extensive engagement exercise on the Council's priorities, which ran from June to September 2017, to inform the setting of the budget for 2018/19. The 1,500 responses that were received and the resultant report were a valuable source of information on the views and attitudes of residents and employees when it came to considering where the Council's budget priorities should lie.

Action Plan

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

- A formal review of the Scheme of Governance between June and December 2018 and;
- A review of the Code of Corporate Governance during 2018;
- Implementing the recommendations from internal and external audit and other audits and inspections;
- Review the governance arrangements around corporate projects;
- Support members to carry out their scrutiny function through continuous professional development, awareness and workshop sessions.
- An open and transparent medium-term financial strategy that has at its core the Council's priorities.
- A Report to Full Council in November 2018 following a review of the Council's reserves.

Conclusion

Our annual governance statement summarises the Council's governance arrangements and affirms our commitment that they are reviewed regularly and remain appropriate for the activities and delivery of services by the Council and its Group. Subject to the above assurances, the development and implementation of the Action Plan 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	Councillor Jim Gifford
Chief Executive	Leader of the Council

On behalf of the Officers and Councillors of Aberdeenshire Council
20 September 2018

Independent auditor’s report to the members of Aberdeenshire Council and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Aberdeenshire Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Balance Sheets, and Movement in Reserves Statements, the council-only Expenditure and Funding Analysis, 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 the Common Good Funds and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group 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 2017/18 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.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Head of Finance and Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
4th Floor, 102 West Port
Edinburgh
EH3 9DN

20 September 2018

Expenditure and Funding Analysis for year ended 31 March 2018

This statement shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Committees. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

Net Expenditure Chargeable to the General Fund and HRA Balances 2016/17 Restated £'000	**Adjustments Between the Funding and Accounting Basis 2016/17 Restated £'000**	**Net Expenditure in the CIES 2016/17 Restated £'000**	**Aberdeenshire Services**	**Net Expenditure Chargeable to the General Fund and HRA Balances 2017/18 £'000**	**Adjustments Between the Funding and Accounting Basis 2017/18 £'000**	**Net Expenditure in the CIES 2017/18 £'000**	**Notes Ref**
39,525	6,689	46,214	Business Services Committee	43,921	4,269	48,190	
114,837	6,770	121,607	Communities Committee	115,954	17,514	133,468	
293,496	40,635	334,131	Education and Children's Services Committee	295,437	44,233	339,670	
67,266	23,708	90,974	Infrastructure Services Committee	68,415	32,319	100,734	
-	160,460	160,460	Housing Revenue Account	-	5,912	5,912	
515,124	**238,262**	**753,386**	**NET COST OF SERVICES**	**523,727**	**104,247**	**627,974**	
*(507,370)	(37,811)	(545,181)	Other (Income) and Expenditure	(513,188)	(37,495)	(550,683)	
7,754	**200,451**	**208,205**	**Deficit**	**10,539**	**66,752**	**77,291**	**5,6**
(46,933)			Opening General Fund and HRA Balance at 1 April	(42,898)			
7,754			(Plus)/Less (Surplus)/Deficit on the General Fund and HRA Balance in the Year	10,539			
(3,719)			Transfer from Statutory Reserves	(2,860)			
(42,898)			**Closing General Fund and HRA Balance at 31 March**	**(35,219)**			

*Re-stated

Comprehensive Income and Expenditure Statement (CIES) for the Year Ended 31 March 2018

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 or rents. Authorities raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the EFA and the MIRS.

Council Restated			Group		Council			Group	
Gross Expenditure 2016/17 £'000	**Income 2016/17 £'000**	**Net Expenditure 2016/17 £'000**	**Net Expenditure 2016/17 £'000**	**Aberdeenshire Services**	**Gross Expenditure 2017/18 £'000**	**Income 2017/18 £'000**	**Net Expenditure 2017/18 £'000**	**Net Expenditure 2017/18 £'000**	**Notes Ref**
*124,889	(78,675)	46,214	46,214	Business Services Committee	123,295	(75,105)	48,190	48,190	
*283,166	(161,559)	121,607	121,607	Communities Committee	299,397	(165,929)	133,468	133,468	
*348,424	(14,293)	334,131	334,131	Education and Children's Services Committee	354,277	(14,607)	339,670	339,670	
*169,738	(78,764)	90,974	90,974	Infrastructure Services Committee	183,517	(82,783)	100,734	100,734	
*217,628	(57,168)	160,460	160,460	Housing Revenue Account	65,653	(59,741)	5,912	5,912	
-	-	-	-	Exceptional Items	-	-	-	-	
1,143,845	**(390,459)**	**753,386**	**753,386**	**SERVICE TOTALS**	**1,026,139**	**(398,165)**	**627,974**	**627,974**	
(75,637)	75,637	-	-	Adjustment to Remove Central Charges	(71,633)	71,633	-		
-	-	-	22	Charitable Trusts and Endowments	-	-	-	2	
1,068,208	**(314,822)**	**753,386**	**753,408**	**COST OF SERVICES**	**954,506**	**(326,532)**	**627,974**	**627,976**	EFA, 5
-	(1,774)	(1,774)	(1,774)	(Gains) on the Disposal of Non Current Assets and AHfS	-	(1,241)	(1,241)	(1,241)	6
-	**(1,774)**	**(1,774)**	**(1,774)**	**Other Operating Income**	**-**	**(1,241)**	**(1,241)**	**(1,241)**	
29,284	-	29,284	29,284	Interest Payable and Similar Charges	29,027	-	29,027	29,027	22
*8,922	-	8,922	8,922	Net Interest on Net Defined Benefit Liability	10,605	-	10,605	10,605	35
56	(2)	54	54	Changes in the Fair Value of Investment Properties	(26)	1	(25)	(25)	16
-	(625)	(625)	(625)	Interest Receivable and Similar Income	-	(632)	(632)	(632)	22
-	-	-	(615)	Investment Gains on Charitable Trusts and Endowments	-	-	-	26	
-	-	-	(5)	Share of Integration Joint Board Surplus	-	-	-	5	
38,262	**(627)**	**37,635**	**37,015**	**Financing and Investment Income and Expenditure**	**39,606**	**(631)**	**38,975**	**39,006**	
-	**(581,042)**	**(581,042)**	**(581,042)**	**Taxation and Non-Specific Grant Income**	**-**	**(588,417)**	**(588,417)**	**(588,417)**	9
		208,205	**207,607**	**Deficit on Provision of Services**	**994,112**	**(916,821)**	**77,291**	**77,324**	6
		(61,688)	(61,688)	Surplus on revaluation of Non Current assets and AHfS	-	(1,760)	(1,760)	(1,760)	
		*144,675	144,675	Actuarial (gains)/losses on pension assets/liabilities	-	(220,217)	(220,217)	(220,217)	35
		82,987	**82,987**	**Other Comprehensive Income and Expenditure**	**-**	**(221,977)**	**(221,977)**	**(221,977)**	
		291,192	**290,594**	**Total Comprehensive Income and Expenditure**	**994,112**	**(1,138,798)**	**(144,686)**	**(144,653)**	

*Restated – see Note 10

Balance Sheet as at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council and its Group. The net assets of the Council/Group (assets less liabilities) are matched by the reserves held by the Council/Group. Reserves are reported in two categories: (i) Usable reserves, i.e. those reserves that the Council/Group 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/Group 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".

Restated Council 2016/17 £'000	Restated Group 2016/17 £'000		Council 2017/18 £'000	Group 2017/18 £'000	Note Ref
2,022,896	2,022,896	Property, Plant and Equipment	2,022,772	2,022,772	14
1,964	1,964	Heritage Assets	1,964	1,964	15
1,687	1,687	Investment Properties	1,712	1,712	16
1,402	1,402	Intangible Assets	1,486	1,486	17
77	77	Long Term Investments	77	77	22
7,327	7,327	Long Term Debtors	8,763	8,763	25
2,035,353	**2,035,353**	**Long Term Assets**	**2,036,774**	**2,036,774**	
25,000	28,630	Short Term Investments	10,000	13,602	22
933	933	Assets Held for Sale	882	882	18
4,003	4,003	Inventories	4,282	4,282	24
40,126	40,131	Short Term Debtors	42,892	42,892	25
6,408	6,408	Cash and Cash Equivalents	11,289	11,289	22, 26
76,470	**80,105**	**Current Assets**	**69,345**	**72,947**	
(24,505)	(24,505)	Short Term Borrowing	(72,838)	(72,838)	22
*(83,774)	*(83,780)	Short Term Creditors	(88,123)	(88,129)	27
(502)	(502)	Provisions	(2,789)	(2,789)	28
(392)	(392)	Revenue Grants Receipts in Advance	(2,086)	(2,086)	29
(109,173)	**(109,179)**	**Current Liabilities**	**(165,836)**	**(165,842)**	
(584,762)	(584,762)	Long Term Borrowing	(566,131)	(566,131)	22
*(2,812)	*(2,812)	Long Term Creditors	(2,736)	(2,736)	27
(10,049)	(10,049)	Provisions	(6,861)	(6,861)	28
*(414,211)	*(414,211)	Pension Liabilities	(231,573)	(231,573)	35
(110)	(110)	Finance Leases	(105)	(105)	19, 22
(63,772)	(63,772)	PFI and PPP Liabilities	(61,013)	(61,013)	20, 22
(15,713)	(15,713)	Capital Grants Receipts in Advance	(15,957)	(15,957)	29
(1,091,429)	**(1,091,429)**	**Long Term Liabilities**	**(884,376)**	**(884,376)**	
911,221	**914,850**	**Net Assets**	**1,055,907**	**1,059,503**	
(52,812)	(52,812)	Usable Reserves	(42,789)	(42,789)	MIRS
-	(3,629)	Share of Usable Reserves of Subsidiary and Joint Venture	-	(3,596)	
*(858,409)	*(858,409)	Unusable Reserves	(1,013,118)	(1,013,118)	30
(911,221)	**(914,850)**	**Total Reserves**	**(1,055,907)**	**(1,059,503)**	
		Other Notes			13,21,23 31–33, 35

*Restated

Alan Wood, MA (Hons), CPFA, Head of Finance
The unaudited accounts were issued on and the audited accounts were authorised for issue on

Movement in Reserves Statement (MIRS) for the Year Ended 31 March 2018

This statement shows the movement from the start of the year to the end 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 ‘unusable reserves’. The statement shows how the movements in year of the Council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Decrease/(Increase) line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year, following those adjustments.

	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**	**Group Usable Reserves £’000**	**Group Unusable Reserves £’000**	**Total Group Reserves £’000**	**Notes Ref**
Balance at 31 March 2017	**(40,898)**	**(2,000)**	**(3,550)**	**(2,022)**	**(4,342)**	**(52,812)**	**(858,409)**	**(911,221)**	**(56,441)**	**(858,409)**	**(914,850)**	
Movement in Reserves During 2017/18												
Total Comprehensive Income and Expenditure	71,462	5,829	-	-	-	77,291	(221,977)	(144,686)	77,324	(221,977)	(144,653)	
Adjustments Between Accounting Basis and Funding Basis Under Regulations	(64,379)	(2,373)	-	-	(516)	(67,268)	67,268	-	(67,268)	67,268	-	7
Decrease/(Increase) before Transfers to Statutory Reserves	**7,083**	**3,456**	**-**	**-**	**(516)**	**10,023**	**(154,709)**	**(144,686)**	**10,056**	**(154,709)**	**(144,653)**	
Transfers to/(from) Statutory Reserves	596	(3,456)	1,695	706	459	-	-	-	-	-	-	
Balance at 31 March 2018 Carried Forward	**(33,219)**	**(2,000)**	**(1,855)**	**(1,316)**	**(4,399)**	**(42,789)**	**(1,013,118)**	**(1,055,907)**	**(46,385)**	**(1,013,118)**	**(1,059,503)**	
Notes Ref	8						30					

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

Movement in Reserves Statement (MIRS) for the Year Ended 31 March 2018 (Continued)

Restated Comparative Movements in 2016/17	**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**	**Group Usable Reserves £'000**	**Group Unusable Reserves £'000**	**Total Group Reserves £'000**	**Notes Ref**
Balance at 31 March 2016	**(44,933)**	**(2,000)**	**(4,423)**	**(1,690)**	**(7,015)**	**(60,061)**	**(1,142,352)**	**(1,202,413)**	**(63,092)**	**(1,142,352)**	**(1,205,444)**	
Movement in Reserves During 2016/17												
Total Comprehensive Income and Expenditure	46,264	161,941	-	-	-	208,205	82,987	291,192	207,607	82,987	290,594	
Adjustments Between Accounting Basis and Funding Basis Under Regulations	(38,467)	(161,984)	-	-	(505)	(200,956)	200,956	-	(200,956)	200,956	-	7
Decrease/(Increase) before Transfers to Statutory Reserves	**7,797**	**(43)**	**-**	**-**	**(505)**	**7,249**	**283,943**	**291,192**	**6,651**	**283,943**	**290,594**	
Transfers to/(from) Statutory Reserves	(3,762)	43	873	(332)	3,178	-	-	-	-	-	-	
Balance at 31 March 2017 Carried Forward	**(40,898)**	**(2,000)**	**(3,550)**	**(2,022)**	**(4,342)**	**(52,812)**	**(858,409)**	**(911,221)**	**(56,441)**	**(858,409)**	**(914,850)**	
Notes Ref	8						30					

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

Cash Flow Statement for the Year Ended 31 March 2018

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.

Restated 2016/17 £’000		**2017/18 £’000**	**Notes Ref**
(208,205)	**Net deficit on the provision of services**	**(77,291)**	
273,799	Adjust net deficit on the provision of services for non cash movements	162,576	
(49,669)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(34,996)	
15,925	**Net Cash Flows from Operating Activities**	**50,289**	37
	Investing Activities:		
(125,685)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(123,992)	
(25,000)	Purchase of Short and Long Term Investments	-	
(1,855)	Other Payments for Investing Activities	(1,432)	
5,812	Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	4,420	
42,145	Other Receipts from Investment Activities	48,418	
(104,583)	**Net Cash Flows from Investing Activities**	**(72,586)**	
	Financing Activities:		
130,104	Cash Receipts of Short Term and Long Term Borrowing	70,079	
(2,250)	Cash Payments for the Reduction of the Outstanding Liabilities Relating to the Finance Leases and On Balance Sheet PFI Contracts	(2,562)	
(54,713)	Repayments of Short Term and Long Term Borrowing	(40,339)	
73,141	**Net Cash Flows from Financing Activities**	**27,178**	
(15,517)	**Net (Decrease)/Increase in cash and cash equivalents**	**4,881**	
21,925	Cash and cash equivalents at 1 April	6,408	
6,408	**Cash and cash equivalents at 31 March**	**11,289**	26

A Group Cash Flow Statement has not been prepared on the basis that it would, effectively, be the same as the single entity Cash Flow Statement.

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 Provost, 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.

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

Due to the Local Election during 2017 the remuneration of Senior Councillors during 2017/18 was regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2016 and the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2017. 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.

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 2017/18 the salary for the Leader of Aberdeenshire Council is £39,490 (2016/17 £39,418). From April 2016 to May 2017 the Co-Leaders salary was 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% 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 £481,208 (2016/17 £498,982) 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.

Remuneration Report (Continued)

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 28 and the costs identified on page 26 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:

2016/17 £'000	Type of Remuneration	2017/18 £'000
1,601	Salaries	1,677
117	Expenses	115
1,718	**Totals**	**1,792**

The annual return of Councillors' salaries and expenses for 2017/18 is available on the Council's website at http://www.aberdeenshire.gov.uk.

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

Total Remuneration 2016/17 £	Pension Contributions 2016/17 £	Name	Salaries, Fees and Allowances 2017/18 £	Total Remuneration 2017/18 £	Pension Contributions 2017/18 £		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
34,544	6,667	Richard Thomson	22,238	22,238	4,292	Pension Lump Sum	3 -	- -
32,028	6,181	Alison Evison	3,603	3,603	695	Pension Lump Sum	- -	* *
14,782	2,853	Martin Kitts-Hayes	-	-	-	Pension Lump Sum	- -	* *
22,173	4,279	James Gifford	36,487	36,487	7,042	Pension Lump Sum	6 2	3 -
-	-	Isobel Davidson	22,575	22,575	4,357	Pension Lump Sum	5 2	1 -
29,565	5,706	Gillian Owen	28,583	28,583	5,517	Pension Lump Sum	5 2	1 -
29,565	-	Anne Allan	2,782	2,782	-	Pension Lump Sum	- -	* *
22,173	-	Charles Buchan	2,086	2,086	-	Pension Lump Sum	- -	* *
-	-	Ron McKail	22,576	22,576	-	Pension Lump Sum	- -	* *
22,173	4,279	Stephen Smith	2,086	2,086	403	Pension Lump Sum	- -	* *
-	-	William Howatson	25,802	25,802	4,980	Pension Lump Sum	5 2	1 -
22,173	4,279	Ross Cassie	27,888	27,888	5,382	Pension Lump Sum	2 -	1 -
22,173	4,279	Raymond Christie	2,027	2,027	391	Pension Lump Sum	- -	* *
-	-	Mark Findlater	19,350	19,350	3,735	Pension Lump Sum	2 -	* *
29,565	-	Hamish Vernal	2,702	2,702	-	Pension Lump Sum	- -	* *
280,914	**38,523**	**CARRIED FORWARD**	**220,785**	**220,785**	**36,794**		**36**	**7**

Remuneration Report (Continued)

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

Total Remuneration 2016/17 £	Pension Contributions 2016/17 £	Name	Salaries, Fees and Allowances 2017/18 £	Total Remuneration 2017/18 £	Pension Contributions 2017/18 £		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
280,914	**38,523**	**BROUGHT FORWARD**	**220,785**	**220,785**	**36,794**		**36**	**7**
-	-	Andrew Kille	15,329	15,329	2,959	Pension Lump Sum	- -	* *
22,173	4,279	Allison Grant	2,027	2,027	391	Pension Lump Sum	- -	* *
-	-	Norman Smith	22,575	22,575	4,357	Pension Lump Sum	- -	* *
29,565	5,706	David Aitchison	2,782	2,782	537	Pension Lump Sum	- -	* *
-	-	Peter Argyle	25,802	25,802	4,980	Pension Lump Sum	3 -	1 -
-	-	Michael Roy	20,386	20,386	3,934	Pension Lump Sum	3 -	1 -
25,869	4,993	John Cox	21,784	21,784	4,204	Pension Lump Sum	2 -	- -
25,869	4,993	Stuart Pratt	2,364	2,364	456	Pension Lump Sum	- -	* *
25,869	4,993	Rob Merson	2,364	2,364	456	Pension Lump Sum	- -	* *
25,869	4,993	Fergus Hood	25,009	25,009	4,827	Pension Lump Sum	4 -	2 -
25,869	-	Carl Nelson	2,364	2,364	-	Pension Lump Sum	- -	* *
-	-	Colin Clark	3,524	3,524	-	Pension Lump Sum	- -	* *
-	-	Wendy Agnew	22,575	22,575	-	Pension Lump Sum	- -	* *
-	-	Elizabeth Stirling	25,802	25,802	4,980	Pension Lump Sum	5 2	* *
461,997	**68,480**	**CARRIED FORWARD**	**415,472**	**415,472**	**68,875**		**55**	**11**

Remuneration Report (Continued)

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

Total Remuneration 2016/17 £	Pension Contributions 2016/17 £	Name	Salaries, Fees and Allowances 2017/18 £	Total Remuneration 2017/18 £	Pension Contributions 2017/18 £		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
461,997	**68,480**	**BROUGHT FORWARD**	**415,472**	**415,472**	**68,875**		**55**	**11**
-	-	Alistair McKelvie	19,350	19,350	3,735	Pension Lump Sum	- -	* *
25,869	4,993	Moira Ingleby	25,009	25,009	4,827	Pension Lump Sum	5 2	- -
-	-	Iris Walker	19,350	19,350	3,735	Pension Lump Sum	2 -	* *
11,116	2,145	Graeme Clark	2,027	2,027	391	Pension Lump Sum	- -	* *
498,982	**75,618**	**TOTALS**	**481,208**	**481,208**	**81,563**		**64**	**11**

Name	**Post Title**	**Period in Office**		**Name**	**Post Title**	**Period in Office**
Richard Thomson	Co-Leader of the Council Chair – Business Services Committee Chair – Policy and Resources Committee Vice Chair – Policy and Resources Committee Leader of the Main Opposition	1 April 2016 to 4 May 2017 26 January 2017 to 4 May 2017 1 September 2016 to 25 January 2017 1 April 2016 to 31 August 2016 From 18 May 2017		Charles Buchan	Vice Chair – Education and Children's Services Committee Vice Chair – Education, Learning and Leisure Committee	26 January 2017 to 4 May 2017 1 April 2016 to 25 January 2017
Alison Evison	Co-Leader of the Council Chair – Education and Children's Services Committee Chair – Education, Learning and Leisure Committee	29 September 2016 to 4 May 2017 26 January 2017 to 4 May 2017 1 April 2016 to 25 January 2017		John Cox	Chair - Banff and Buchan Area Committee Vice Chair – Infrastructure Services Committee	1 April 2016 to 4 May 2017 From 18 May 2017
Martin Kitts-Hayes	Co-Leader of the Council Chair – Policy and Resources Committee	1 April 2016 to 31 August 2016 1 April 2016 to 31 August 2016		Allison Grant	Deputy Provost	1 April 2016 to 4 May 2017
Ross Cassie	Chair – Audit Committee Vice Chair – Audit Committee Vice Chair – Scrutiny and Audit Committee	From 18 May 2017 26 January 2017 to 4 May 2017 1 April 2016 to 25 January 2017		Peter Argyle	Deputy Leader of the Council Chair – Infrastructure Services Committee	From 18 May 2017 From 18 May 2017
Isobel Davidson	Chair – Formartine Area Committee	From 13 June 2017		Norman Smith	Chair - Buchan Area Committee	From 6 June 2017
Rob Merson	Chair – Formartine Area Committee	1 April 2016 to 4 May 2017		Ron McKail	Deputy Provost	From 18 May 2017
Carl Nelson	Chair - Kincardine and Mearns Area Committee	1 April 2016 to 4 May 2017		Moira Ingleby	Chair - Marr Area Committee	From 1 April 2016
Anne Allan	Chair – Communities Committee Chair – Social Work and Housing Committee	26 January 2017 to 4 May 2017 1 April 2016 to 25 January 2017		William Howatson	Provost	From 18 May 2017

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

Name	Post Title	Period in Office		Name	Post Title	Period in Office
Gillian Owen	Chair – Audit Committee Chair – Education and Children's Services Committee Chair – Scrutiny and Audit Committee	26 January 2017 to 4 May 2017 From 18 May 2017 1 April 2016 to 25 January 2017		Michael Roy	Vice Chair – Business Services Committee Chair - Banff and Buchan Area Committee	From 29 June 2017 30 May 2017 to 29 August 2017
Iris Walker	Vice Chair – Communities Committee	From 18 May 2017		Alistair McKelvie	Vice Chair – Audit Committee	From 18 May 2017
James Gifford	Leader of the Main Opposition Leader of the Council Chair – Business Services Committee	1 April 2016 to 4 May 2017 From 18 May 2017 From 18 May 2017		Graeme Clark	Vice Chair – Infrastructure Services Committee	29 September 2016 to 4 May 2017
Stephen Smith	Vice Chair – Business Services Committee Vice Chair – Policy and Resources Committee Vice Chair – Infrastructure Services Committee	26 January 2017 to 4 May 2017 29 September 2016 to 25 January 2017 1 April 2016 to 28 September 2016		Raymond Christie	Vice Chair – Communities Committee Vice Chair – Social Work and Housing Committee	26 January 2017 to 4 May 2017 1 April 2016 until 25 January 2017
Hamish Vernal	Provost	1 April 2016 to 4 May 2017		Fergus Hood	Chair - Garioch Area Committee	From 1 April 2016
Mark Findlater	Vice Chair – Education and Children's Services Committee	From 18 May 2017		Wendy Agnew	Chair - Kincardine and Mearns Area Committee	From 13 June 2017
Andrew Kille	Chair - Banff and Buchan Area Committee	From 29 August 2017		Elizabeth Stirling	Chair – Communities Committee	From 18 May 2017
David Aitchison	Chair – Infrastructure Services Committee	1 April 2016 to 4 May 2017		Colin Clark	Vice Chair – Business Services Committee	18 May 2017 to 28 June 2017
Stuart Pratt	Chair - Buchan Area Committee	1 April 2016 to 4 May 2017				

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: For 2017/18 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.

Note 5: Pension and Lump Sum Variances are only shown where an individual has been in a Senior Councillor Post both as at 31 March 2017 and 31 March 2018. Listed individuals who do not meet these requirements are shown with an asterisk.

Remuneration Report (Continued)

Table C: Remuneration and Pension Benefits of Senior Employees

Total Remuneration 2016/17 £	Pension Contributions 2016/17 £	Name and Post Title	Salaries, Fees and Allowances 2017/18 £	Total Remuneration 2017/18 £	Pension Contributions 2017/18 £		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
158,872	28,038	Jim Savege : Chief Executive	158,693	158,693	28,859	Pension Lump Sum	9 -	3 -
115,564	22,167	Maria Walker : Director of Education and Children's Services	117,252	117,252	22,388	Pension Lump Sum	64 136	3 2
114,853	22,167	Stephen Archer : Director of Infrastructure Services	116,001	116,001	22,388	Pension Lump Sum	79 -	3 -
115,718	22,167	Ritchie Johnson : Director of Business Services	117,243	117,243	22,388	Pension Lump Sum	43 72	3 -
84,670	16,268	Alan Wood : Head of Service (Finance)	85,541	85,541	16,431	Pension Lump Sum	33 57	2 1
84,292	16,268	Robert Driscoll : Head of Service (Chief Social Work Officer)	85,135	85,135	16,431	Pension Lump Sum	41 81	3 1
85,321	16,268	Karen Wiles : Head of Service (Legal and Governance) (From 01 April 2016 to 05 November 2017) (Full Year Equivalent - £85,135)	52,216	52,216	9,813	Pension Lump Sum	- -	* *
-	-	Geraldine Fraser : Head of Service (Legal and Governance) (From 09 November 2017 to 31 March 2018) (Full Year Equivalent - £85,135)	33,345	33,345	6,436	Pension Lump Sum	5 -	* *
759,290	**143,343**	**TOTALS**	**765,426**	**765,426**	**145,134**		**620**	**21**

Notes to Table C:

The figure for gross salary, fees and allowances shown for the Chief Executive for the year ended 31 March 2018 includes £17,190 received as the Returning Officer for Aberdeenshire in respect of the 2017 Westminster Election, the 2016 Scottish Parliamentary Election, the EU Referendum and Local Council Elections.

The Director of Education and Children's Services, the Director of Business Services, the Head of Service (Finance) and Karen Wiles, Head of Service (Legal and Governance), also received payments relating to the 2017 Westminster Election and Local Council Elections of £1,251, £1,243, £406 and £872 respectively during the year ended 31 March 2018.

For 2017/18 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.

Pension and Lump Sum Variances are only shown where an individual has been in a Senior Employee Post both as at 31 March 2017 and 31 March 2018. Listed individuals who do not meet these requirements are shown with an asterisk.

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 2016/17	Remuneration Bands	No of Employees 2017/18
187	£50,000 - £54,999	180
43	£55,000 - £59,999	56
26	£60,000 - £64,999	9
9	£65,000 - £69,999	8
1	£70,000 - £74,999	8
5	£75,000 - £79,999	4
20	£80,000 - £84,999	18
1	£85,000 - £89,999	3
1	£90,000 - £94,999	-
2	£95,000 - £99,999	-
-	£100,000 - £104,999	-
1	£105,000 - £109,999	-
1	£110,000 - £114,999	-
2	£115,000 - £119,999	3
-	£120,000 - £124,999	-
-	£125,000 - £129,999	-
-	£130,000 - £134,999	-
-	£135,000 - £139,999	-
-	£140,000 - £144,999	-
-	£145,000 - £149,999	-
-	£150,000 - £154,999	-
1	£155,000 - £159,999	-
-	£160,000 - £164,999	1
300	**TOTALS**	**290**

Pension Benefits

The majority of Senior Councillors and Senior Employees shown in the tables above are members of the LGPS. For benefits accrued before the 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 2017/18	Contribution Rates	Tier Bandings for 2016/17
Earnings up to and including £20,700	5.50%	Earnings up to and including £20,500
Earnings above £20,700 and up to £25,300	7.25%	Earnings above £20,500 and up to £25,000
Earnings above £25,300 and up to £34,700	8.50%	Earnings above £25,000 and up to £34,400
Earnings above £34,700 and up to £46,300	9.50%	Earnings above £34,400 and up to £45,800
Earnings above £46,300	12.00%	Earnings above £45,800

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.

Facility Time Publication Requirements

The Trade Union (Facility Time Publication Requirements) Regulations 2017, which took effect from 1 April 2017 require employers in the public sector to publish information on facility time. The purpose of the regulations is to promote transparency and allow for public scrutiny of facility time. Facility Time is the provision of paid or unpaid time off from an employee's normal role to undertake Trade Union duties and activities as a Trade Union representative.

The facility time data that Aberdeenshire Council are required to collate and publish under the 2017 regulations are:

- Number of employees who were relevant union officials during the relevant period;
- How many employees who were relevant union officials during the relevant period spent:- a) 0%, b) 1%-50%, c) 51%-99%, or d) 100% of their working hours on facility time;
- Percentage of the total pay bill spent on facility time;
- Time spent on paid trade union activities as a percentage of total paid facility time.

For Aberdeenshire Council the regulations require the information within each of the four categories above to be split between:

a) Employees employed by virtue of section 35(2) of the Education Act 2002, and
b) All other Employees of the Council.

Due to the short timescale between the Act being laid before Parliament, 9 March 2017, and coming into force, 1 April 2017, Aberdeenshire Council have been unable to collate the raw data required to publish the information identified within the Regulations.

Looking forward, steps have been taken to collate the raw data required to meet the requirements of the Regulations starting with the period 2018/19, and this will be maintained for future disclosure and scrutiny.

Termination Benefits

Table E: Exit Packages

	Compulsory	Compulsory	Voluntary	Voluntary
	Number	**Value £'000**	**Number**	**Value £'000**
Bandings 2017/18				
Up to £19,999	14	56	3	21
£20,000 up to £39,999	-	-	-	-
£40,000 up to £59,999	-	-	1	44
	14	**56**	**4**	**65**
Total				**121**
Bandings 2016/17				
Up to £19,999	22	107	9	57
£20,000 up to £39,999	1	32	1	30
	23	**139**	**10**	**87**
Total				**226**

Notes to Table E:

1. The total cost of £121,000 in the table above includes exit packages that have been agreed, accrued for and charged to the Council's CIES in the current year.

Signed

Councillor James Gifford
Leader of the Council
On behalf of the Councillors and Officers of Aberdeenshire Council
20 September 2018

Jim Savege, Chief Executive

Notes to the Financial Statements

Note 1 – Significant Accounting Policies

1.1 General Principles

The Annual Accounts summarise transactions of the Council and its Group for the 2017/18 financial year and its position at the year end of 31 March 2018. 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 2017/18 (the Code), 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.

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 and Children's Services Committee 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 earnings for current employees;
- liabilities are discounted to their value at current prices, using a discount rate of 2.6% (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 pension's 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 the Business Services Committee expenditure;
  - 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;
- re-measurements 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.

Note 1 – Significant Accounting Policies (Continued)

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.

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 de-recognition 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 Aberdeenshire Integration Joint Board, the Trusts and Endowments for which the Council is the sole Trustee, Common Good Funds, the Grampian Valuation Joint Board, Create Homes Aberdeenshire LLP and Nestrans. The Council has concluded that its interests in the Aberdeenshire Integration Joint Board and the Trusts and Endowments for which the Council is the sole Trustee are considered to be material, hence Group Accounts have been prepared which include these entities. A Group Cash Flow Statement has not been prepared on the basis that it would, effectively, be the same as the single entity Cash Flow Statement.

1.12 Heritage Assets

Heritage Assets are assets which are intended to be preserved in trust for future generations because of their historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Examples include; archaeological sites, military and scientific equipment of historical importance, civic regalia, medals, museum collections and works of art.

In accordance with FRS 102, Heritage Assets are recognised as a separate class of assets in the financial statements. The Council has applied a de minimus value of £100,000 for reporting Heritage Assets on the Balance Sheet.

Aberdeenshire Council holds the following categories of Heritage Assets

- Human History
- Archaeology
- Fine Art

Heritage asset valuations may be made by any method that is appropriate and relevant. 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.

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 1.19 (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.

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 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

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.

1.17 Overheads and Support Services

The costs of overheads and support services are shown in full against the line for Business Services Committee in the CIES, which reflects the management and reporting arrangement for those costs.

1.18 Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

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 (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior year as if the new policy had always been applied.

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

1.19 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.

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). The Adjustment Factor applied is a measure of the difference between private Market Rent and socially rented property within the Aberdeenshire Council area. It is the discount which, when applied to the cumulative total of all beacon values, gives rise to the Existing Use Value-Social Housing (EUV-SH) for the housing stock. The Adjustment Factor, therefore, is the relationship between the capitalised net rent (investment value) of private dwellings and the equivalent public sector investment;
- 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 current 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 for 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 for 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 and 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.

Depreciation is not calculated in the year an asset is acquired but is calculated in the year of disposal. Assets that have been recategorised as Assets Held for Sale are not depreciated.

(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.

1.20 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. 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 three PFI and similar contracts held by Aberdeenshire Council are as follows:

Robertson Education (Abdnshire) Limited	8.69%
Elgin Education (Aberdeenshire2) Limited	5.18%
Hib North Scotland (Alford) Limited	7.59%

- 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 Aberdeen Western Peripheral Route. The accounting treatment adopted will be similar to that detailed above.

1.21 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.

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 of uncertain 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.

1.22 Reserves

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 Note 30 Unusable Reserves.

1.23 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 2017/18

The following Accounting Standards will be adopted by the Code in 2018/19 and the implications for the Accounts will be considered and reported to Audit Committee in due course:

- Amendment to IFRS 8 Operating Segments
- Amendment to IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers became effective in January 2018
- Introduction of IFRS 16 Leases
- Amendment to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendment to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The accounting code's adoption of IFRS 16 Leases from 2019/20 will have a substantial practical impact on local authority annual accounts. Local authorities need to ensure that they make effective preparations for its implementation and that they have adequate governance arrangements in place. IFRS 16 removes the classifications of operating and finance leases under IAS 17 for lessees. It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value.

The following new Standards, Amendments and Interpretations became effective in 2017/18 for the first time:

- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 28 Investments in Associates and Joint Ventures
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities

The amendments to IAS 28, IFRS 10 and IFRS 12 do not apply to local authorities as they are not investment entities.

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 that 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 2018 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 £6,536,000 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 1.19 (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.

Council Dwellings – Council dwellings are valued on the basis of Current Value, which is determined using the basis of Existing Use Value of Social Housing (EUV-SH). This value is then reduced by the Adjustment Factor which is a measure of the difference between private market rent and socially rented property within the Aberdeenshire Council area. It is the discount which, when applied to the cumulative total of all beacon values, gives rise to the Existing Use Value-Social Housing (EUV-SH) for the housing stock. The Adjustment Factor, therefore, is the relationship between the capitalised net rent (investment value) of private dwellings and the equivalent public sector investment. An increase of 1% in the Adjustment Factor would reduce the value of the Council Dwellings by £14,000,000.

Fair Value Measurements – The Council uses current market conditions and recent sales prices and other relevant information for similar assets in the Aberdeenshire area to measure the fair value of some of its investment properties. Significant changes in any of these unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.

PFI and Similar Contracts - The Council is committed to three PFI contracts, as detailed in the Annex. The total unitary charge for 2018/19 is expected to be £14,639,000. Elements of the contracts are subject to inflation. An increase in the inflation rate of 1% would equate to additional costs of £55,000 for the Council.

Provisions - The Council has made a provision of £3,620,000 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 £368,000 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 financial year 2015/16 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 2016/17 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 2018, the Council had a balance of sundry debtors of £9,963,000. A review of significant balances suggested that an allowance for doubtful debts of 48.67% (£4,849,000) was appropriate. This allowance assumes that collection rates remain at current levels. If collection rates were to deteriorate, an additional £996,000 would require to be set aside for each 10% increase in the allowance. At 31 March 2018, the Council had arrears of Council Tax of £23,880,000. A review of significant balances suggested that an allowance for doubtful debts of £15,093,000 was appropriate. Should collection rates deteriorate by 0.1%, this would add £905,000 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 4 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (continued)

Business Rates Incentivisation Scheme (BRIS) – BRIS is an Incentivisation Scheme offered by the Scottish Government based on the increased valuation of Business Properties during the financial year. If the Local Authority meets the target set, 50% of the additional rates generated will be retained. Note 9 shows BRIS income of £954,000 of which £79,000 is confirmed, the remaining £875,000 is an estimation based on the property valuation increases between 1 April 2017 to 31 March 2018. The valuations are provided by the Independent Valuation Board, the amounts will be confirmed by the Scottish Government during 2018/19. The estimate assumes gross rates billed will be reduced by 19% for reliefs and discounts. If the rate of reductions increases to 25% the BRIS amount will be reduced by £130,000.

Note 5 - Note to the EFA

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to Arrive at CIES Amounts	**Adjustments for Capital Purposes £'000**	**Net Change for the Pensions Adjustments £'000**	**Other Statutory Differences £000**	**Total Statutory Adjustments £000**	**Other (Non Statutory) Adjustments £'000**	**Total Adjustments £'000**
Business Services Committee	3,204	4,357	(270)	7,291	(3,022)	4,269
Communities Committee	9,214	7,667	601	17,482	32	17,514
Education and Children's Services Committee	44,015	7,411	(1,379)	50,047	(5,814)	44,233
Infrastructure Services Committee	26,890	5,436	(133)	32,193	126	32,319
Housing Revenue Account	6,380	2,103	(310)	8,173	(2,261)	5,912
Net Cost of Services	**89,703**	**26,974**	**(1,491)**	**115,186**	**(10,939)**	**104,247**
Other Income and Expenditure from the EFA	(58,073)	10,605	(966)	(48,434)	10,939	(37,495)
Difference Between General Fund Deficit and CIES Deficit on the Provision of Services	**31,630**	**37,579**	**(2,457)**	**66,752**	**-**	**66,752**

Comparative Movements in 2016/17

Restated Adjustments from General Fund to Arrive at CIES Amounts	**Adjustments for Capital Purposes £'000**	**Net Change for the Pensions Adjustments £'000**	**Other Statutory Differences £000**	**Total Statutory Adjustments £000**	**Other (Non Statutory) Adjustments £'000**	**Total Adjustments £'000**
Business Services Committee	4,869	1,152	223	6,244	445	6,689
Communities Committee	4,348	2,230	160	6,738	32	6,770
Education and Children's Services Committee	44,820	1,165	411	46,396	(5,761)	40,635
Infrastructure Services Committee	22,242	1,570	(233)	23,579	129	23,708
Housing Revenue Account	165,874	598	(259)	166,213	(5,753)	160,460
Net Cost of Services	**242,153**	**6,715**	**302**	**249,170**	**(10,908)**	**238,262**
Other Income and Expenditure from the EFA	(56,679)	8,922	(962)	(48,719)	10,908	(37,811)
Difference Between General Fund (Surplus)/Deficit and CIES (Surplus)/Deficit on the Provision of Services	**185,474**	**15,637**	**(660)**	**200,451**	**-**	**200,451**

Adjustments for Capital Purposes

This column adds in depreciation, impairment, revaluation gains and losses in the services, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and amounts written-off for those assets.

Note 5 - Note to the EFA (continued)

- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those due to be receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustment

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.
- Note 35 provides further explanations of IAS 19 entries.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 6 – Expenditure and Income Analysed by Nature

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

Re-stated 2016/17 £'000		Business Services Committee £000	Communities Committee £000	Education and Children's Services Committee £000	Infastructure Services Committee £000	Housing Revenue Account £000	Other Income and Expenditure from the EFA £000	Total 2017/18 £'000
386,316	Employee Benefit Expenses	46,758	75,267	215,025	56,082	15,915	-	409,047
581,320	Other Service Expenses	58,071	211,624	101,395	56,443	21,714	-	449,247
2,772	Support Service Recharges	-	-	-	188	2,629	-	2,817
97,872	Depreciation, Amortisation and Impairment	3,601	4,581	37,458	22,360	25,395	-	93,395
38,190	Interest Payments	-	-	-	-	-	39,632	39,632
(1,774)	(Gain) or Loss on Disposal of Non Current Assets and AHfS	-	-	-	-	-	(1,241)	(1,241)
1,104,696	**Total Expenditure**	**108,430**	**291,472**	**353,878**	**135,073**	**65,653**	**38,391**	**992,897**
(260,479)	Fees, Charges and Other Service Income	(16,090)	(153,267)	(10,350)	(31,568)	(59,741)	-	(271,016)
(625)	Interest and Investment Income	-	-	-	-	-	(657)	(657)
(123,631)	Income from Council Tax	-	-	-	-	-	(134,199)	(134,199)
(511,756)	Government Grants and Contributions	(44,150)	(4,737)	(3,858)	(2,771)	-	(454,218)	(509,734)
(896,491)	**Total Income**	**(60,240)**	**(158,004)**	**(14,208)**	**(34,339)**	**(59,741)**	**(589,074)**	**(915,606)**
208,205	**Deficit on the Provision of Services**	**48,190**	**133,468**	**339,670**	**100,734**	**5,912**	**(550,683)**	**77,291**

Note 7 - 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.

2017/18	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	(67,435)	(25,315)		**(92,750)**	**92,750**
Revaluation losses on PPE and AHfS	(20,155)	(158)		**(20,313)**	**20,313**
Movements in the fair value of Investment Properties	25	-		**25**	**(25)**
Amortisation of intangible assets	(565)	(79)		**(644)**	**644**
Grants and contributions used to fund capital expenditure	38,322	5,328		**43,650**	**(43,650)**
Amounts of non current assets and AHfS written off on disposal or sale as part of the gain on disposal to the CIES	(1,995)	(1,183)		**(3,178)**	**3,178**
Insertion of items not debited or credited to the CIES:					
Statutory provision for the repayment of debts	13,794	1,033		**14,827**	**(14,827)**
Capital expenditure charged against the General Fund and HRA balances	2,268	18,140		**20,408**	**(20,408)**
Adjustments involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	2,084	2,336		**4,420**	**(4,420)**
Adjustment involving the Capital Grants Unapplied Account:					
Unapplied grants and contributions transferred to the Capital Grants Unapplied Account	1,925	-	(1,925)	**-**	**-**
Grants used to fund capital expenditure transferred to the Capital Adjustment Account	-	-	1,409	**1,409**	**(1,409)**
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	966	244		**1,210**	**(1,210)**
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 34)	(69,315)	(5,078)		**(74,393)**	**74,393**
Employer’s pensions contributions and direct payments to pensioners payable in the year	34,521	2,293		**36,814**	**(36,814)**
Adjustment involving the Employee Statutory Adjustment Account:					
Movement in annual leave earned but not used by 31 March	1,181	66		**1,247**	**(1,247)**
Total Adjustments	**(64,379)**	**(2,373)**	**(516)**	**(67,268)**	**67,268**

Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

Restated 2016/17 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	(63,634)	(33,552)	-	**(97,186)**	**97,186**
Revaluation losses on PPE and AHfS	(20,223)	(146,287)	-	**(166,510)**	**166,510**
Movements in the fair value of Investment Properties	(54)	-	-	**(54)**	**54**
Amortisation of intangible assets	(603)	(83)	-	**(686)**	**686**
Grants and contributions used to fund capital expenditure	38,720	3,259	-	**41,979**	**(41,979)**
Amounts of non current assets and AHfS written off on disposal or sale as part of the gain on disposal to the CIES	(1,619)	(2,058)	-	**(3,677)**	**3,677**
Insertion of items not debited or credited to the CIES:					
Statutory provision for the repayment of debts	13,439	729	-	**14,168**	**(14,168)**
Capital expenditure charged against the General Fund and HRA balances	5,930	13,319	-	**19,249**	**(19,249)**
Adjustments involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	1,879	3,572	-	**5,451**	**(5,451)**
Adjustment involving the Capital Grants Unapplied Account:					
Unapplied grants and contributions transferred to the Capital Grants Unapplied Account	1,792	-	(1,792)	**-**	**-**
Grants used to fund capital expenditure transferred to the Capital Adjustment Account	-	-	1,287	**1,287**	**(1,287)**
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	962	241	-	**1,203**	**(1,203)**
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)	(47,966)	(3,328)	-	**(51,294)**	**51,294**
Employer's pensions contributions and direct payments to pensioners payable in the year	33,471	2,186	-	**35,657**	**(35,657)**
Adjustment involving the Employee Statutory Adjustment Account:					
Movement in annual leave earned but not used by 31 March	(561)	18	-	**(543)**	**543**
Total Adjustments	**(38,467)**	**(161,984)**	**(505)**	**(200,956)**	**200,956**

Note 8 - Transfers to/from Earmarked Reserves

Of the General Fund Balance of £33,219,000 (2016/17: £40,898,000), £21,827,000 (2016/17: £32,362,000) is earmarked for specific purposes and £11,392,000 (2016/17: £8,536,000) 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 2017/18.

General Fund	**Balance at 31 March 2016 £'000**	**Transfers Out 2016/17 £'000**	**Transfers in 2016/17 £'000**	**Balance at 31 March 2017 £'000**	**Transfers Out 2017/18 £'000**	**Transfers in 2017/18 £'000**	**Balance at 31 March 2018 £'000**
Business Transformation Fund	**(3,500)**	2,198	-	**(1,302)**	851	-	**(451)**
Devolved Education Management (DEM)	**(5,158)**	1,501	-	**(3,657)**	-	(682)	**(4,339)**
Property Service - Central Energy Efficiency Fund	**(567)**	470	(52)	**(149)**	40	(38)	**(147)**
Six Key Areas for Development	**(148)**	148	-	**-**	-	-	**-**
Investment in Technologies	**(782)**	782	-	**-**	-	-	**-**
Community, Culture and Tourism	**(1,491)**	932	(757)	**(1,316)**	535	-	**(781)**
Welfare Reform	**(899)**	-	-	**(899)**	678	-	**(221)**
Business Rates Incentivisation Scheme Income	**(770)**	770	-	**-**	-	-	**-**
Innovation	**(3,095)**	3,018	-	**(77)**	77	-	**-**
Education Learning Estate Reserve	**(2,000)**	-	-	**(2,000)**	2,000	-	**-**
Affordable Housing	**(300)**	173	(3,700)	**(3,827)**	320	-	**(3,507)**
Second Homes Council Tax Reserve *	**-**	-	(3,985)	**(3,985)**	3,182	(1,243)	**(2,046)**
Pupil Equity Funding	**-**	-	-	**-**	-	(1,125)	**(1,125)**
Transitional Reserve for Severance Costs	**(1,033)**	534	-	**(499)**	283	-	**(216)**
Regeneration Reserve	**(5,314)**	215	(400)	**(5,499)**	796	(402)	**(5,105)**
Renewable Energy	**-**	61	(2,020)	**(1,959)**	144	-	**(1,815)**
City Region Deal	**-**	-	(5,000)	**(5,000)**	5,000	-	**-**
Capital	**-**	534	(1,000)	**(466)**	305	-	**(161)**
Revenue Grants Unconditional And Expenditure Not Incurred	**(840)**	394	(616)	**(1,062)**	608	(520)	**(974)**
Other Earmarked Reserves (each less than £500,000)	**(1,758)**	1,211	(118)	**(665)**	233	(507)	**(939)**
Total Earmarked General Fund Reserves	**(27,655)**	**12,941**	**(17,648)**	**(32,362)**	**15,052**	**(4,517)**	**(21,827)**

*Re-stated

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 9 – Taxation and Non Specific Grant Income

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

Re-stated 2016/17 £'000		2017/18 £'000
*(123,631)	Council Tax Income	(134,199)
(99,190)	Business Rates (see below)	(95,043)
(314,451)	Non Ring Fenced Government Grants	(312,155)
(43,770)	Non Specific Grant Income	(47,020)
(581,042)	**Total**	**(588,417)**

*Re-stated

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

2016/17 £'000		2017/18 £'000
(99,383)	Distribution from Non-Domestic Rates Pool	(95,829)
193	Discretionary Reliefs	1,740
-	BRIS Income Retained by Council	(954)
(99,190)	**Total**	**(95,043)**

Note 10 – Previous Years Reclassifications and Restatements

Note 35 – Defined Benefit Pension Schemes – North East Pension Scheme.
Changes pertaining to IAS 19 pension scheme accounting figures for 2016/17 as advised by the independent actuary were not received in time to be reflected in the 2016/17 accounts, the resulting changes are reflected below:

	Published			Adjustment Made			Restated		
Comprehensive Income and Expenditure Statement	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17 £'000**	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17 £'000**	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17 £'000**
Cost of Services									
- Current Service Cost	42,279	-	42,279	-	-	-	42,279	-	42,279
- Past Service Costs	-	-	-	-	-	-	-	-	-
- (Gain)/Loss from Settlement	50	-	50	43	-	43	93	-	93
Financing and Investment Income and Expenditure									
-Net Interest Expense	7,629	599	8,228	16	-	16	7,645	599	8,244
-Administration Expenses	678	-	678	-	-	-	678	-	678
Total Post Employment Benefit Charged to the Surplus of Deficit on the Provision of Services	**50,636**	**599**	**51,235**	**59**	**-**	**59**	**50,695**	**599**	**51,294**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement									
Remeasurement of the net defined benefit liability comprising									
- Actuarial gains and losses arising on changes in financial assumptions	140,791	3,860	144,651	24	-	24	140,815	3,860	144,675
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**191,427**	**4,459**	**195,886**	**83**	**-**	**83**	**191,510**	**4,459**	**195,969**

Note 10 – Previous Years Reclassifications and Restatements (Continued)

	Published			Adjustment Made			Restated		
Comprehensive Income and Expenditure Statement	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17 £'000**	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17**	**North East Scotland Pension Fund £'000**	**Teachers Additional Unfunded Pensions £'000**	**Total 2016/17 £'000**
Movement in Reserves Statement									
Reversal of Net Charges Made to the Surplus or Deficit for the Provision of Services for Post Employment									
Benefits in Accordance with the Code	(50,636)	(599)	(51,235)	(59)	-	(59)	(50,695)	(599)	(51,294)
Actual amount charged against the General Fund. Balance for pensions in the year:									
Employers' Contributions Payable to the Scheme	35,451			(955)			34,496		
Retirement Benefits Payable to Pensioners		1,161			-			1,161	

Note 10 – Previous Years Reclassifications and Restatements (Continued)

	Published				Adjustment Made				Re-stated			
	North East Scotland Pension Fund		Teachers Additional		North East Scotland Pension Fund		Teachers Additional		North East Scotland Pension Fund		Teachers Additional	
	Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2016/17 £'000	Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2016/17 £'000	Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2016/17 £'000
Present value of the defined benefit obligation	1,513,240	27,046	21,499	1,561,785	8	(438)	-	(430)	1,513,248	26,608	21,499	1,561,355
Fair value of plan assets	(1,148,612)	-	-	(1,148,612)	1,468		-	1,468	(1,147,144)	-	-	(1,147,144)
Sub-total	364,628	27,046	21,499	413,173	1,476	(438)	-	1,038	366,104	26,608	21,499	414,211
Other movements in the liability (asset)	-	-	-	-	-	-	-	-	-	-	-	-
Net liability arising from defined benefit obligations	**364,628**	**27,046**	**21,499**	**413,173**	**1,476**	**(438)**	**-**	**1,038**	**366,104**	**26,608**	**21,499**	**414,211**

Note 10 – Previous Year Reclassifications and Restatements (Continued)

Change in Accounting Treatment of Second Homes Council Tax Income

2016/17 accounts have been re-stated to reflect a change in accounting treatment of council tax income collected in respect of second homes. Previously, any balance of second homes council tax income at 31 March was shown as a creditor in the annual accounts. In 2017/18 the treatment was changed to recognise the income in the year in which it is collected and transfer any balance at 31 March to an Earmarked Reserve. The balance at 31 March 2017 was £3,985,000. The re-stated accounts recognises this income in 2016/17 (see Council Tax Statement) and sees the balance transferred from Creditors (see Note 27) to Earmarked Reserves at 31 March 2017 (see Note 8 – Earmarked Reserves).

Re-classification of Expenditure

In Note 6 Income and Expenditure Analysed by Nature, the figures for income and expenditure have been restated. This is partly a result of the pensions and second homes council tax adjustments detailed above, and partly due to the reclassification of internal administration and management recharges from Support Services Recharges to Other Services.

	Published £000	**Adjustment Made £000**	**Restated £000**
Employee Benefit Expenses	385,302	1,014	386,316
Other Service Expenses	571,369	9,951	581,320
Support Services Recharges	12,723	(9,951)	2,772
Depreciation, Amortisation and Impairment	97,872	-	97,872
Interest Payments	38,190	-	38,190
Gain or Loss on Disposal of Non Current Assets and AHfS	(1,774)	-	(1,774)
Total Expenditure	**1,103,682**	**1,014**	**1,104,696**
Fees, Charges and other Service Income	(260,479)	-	(260,479)
Interest and Investment Income	(625)	-	(625)
Income from Council Tax	(119,646)	(3,985)	(123,631)
Government Grants and Contributions	(511,756)	-	(511,756)
Total Income	**(892,506)**	**(3,985)**	**(896,491)**
Deficit on the Provision of Services	**211,176**	**(2,971)**	**208,205**

Note 27 Creditors has been re-stated to correctly allocate balances relating to Roads and Decommissioning bonds between Short and Long Term Creditors, aswell as the transfer of second homes council tax balances to earmarked reserves as detailed above.

	Published £000	**Adjustment Made £000**	**Restated £000**
Short Term Creditors			
Central Government Bodies	(14,978)	-	(14,978)
Other Local Authorities	(6,095)	-	(6,095)
NHS Bodies	(714)	-	(714)
Public Corporations and Trading Funds	(209)	-	(209)
Other Entities and Individuals	(68,575)	6,797	(61,778)
Total Short Term Creditors	**(90,571)**	**6,797**	**(83,774)**
Long Term Creditors			
Other Entities and Individuals	-	(2,812)	(2,812)
	-	**(2,812)**	**(2,812)**

Note 11 – 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 £38,366,000 (2016/17: £37,387,000) There is a management fee payable to the Council associated with these collections which amounted to £663,000 (2016/17: £663,000).

Business Improvement Districts Scotland (BIDS)

Business Improvement District Levies are collected by the Council on behalf of BIDS Projects within Aberdeenshire. One BID Project is currently active with income collected in 2017/18 of £127,652 (2016/17 £nil). No expenditure has been made by the Project at 31 March, 2018. The Council receives a fee associated with BIDS collections in 2017/18 of £2,354 (2016/17 £nil).

Note 12 – External Audit Costs

2016/17 £'000	External Audit Fees	2017/18 £'000
391	Fees payable to Audit Scotland for Services undertaken in 'Code of Audit Practice'*	387
391	**Total External Audit Fees**	**387**

*Includes £8,000 (2016/17: £13,000) 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.

2016/17 £'000		2017/18 £'000
687,441	**Opening Capital Financing Requirement**	**730,847**
	Capital Investment	
125,422	Property, Plant and Equipment	114,307
118	Intangible Assets	728
	Sources of Finance	
(5,451)	Capital Receipts	(4,420)
(43,266)	Government Grants and Other Contributions	(45,059)
	Sums Set Aside from Revenue:	
(19,249)	Capital Financed from Current Revenue	(20,408)
(14,168)	Loans Fund Principal Repayments	(14,827)
730,847	**Closing Capital Financing Requirement**	**761,168**
	Explanation of movements in year	
43,406	Increase in Underlying Need to Borrow (Supported by Government Financial Assistance)	30,321
43,406	**Increase in Capital Financing Requirement**	**30,321**

Note 14 – Property, Plant and Equipment (PPE)

Movements in 2017/18:	**Council Dwellings £'000**	**Restated 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 2017	**444,015**	**1,369,688**	**99,620**	**359,837**	**740**	**66,689**	**9,573**	**2,350,162**	**217,951**
Additions	25,233	18,217	10,063	22,614	-	37,868	312	**114,307**	2,155
Accumulated Depreciation & Impairment Written out	(163)	(20,675)	-	-	(7)	-	(2,245)	**(23,090)**	(379)
Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve	132	23,712	-	-	7	-	(5,288)	**18,563**	-
Revaluation Decreases/(Increases) Recognised in the Deficit on the Provision of Services	-	(16,085)	-	-	(150)	(196)	(3,882)	**(20,313)**	(1,135)
Derecognition - Disposals	(1,167)	(776)	(7,400)	-	-	-	(119)	**(9,462)**	-
Assets Reclassified to/(from) Assets Held for Sale	-	-	(215)	-	-	-	(1,650)	**(1,865)**	-
Transfers or Reclassifications of Assets	994	14,051	-	-	100	(30,971)	15,826	**-**	-
At 31 March 2018	**469,044**	**1,388,132**	**102,068**	**382,451**	**690**	**73,390**	**12,527**	**2,428,302**	**218,592**
Accumulated Depreciation and Impairment									
At 1 April 2017 (Restated)	**(42,201)**	**(112,734)**	**(51,828)**	**(120,164)**	**(21)**	**(256)**	**(62)**	**(327,266)**	**(18,169)**
Depreciation Charge	(11,659)	(39,903)	(11,330)	(11,556)	(11)	-	(111)	**(74,570)**	(4,851)
Accumulated Depreciation Written out	31	20,235	-	-	7	-	2,162	**22,435**	379
Accumulated Impairment Written out	132	440	-	-	-	-	83	**655**	-
Impairment Losses recognised in the Surplus/Deficit on the Provision of Services	(8,172)	(5,126)	-	-	-	(4,579)	(304)	**(18,181)**	-
Impairment Losses recognised in the RR	(15,544)	(1,251)	-	-	-	-	(7)	**(16,802)**	-
Derecognition - Disposals	34	760	7,227	-	-	-	-	**8,021**	-
Assets Reclassified to/(from) Assets Held for Sale	-	-	178	-	-	-	-	**178**	-
Other Movements in Depreciation and Impairment	-	2,178	-	-	-	-	(2,178)	**-**	-
At 31 March 2018	**(77,379)**	**(135,401)**	**(55,753)**	**(131,720)**	**(25)**	**(4,835)**	**(417)**	**(405,530)**	**(22,641)**
Net Book Value at 31 March 2018	**391,665**	**1,252,731**	**46,315**	**250,731**	**665**	**68,555**	**12,110**	**2,022,772**	**195,951**

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

Comparative Movements in 2016/17:	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 2016	**622,571**	**1,356,125**	**97,244**	**339,848**	**674**	**70,942**	**9,415**	**2,496,819**	**215,444**
Additions	22,046	19,828	11,863	20,203	-	51,444	38	**125,422**	2,507
Accumulated Depreciation and Impairment Written Out	(129,972)	(5,079)	-	-	(34)	-	-	**(135,085)**	
Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve	60,560	(3,112)	-	-	-	10,314	927	**68,689**	-
Revaluation Decreases/(Increases) Recognised in the Deficit on the Provision of Services	(140,717)	(17,703)	-	-	-	(7,645)	(445)	**(166,510)**	-
Derecognition - Disposals	(5,482)	(4,431)	(8,608)	(214)	-	-	(584)	**(19,319)**	-
Assets Reclassified to/(from) Assets Held for Sale	-	(198)	(918)	-	-	-	(1,116)	**(2,232)**	-
Transfers or Reclassifications of Assets	15,009	24,258	39	-	100	(58,366)	1,338	**(17,622)**	-
At 31 March 2017	**444,015**	**1,369,688**	**99,620**	**359,837**	**740**	**66,689**	**9,573**	**2,350,162**	**217,951**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(131,255)**	**(92,818)**	**(50,395)**	**(109,510)**	**(16)**	**(7,605)**	**(810)**	**(392,409)**	**(13,281)**
Depreciation Charge	(12,183)	(39,428)	(10,625)	(10,866)	(2)	-	(66)	**(73,170)**	(4,888)
Accumulated Depreciation Written Out	108,544	4,213	-	-	-	-	34	**112,791**	-
Accumulated Impairment Written Out	21,428	866	-	-	-	-	-	**22,294**	
Depreciation Written Out to the RR	(5,357)	(350)	-	-	-	-	-	**(5,707)**	
Impairment Losses recognised in the Surplus/Deficit on the Provision of Services	(20,176)	(3,555)	(27)	(2)	-	(256)	-	**(24,016)**	-
Derecognition – Disposals	3,424	4,113	8,391	214	-	-	11	**16,153**	-
Assets Reclassified to/(from) AHfS	-	-	828	-	-	-	-	**828**	-
Other Movements in Depreciation and Impairment	(6,626)	14,225	-	-	(3)	7,605	769	**15,970**	-
At 31 March 2017	**(42,201)**	**(112,734)**	**(51,828)**	**(120,164)**	**(21)**	**(256)**	**(62)**	**(327,266)**	**(18,169)**
Net Book Value at 31 March 2017	**401,814**	**1,256,954**	**47,792**	**239,673**	**719**	**66,433**	**9,511**	**2,022,896**	**199,782**

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

At 31 March 2018, the Council has entered into a number of contracts for the construction or enhancement of PPE in 2018/19 and future years budgeted to cost £112,521,000. Similar commitments at 31 March 2017 were £67,396,000. The major commitments are:

Project Title	**£'000**
Kintore New Primary School	100
Uryside New Primary School	130
Markethill New Primary School	196
Portlethen New Primary School	250
New Pitsligo Primary School Alterations	290
Sheltered Housing Upgrades	350
Laurencekirk New Housing Development	550
Turriff New Housing Development	660
Banff Office Upgrade	770
Huntly New Housing	850
Ballater Railway Station	870
Peterhead New Housing	970
Inverbervie Primary School Extension and Alterations	1,010
HRA Heating Upgrades	1,400
Fraserburgh Saltoun Square Office Extension and Alterations	1,596
Kinellar New Primary School	1,883
Oldmeldrum New Housing	2,180
Ellon HWRC Bulking Centre	2,800
Macduff New Depot	3,200
Banchory Community Sports Facility	7,015
Aberdeen Western Peripheral Route	11,173
Housing Improvements Programme (HIP)	22,000
Inverurie Community Campus	52,278
Total	**112,521**

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.

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

	Council Dwellings £'000	Other Land & Buildings £'000	Other PPE* £'000	Total £'000
Carried at Historical Cost	30,356	417,106	558,442	**1,005,904**
Valued at fair value as at:				
1 April 2017	258	204,206	12,163	**216,627**
1 April 2016	443,573	41,479	200	**485,252**
1 April 2015	-	161,052	305	**161,357**
1 April 2014	417	555,463	1	**555,881**
1 April 2013	-	3,233	7	**3,240**
Total Cost or Valuation	**474,604**	**1,382,539**	**571,118**	**2,428,261**

*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 2017	1,524	320	120	**1,964**
Revaluations	-	-	-	**-**
Cost or Valuation at 31 March 2018	**1,524**	**320**	**120**	**1,964**

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. In addition, the following assets are included in the Balance Sheet.

- Hareshowe Farm, Aden Country Park which was valued at £200,000, which is its fair value, at 1 April 2015;
- Kindrochit Castle, Braemar, is included at £214,000, being the historical cost of the improvements carried out in 2014/15 and 2015/16; and
- 18 Neolithic carved stone balls are included at a value of £360,000. These have been revalued in 2016/17 and the value is based on similar items that have been sold at auction in recent years. The value of £20,000 per stone ball is a median value.

Three items have been valued at a combined total of £80,000, and these are not reported on the Balance Sheet.

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:

2016/17 £'000		2017/18 £'000
1,741	Balance at 1 April	1,687
(54)	Net Gains from Fair Value Adjustments	25
-	Reclassified as Property, Plant and Equipment	-
1,687	**Balance at 31 March**	**1,712**

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) 2016/17 £'000	Recurring fair value measurements using:	Other Significant Observable Inputs (Level 2) 2017/18 £'000
38	Residential (Market Rental) Property	15
770	Residential Development Land	770
867	Commercial Development Land	906
12	Agricultural Land	21
1,687	**Balance at 31 March**	**1,712**

Transfers Between Levels of the Fair Value Hierarchy.

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.

An intangible asset has also been created in 2017/18 to reflect that the Council purchased allowances prospectively for the purpose of settling current or future years' Carbon Reduction Commitment (CRC) responsibilities. When the allowances are surrendered to the CRC Registry in October after the reporting period the current intangible asset will be reduced by the allowances surrendered and the liability decreased.

The movement on Intangible Asset balances during the year is as follows:

2016/17 £'000		2017/18 £'000
	Balance at 1 April:	
8,365	Gross carrying amounts	8,483
(6,395)	Accumulated amortisation	(7,081)
1,970	**Net Carrying amount at 1 April**	**1,402**
118	Additions - Purchases	728
(686)	Amortisation for the year	(644)
1,402	**Net carrying amount at 31 March**	**1,486**
	Comprising:	
8,483	Gross carrying amounts	9,212
(7,081)	Accumulated amortisation	(7,726)
1,402	**Net carrying amount at 31 March**	**1,486**

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:

2016/17 £'000		2017/18 £'000
40	**Balance Outstanding at 1 April**	**933**
	Assets Newly Classified as Held for Sale:	
1,404	Property, Plant and Equipment	1,687
	Assets Declassified as Held for Sale:	
-	Property, Plant and Equipment	-
(511)	Assets Sold	(1,738)
933	**Balance Outstanding at 31 March**	**882**

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:

2016/17 £'000		2017/18 £'000
1,286	Not later than one year	1,281
2,323	Later than one year and not later than five years	2,860
7,019	Later than five years	6,800
10,628	**Minimum Lease Payments**	**10,941**

The expenditure is 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 £520,000 (2016/17: £518,000) which comprised Minimum Lease Payments of £504,000 (2016/17: £503,000) and Contingent Rentals of £16,000 (2016/17: £15,000).

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:

2016/17 £'000		2017/18 £'000
	Finance lease debtor (net present value of minimum lease payments):	
7	Current	8
659	Non-current	652
3,738	Unearned finance income	3,653
4,404	**Gross investment in the lease**	**4,313**

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

Gross Investment in the Lease 2016/17 £'000	Minimum Lease Payments 2016/17 £'000		Gross Investment in the Lease 2017/18 £'000	Minimum Lease Payments 2017/18 £'000
92	92	Not later than one year	92	92
366	366	Later than one year and not later than five years	366	366
3,946	3,946	Later than five years	3,855	3,855
4,404	**4,404**	**Total**	**4,313**	**4,313**

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 2017/18, £23,000 contingent rents were receivable by the Council (2016/17: £23,000).

Note 19 – Leases (Continued)

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:

2016/17 £'000		2017/18 £'000
3,656	Not later than one year	3,034
8,508	Later than one year and not later than five years	8,059
21,380	Later than five years	19,229
33,544	**Minimum Lease Payments**	**30,322**

In 2017/18, £577,000 contingent rents were receivable by the Council (2016/17: £674,000).

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 2018 (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
2018/19	4,257	4,248	1,492	2,759	2,229	14,985
Between 2019/20 and 2022/23	18,094	14,729	8,036	15,454	6,945	63,258
Between 2023/24 and 2027/28	23,282	11,298	14,345	25,834	6,506	81,265
Between 2028/29 and 2032/33	11,109	4,650	7,103	11,307	3,449	37,618
Between 2033/34 and 2037/38	2,561	2,405	(209)	5,266	3,029	13,052
Between 2038/39 and 2040/41	1,409	420	(309)	3,152	2,111	6,783

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:

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

Creditors 2016/17 £’000	Long Term Liabilities 2016/17 £’000	Total Liability 2016/17 £’000		Creditors 2017/18 £’000	Long Term Liabilities 2017/18 £’000	Total Liability 2017/18 £’000
(2,245)	(66,329)	(68,574)	Balance Outstanding at 1 April	(2,557)	(63,772)	(66,329)
2,245	-	2,245	Payments During the Year	2,557		2,557
-	-	-	Capital Expenditure incurred in the Year	-	-	-
(2,557)	2,557	-	Transfer to Current Creditors	(2,759)	2,759	-
(2,557)	**(63,772)**	**(66,329)**	**Balance Outstanding at 31 March**	**(2,759)**	**(61,013)**	**(63,772)**

Note 21 – Impairment Losses

During 2017/18, the Council has recognised an impairment loss of £37,390,000 in relation to its PPE, which are detailed in the Table below:

2016/17 £’000		2017/18 £’000
29,723	Consumption Loss	34,984
165,500	Economic Loss	2,406
195,223	**Total Impairment Loss**	**37,390**

This is due to downward revaluations being accounted for and adjusting for capital expenditure 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.

Note 22 – Financial Instruments

Table 1 Categories of Financial Instruments

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

Long Term 2016/17 £'000	Short Term 2016/17 £'000			Long Term 2017/18 £'000	Short Term 2017/18 £'000
		Balance Sheet Category	**Financial Assets**		
77	25,000	Investments	Loans and receivables	77	10,000
7,327	40,126	Debtors	Loans and receivables	8,763	42,892
-	6,408	Cash and Cash Equivalents	Cash and Cash Equivalents	-	11,289
7,404	**71,534**		**Total Financial Assets**	**8,840**	**64,181**
		Balance Sheet Category	**Financial Liabilities**		
(584,762)	(24,505)	Borrowing	Financial liabilities at amortised cost	(566,131)	(72,838)
(110)	-	Finance Leases	PFI and finance lease liabilities	(105)	-
(63,772)	-	PFI and PPP Liabilities	PFI and finance lease liabilities	(61,013)	-
-	(2,557)	Creditors	PFI and finance lease liabilities	-	(2,759)
(2,812)	(85,202)	Creditors	Financial liabilities at amortised cost	(2,736)	(85,364)
(651,456)	**(112,264)**		**Total Financial Liabilities**	**(629,985)**	**(160,961)**

Material Soft Loans Made by the Council

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 to Osprey Housing (previously known as Aberdeenshire 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 Osprey Housing, in this case a zero rate. The debt is amortised over the loan period and the fair value will rise until the repayment of the loan commences in 2026. The fair value of the loan is £2,167,000 (2016/17: £2,058,000) hence the increase in the discounted amount during the year was £109,000 (2016/17: £101,000).

Table 2 Income, Expense, Gains and Losses

31 March 2018	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Total £'000
Interest Expense	(28,876)	-	**(28,876)**
Impairment Losses	-	(515)	**(515)**
Fee Expense	(151)	-	**(151)**
Total Expense in Surplus or Deficit on the Provision of Services	**(29,027)**	**(515)**	**(29,542)**
Interest Income	-	632	**632**
Total Income in Surplus or Deficit on the Provision of Services	**-**	**632**	**632**
Net Gain/(Loss) for the Year	**(29,027)**	**117**	**(28,910)**

Comparative Figures 31 March 2017	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Total £'000
Interest Expense	(29,105)	-	**(29,105)**
Impairment Losses	-	(473)	**(473)**
Fee Expense	(179)		**(179)**
Total Expense in Surplus or Deficit on the Provision of Services	**(29,284)**	**(473)**	**(29,757)**
Interest Income	-	625	**625**
Total Income in Surplus or Deficit on the Provision of Services	**-**	**625**	**625**
	-		
Net Gain (Loss) for the Year	**(29,284)**	**152**	**(29,132)**

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 2018 of 1.47% to 2.49% for loans from the PWLB and 1.62% to 2.57% 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, we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in todays terms as at the balance sheet date. In order to highlight the changes in the accounting 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 value of liabilities is as follows:

- Early repayment methodology fair value is £1,067,879,000 (2016/17: £1,056,482,000) and the carrying amount is £788,210,000 (2016/17: £763,720,000).
- New borrowing rates fair value is £928,126,000 (2016/17: £916,059,000) and the carrying amount is £788,210,000 (2016/17: £763,720,000).

The value of liabilities with a 1% increase is as follows:

- Early repayment methodology fair value of £1,077,078,000
- New borrowing rates fair value is £935,927,000

The fair value of the liabilities is higher than the carrying amount because the Authority'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 2018) 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;
- re-financing risk – the possibility that the Council may have to renew a financial instrument on maturity at disadvantageous rates or terms
- 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 procedures for risk management are set out through a legal framework based on the Local Government (Scotland) Act 2003 and associated regulations, which were both revised in November 2011. They require the Council to comply with the CIPFA Code of Practice on Treasury Management, the Prudential Code for Capital Finance in Local Authorities and The Local Government Investments (Scotland) Regulations 2010.

The Council's management of the treasury risks focuses on the unpredictability of financial markets and seeks to protect the resources available to fund services by:

- complying with the requirements of the CIPFA Treasury Management Code of Practice;
- the adoption of a Treasury Management Strategy which includes the Council's Investment Strategy, this has been incorporated into the Council's Financial Regulations;
- approving annually in advance prudential and treasury management indicators for the following three years and reporting on performance 4 times a year.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. It is the Council's policy that deposits are only placed with financial institutions which have been independently classified as "very small risk" specifically based in the UK, EU, Australia or Canada and with a rating of P-1 (or better) from Moodys or a rating of F-1 (or better) from Fitch or where the organisation is deemed UK Government backed.

The Council has a policy of not lending more than £10,000,000 of its surplus balances to any one institution, with the exception of the Debt Management Office where the limit is not capped and UK government backed institutions and the Council's bankers, where the limit is £20,000,000. The Council's bank, the Clydesdale Bank is currently owned by CYBG plc which also owns the Yorkshire Bank. It was previously owned by the National Australia Bank before its divestment of its UK business in 2016. This change in ownership has resulted in the Council's treasury advisors removing the bank from the list of acceptable financial institutions for investment.

Deposits are with banks and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's Treasury Management Strategy Statement and Prudential Indicators. Investment decisions are considered as part of the daily cash flow management by the Council's Treasury Team who can and do restrict the list further in light of market conditions and advice from the Council's Treasury Management Advisors.

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 £18,800,000 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 2018 that this was likely to crystallise.

Credit limits were not exceeded during the reporting period. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

.

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

The following table summarised 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 2018 £'000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability at 31 March 2018 £'000	Estimated maximum exposure at 31 March 2017 £'000
	A	**B**	**C**	**(A X C)**	
Customers	10,570	49.44%	49.44%	5,226	5,911
Housing Rents	2,396	73.00%	73.00%	1,749	1,747
	12,966			**6,975**	**7,658**

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.

The past due amount can be analysed by age as follows:

31 March 2017 £'000		31 March 2018 £'000
4,426	Less than Three Months	3,048
470	Three to Six Months	375
248	Six Months to One Year	221
972	More than One Year	987
6,116	**Total**	**4,631**

Liquidity Risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs.

It is anticipated that some short to medium term borrowing is likely to be required within the next financial year to meet cash flow and working capital requirements. This will be managed as part of the Council's short and medium term cash flow monitoring.

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

Re-Financing Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. The majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re financing risk which the Council monitors and manages.

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

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. However, with the increase in borrowing rates announced in the Government's Comprehensive Spending Review in October 2010, it is now unlikely that there will be much scope for any substantial debt rescheduling.

The maturity analysis of the principal outstanding on the Council’s financial liabilities is as follows:

	31 March 2017 £’000	31 March 2018 £’000
Less than one year	(24,505)	(72,838)
Between one and two years	(18,593)	(22,155)
Between two and five years	(64,505)	(42,547)
More than 5 Years	(501,664)	(501,429)
Total	**(609,267)**	**(638,969)**

Market Risk - Interest Rate Risk

The Council is exposed to interest rate risk in two ways, the first being the uncertainty of interest paid/ received on variable rate financial instruments and the second being the effect of fluctuations in interest rates of the fair value of a financial instrument.

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 Comprehensive Income and Expenditure Statement will rise
- Borrowings at fixed rates – the fair value of the borrowing liability will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement
- Investments at fixed rates – the fair values of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 40% 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.

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	31 March 2018 £'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	447
Increase in government grant receivable for financing costs	-
Impact on Comprehensive Income and Expenditure Statement	447
Share of overall impact debited to the HRA	103
Decrease in fair value of fixed rate borrowings liabilities	**102,704**

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.

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 2018	**Consumable Stores/ Finished Goods 2017/18 £'000**	**Maintenance Materials/ Raw Materials 2017/18 £'000**	**Client Services/ Work in Progress 2017/18 £'000**	**Total 2017/18 £'000**
Balance Outstanding at 1 April 2017	**1,783**	**1,716**	**504**	**4,003**
Purchases	7,943	8,689	2,529	19,161
Recognised as an Expense in the Year - Issues	(8,021)	(8,782)	(2,529)	(19,332)
Inventory Adjustments	69	120	261	450
Balance Outstanding at 31 March 2018	**1,774**	**1,743**	**765**	**4,282**

Comparative Figures for 31 March 2017	**Consumable Stores/ Finished Goods 2016/17 £'000**	**Maintenance Materials/ Raw Materials 2016/17 £'000**	**Client Services/ Work in Progress 2016/17 £'000**	**Total 2016/17 £'000**
Balance Outstanding at 1 April 2016	**2,022**	**1,710**	**139**	**3,871**
Purchases	11,740	6,690	737	19,167
Recognised as an Expense in the Year - Issues	(11,775)	(6,662)	(352)	(18,789)
Inventory Adjustments	(204)	(22)	(20)	(246)
Balance Outstanding at 31 March 2017	**1,783**	**1,716**	**504**	**4,003**

Note 25 – Debtors

Long Term Debtors at 31 March 2018	Balance Outstanding at 31 March 2018 £'000	Cumulative Soft Loan Adjustment at 31 March 2018 £'000	Fair Value Amortised Costs at 31 March 2018 £'000
Osprey Housing	3,743	(1,576)	2,167
Create Homes	5,417	-	5,417
Leasing	660	-	660
Other Long Term Debtors (each less than £500,000)	721	(88)	633
	10,541	**(1,664)**	**8,877**
Repayments due 2018/19 shown as Current Debtors			(114)
Balance at 31 March 2018			**8,763**

Comparative Figures at 31 March 2017	Balance Outstanding at 31 March 2017 £'000	Cumulative Soft Loan Adjustment at 31 March 2017 £'000	Fair Value Amortised Costs at 31 March 2017 £'000
Osprey Housing	3,743	(1,685)	2,058
Create Homes	4,089	-	4,089
Leasing	667	-	667
Other Long Term Debtors (each less than £500,000)	759	(88)	671
	9,258	**(1,773)**	**7,485**
Repayments due 2017/18 shown as Current Debtors			(158)
Balance at 31 March 2017			**7,327**

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

2016/17 £'000		2017/18 £'000
14,166	Central Government Bodies	10,986
1,660	Other Local Authorities	2,625
1,381	NHS Bodies	316
2,616	Public Corporations and Trading Funds	624
20,303	Other Entities and Individuals	28,341
40,126	**Total Short Term Debtors**	**42,892**

Note 26 – Cash and Cash Equivalents

The balance of Cash and Cash equivalents as at 31 March 2018 is as detailed in the Table below.

2016/17 £'000		2017/18 £'000
33	Cash held by the Council	38
6,375	Bank Current Accounts	11,251
6,408	**Total Cash and Cash Equivalents**	**11,289**

Note 27 – Creditors

*Re-stated 2016/17 £'000		2017/18 £'000
(14,978)	Central Government Bodies	(13,658)
(6,095)	Other Local Authorities	(6,592)
(714)	NHS Bodies	(1,276)
(209)	Public Corporations and Trading Funds	(524)
*(61,778)	Other Entities and Individuals	(66,073)
(83,774)	**Total Short Term Creditors**	**(88,123)**

The following creditors were due in more than one year:

*Re-stated 2016/17 £'000		2017/18 £'000
(2,812)	Central Government Bodies	(2,736)
(2,812)	**Total Long Term Creditors**	**(2,736)**

*These have been re-stated as they related to creditors due in more than one year

Note 28 – Provisions

(i) Specific Provisions

	Balance at 31 March 2017 £'000	Provision Made in Year £'000	Provision Not Realised in Year £'000	Provision Utilised in Year £'000	Balance at 31 March 2018 £'000
Equal Pay	(3,620)	-	849	133	(2,638)
Asset Decommissioning	(6,679)	-	-	-	(6,679)
Other Provisions (each less than £500,000)	(252)	(291)	166	44	(333)
Total	**(10,551)**	**(291)**	**1,015**	**177**	**(9,650)**
Provisions anticipated to be utilised within 12 months, shown as Current Provisions	502				2,789
Non-Current Provisions at 31 March	**(10,049)**				**(6,861)**

The provisions above are for liabilities which exist at 31 March 2018 but are likely to be incurred in financial years 2018/19 and beyond. In estimating the amount in each provision required, the most up to date information available is used to determine a reasonable figure. Comments on the above provisions are as follows:

Asset Decommissioning – the provision was created to cover the capital costs associated with the decommissioning of Home Recycling Waste Centres, Waste Transfer Sites and Landfill Sites, and Quarries owned by the Council.

Equal Pay – the provision was created to cover the costs of settling any equal pay claims.

Note 28 – Provisions (continued)

(ii) Debtors Provision

Debtors Provision	Balance at 31 March 2017 £'000	Adjustment to Provision Made in Year £'000	Balance at 31 March 2018 £'000
General Debtors	(4,849)	(421)	(5,270)
Revenues	(14,785)	(308)	(15,093)
Housing Rents	(2,854)	(94)	(2,948)
Total	**(22,488)**	**(823)**	**(23,311)**

Estimates have been made of possible losses on the non-collection of debts. These estimates have decreased the debtor's 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 £3,698,000 as at 31 March 2018. (£3,543,000 at 31 March 2017).

Note 29 – Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2017/18:

31 March 2017 £'000		31 March 2018 £'000
	Credited to Taxation and Non Specific Grant Income	
(314,451)	Revenue Support Grant	(312,155)
(99,190)	NDR Receipts from Pool	(95,043)
-	Ring fenced Scottish Attainment Funding	(1,444)
(30,097)	Scottish Government General Capital Grant	(30,434)
(436)	Ballater Station Replacement	(1,182)
(3,515)	Education – Primary Replacement	(1,371)
-	Early Learning and Childcare	(1,774)
-	Workspace enhancement	(1,031)
(1,252)	Waste Recycling Replacement	(1,824)
(3,259)	Housing Revenue Account	(5,328)
(1,421)	Roads and Transport Services - Network and Traffic Management	(1,721)
(3,790)	Other Capital Grants (each less than £500,000)	(911)
(457,411)	**Total**	**(454,218)**
	Credited to Services	
(1,892)	Alford Campus – Scottish Government Funding	(1,889)
(585)	Youth Music Initiative	(514)
(607)	Active Schools	(604)
(2,499)	Criminal Justice Service Grant	(2,550)
(3,739)	Universal Homes Insulation Scheme	(1,246)
(761)	Nestrans	(969)
(39,572)	Housing Benefits	(40,824)
(840)	Private Sector Housing Grant	(901)
(682)	Benefits Administration	(632)
(9,504)	NHS Social Care Funding	(13,384)
(1,571)	NHS Integrated Care Fund	(1,077)
(11,709)	NHS Resource Transfer	(11,709)
(830)	NHS Delayed Discharge	(985)
(660)	NHS Elderly Service Redesign	(660)
-	Syrian Vulnerable Persons Resettlement Programme	(701)
(4,110)	Other grants (each less than £500,000)	(5,547)
(79,561)	**Total**	**(84,192)**

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 2017 £'000	Short Term Liabilities - Revenue Grants Receipts in Advance	31 March 2018 £'000
(392)	Other grants (each less than £500,000)	(2,086)
(392)	**Total**	**(2,086)**

31 March 2017 £'000	Long Term Liabilities - Capital Grants Receipts in Advance	31 March 2018 £'000
(15,713)	Developer Obligations	(15,957)
(15,713)	**Total**	**(15,957)**

Note 30 – Unusable Reserves

The Unusable Reserves can be analysed as follows:

Restated 2016/17 £'000		2017/18 £'000
(851,034)	Revaluation Reserve	(819,510)
(447,001)	Capital Adjustment Account	(448,139)
13,077	Financial Instruments Adjustment Account	11,867
414,211	Pensions Reserve	231,573
12,338	Employee Statutory Adjustment Account	11,091
(858,409)	**Total**	**(1,013,118)**

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.

2016/17 £'000	Revaluation Reserve	2017/18 £'000
(818,765)	**Balance at 1 April**	**(851,034)**
(128,536)	Upward Revaluation of Assets	(18,563)
66,848	Downward Revaluation of Assets and Impairment Losses Not Charged to the Deficit on the Provision of Services	16,803
(61,688)	**Surplus or Deficit on Revaluation of Non-Current Assets and Assets Held for Sale not posted to the Deficit on the Provision of Services**	**(1,760)**
29,419	Difference Between Fair Value Depreciation and Historical Cost Depreciation	33,284
(851,034)	**Balance at 31 March**	**(819,510)**

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 2017/18.

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.

2016/17 £'000	Capital Adjustment Account	2017/18 £'000
(603,561)	**Balance at 1 April**	**(447,001)**
	Reversal of items relating to Capital Expenditure debited or credited to the CIES:	
97,186	Charges for Depreciation and Impairment of Non-Current Assets	92,750
166,510	Revaluation losses on PPE and AHfS	20,313
686	Amortisation of Intangible Assets	644
3,677	Amounts of Non-Current Assets written off on Disposal or Sale as part of the Gain/Loss on Disposal to the CIES	3,178
(29,419)	Adjusting amounts written out of the Revaluation Reserve	(33,284)
238,640		**83,601**
	Capital Financing Applied in the Year:	
(5,451)	Use of Capital Receipts to finance new Capital Expenditure	(4,420)
(41,979)	Capital Grants and Contributions credited to the CIES that have been applied to Capital Financing	(43,650)
(1,287)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account	(1,409)
(14,168)	Statutory Provision for the Financing of Capital Investment charged against the General Fund and HRA Balances	(14,827)
(19,249)	Capital Expenditure charged against the General Fund and HRA Balances	(20,408)
(82,134)		**(84,714)**
54	**Movements in the Market Value of Investment Properties debited or credited to the CIES**	**(25)**
(447,001)	**Balance at 31 March**	**(448,139)**

Note 30 – Unusable Reserves (Continued)

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 2018 will be charged to the General Fund over the next 38 years.

2016/17 £'000	Financial Instruments Adjustment Account	2017/18 £'000
14,280	**Balance at 1 April**	**13,077**
(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)
(143)	Amount by which Finance Costs charged to the CIES are different from Finance Costs Chargeable in the Year in accordance with statutory requirements	(150)
13,077	**Balance at 31 March**	**11,867**

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.

Restated 2016/17 £'000	Pensions Reserve	2017/18 £'000
253,899	**Balance at 1 April**	**414,211**
144,675	Actuarial (gains) or losses on pensions assets and liabilities	(220,217)
51,294	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	74,393
(35,657)	Employer's pensions contributions and direct payments to pensioners payable in the year	(36,814)
414,211	**Balance at 31 March**	**231,573**

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.

Note 30 – Unusable Reserves (Continued)

2016/17 £'000	Employee Statutory Adjustment Account	2017/18 £'000
11,795	**Balance at 1 April**	**12,338**
(11,795)	Settlement or cancellation of accrual made at the end of the preceding year	(12,338)
12,338	Amounts accrued at the end of the current year	11,091
543	**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**	**(1,247)**
12,338	**Balance at 31 March**	**11,091**

Note 31 – Events after the Balance Sheet Date

The unaudited accounts were issued on 22 June 2018 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 2018, 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

Limitation (Childhood Abuse) (Scotland) Bill

The Scottish Parliament has now passed the Limitation (Childhood Abuse) (Scotland) Act, therefore claimants may seek damages in respect of personal injuries resulting from childhood abuse back to 1964. Whilst there have been a small number of claims intimated across Scotland, these are at the early stages of investigation and it is anticipated that claim numbers may rise in coming years for the country as a whole, however there are no exact figures known at present.

This is an area that will be reviewed in financial year 2018/19, as more information regarding liabilities from the former Grampian Regional Council are known and a decision taken by the constituent Councils, Aberdeenshire, Aberdeen City and Moray as to how a successful claim will be proportioned. In the event that there is quantifiable exposure for Aberdeenshire Council, we will consider the setting up a provision in financial year 2018/19 to provide for any resultant costs."

Guarantor in relation to NESPF

The Council has agreed to act as guarantor to NESPF for four admitted bodies – Cairngorms Outdoor Access Trust, Robertson's Facility Management (Aberdeenshire), Xerox UK (Ltd) and Forth and Oban (Shire). Should any of these employers terminate from the fund following the last member leaving the scheme or the organisation ceasing to exist they would be required to pay any termination payment due. Following recovery of this payment, the Council would then subsume all assets and liabilities held for the existing employer. If, for any reason, NESPF were unable to recover all or part of the termination fee, this too would be subsumed by the Council. The potential values guaranteed are subject to a range of actuarial assumptions.

Note 33 – Contingent Assets

Hard Facilities Management Contract

In April 2017, the Council contracted with an external company to deliver the Hard Facilities Management Contract. It has been recognised by both parties that the Contractor has not met the contractual requirement of a minimum amount of equipment testing and servicing to Council assets during the financial year 2017/18. The Council and the Contractor are currently in dispute about the value of the works not completed and it is possible that this dispute may result in litigation. Until this is settled the amount cannot be recognised in the accounts.

The Council and the Contractor for the AWPR are currently in discussions regarding the level of compensation due to the Council for damage to the Council's road network which is attributable to the AWPR work. Until this is settled the amount cannot be recognised in the accounts.

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 2016 and this set contribution rates from 1 April 2017. 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 2016 was 17.2%. 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 4.28% based on the proportion of employer contributions paid in 2017/18.

In 2017/18, the Council paid £17,557,063 to the Scottish Government in respect of teachers' retirement benefits representing 17.2% of pensionable pay. The figures for 2016/17 were £17,532,019 and 17.2%. In addition, the Council is responsible for all pension payments related to "added years" it has awarded, together with related increases. These amounted to £44,694 or 0.04% of pensionable pay. The figures for 2016/17 were £41,123 and 0.04%. Contributions of £2,305,842 (2016/17: £2,289,493) 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.

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 2017, the Fund's assets were sufficient to cover 108% 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).

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 primary 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 secondary contribution of 2.9% of projected pensionable pay at the valuation date.

Each employer's position is assessed separately and individual rates set for each employer over the three year period to 31 March 2021. The Council's contribution rate will, therefore, be 19.3% over the three year period.

Note 35 – Defined Benefit Pension Schemes (Continued)

Under the terms and conditions of the scheme, the Council has agreed to act as guarantor for four admitted bodies. Should any of these employers terminate from the fund following the last member leaving the scheme or the organisation ceasing to exist they would still be required to pay any “ongoing” termination payment due. Following recovery of this payment, the Council would then subsume all assets and liabilities held for the existing employer. If, for any reason, NESPF were unable to recover all or part of the termination fee, this too would be subsumed by the Council and considered by the scheme actuary during the triennial valuation process.

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 2018, the Council makes up 42.9% (2016/17: 33.7%) 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 £3,756,989 (2016/17: £3,616,000) 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)

Restated NESPF 2016/17 £'000	Restated Teachers Additional Unfunded Pensions 2016/17 £'000	Restated Total 2016/17 £'000	CIES	NESPF 2017/18 £'000	Teachers Additional Unfunded Pensions 2017/18 £'000	Total 2017/18 £'000
			Cost of Services:			
42,279	-	42,279	Current Service Cost	63,715	-	63,715
-	-	-	Past Service Costs	-	-	-
93	-	93	Loss from Settlements	73	-	73
			Financing and Investment Income and Expenditure:			
7,645	599	8,244	Net Interest Expense	9,372	523	9,895
678	-	678	Administration Expenses	710	-	710
50,695	**599**	**51,294**	**Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services**	**73,870**	**523**	**74,393**
			Other Post Employment Benefit charged to the CIES			
140,815	3,860	144,675	Remeasurement of the net defined benefit liability comprising: Actuarial gains and losses arising on changes in financial assumptions	(219,792)	(425)	(220,217)
191,510	**4,459**	**195,969**	**Total Post Employment Benefit charged to the CIES**	**(145,922)**	**98**	**(145,824)**
			Movement in Reserves Statement			
(50,695)	(599)	(51,294)	Reversal of Net Charges Made to the Surplus or Deficit on the Provision of Services for Post Employment Benefits in Accordance with the Code	(73,870)	(523)	(74,393)
			Actual amount charged against the General Fund Balance for pensions in the year:			
34,496			Employers' Contributions Payable to the Scheme	35,664		
	1,161		Retirement Benefits Payable to Pensioners		1,150	

Restated NESPF Funded Benefits £'000	Restated NESPF Unfunded Benefits £'000	Restated Teachers Additional Unfunded Pensions £'000	Restated Total 2016/17 £'000	Assets and Liabilities Recognised in the Balance Sheet	NESPF Funded Benefits £'000	NESPF Unfunded Benefits £'000	Teachers Additional Unfunded Pensions £'000	Total 2017/18 £'000
1,513,248	26,608	21,499	1,561,355	Present value of the defined benefit obligation	1,466,286	25,522	20,447	1,512,255
(1,147,144)	-	-	(1,147,144)	Fair value of plan assets	(1,280,682)	-	-	(1,280,682)
366,104	**26,608**	**21,499**	**414,211**	**Net liability arising from defined benefit obligations**	**185,604**	**25,522**	**20,447**	**231,573**

Note 35 – Defined Benefit Pension Schemes (Continued)

Restated NESPF		Restated Teachers Additional	Restated	Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	NESPF		Teachers Additional	
Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2016/17 £'000		Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2017/18 £'000
1,148,190	23,871	18,201	1,190,262	Opening Balance at 1 April	1,513,248	26,608	21,499	1,561,355
42,279	-	-	42,279	Current Service Cost	63,715	-	-	63,715
39,802	805	599	41,206	Interest Cost	37,533	649	523	38,705
10,004	-	-	10,004	Contributions from Scheme Participants	10,511	-	-	10,511
				Remeasurement (gains) and losses:				
-	-	1,031	1,031	Actuarial experience (gains)/losses	(32,305)	152	144	(32,009)
304,873	3,642	2,829	311,344	Actuarial (gains)/losses arising from changes in financial assumptions	(101,524)	(582)	(497)	(102,603)
-	-	-	-	Actuarial (gains)/losses arising from changes in demographic assumptions	9,362	37	(72)	9,327
(31,969)	(1,734)	(1,161)	(34,864)	Benefits Paid	(34,327)	(1,342)	(1,150)	(36,819)
69	24	-	93	Losses on Curtailments	73	-	-	73
1,513,248	**26,608**	**21,499**	**1,561,355**	**Closing Balance at 31 March**	**1,466,286**	**25,522**	**20,447**	**1,512,255**

Restated NESPF		Restated Teachers Additional	Restated	Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets	NESPF		Teachers Additional	
Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2016/17 £'000		Funded Benefits £'000	Unfunded Benefits £'000	Unfunded Pensions £'000	Total 2017/18 £'000
936,363	-	-	936,363	Opening fair value scheme assets at 1 April	1,147,144	-	-	1,147,144
32,962	-	-	32,962	Interest Income	28,810	-	-	28,810
167,700	-	-	167,700	Remeasurement gains/(loss): The return on plan assets, excluding the amount included in the net interest expense	94,932	-	-	94,932
(678)	-	-	(678)	Administration expenses	(710)	-	-	(710)
32,762	1,734	1,161	35,657	Contributions from employer	34,322	1,342	1,150	36,814
10,004	-	-	10,004	Contributions from employees into the scheme	10,511	-	-	10,511
(31,969)	(1,734)	(1,161)	(34,864)	Benefits paid	(34,327)	(1,342)	(1,150)	(36,819)
1,147,144	**-**	**-**	**1,147,144**	**Closing fair value of scheme assets at 31 March**	**1,280,682**	**-**	**-**	**1,280,682**

NESPF Assets Comprised:

Asset category	Sub-category	Quoted (Y/N)	Restated 31 March 2017 £'000	31 March 2018 £'000
Equities:	UK quoted	Y	223,120	226,554
	Global quoted	Y	209,698	253,447
	Pooled UK	Y	172,072	166,360
	Pooled Global	Y	175,513	165,080
Bonds:	UK Government fixed	Y	32,120	19,210
	UK Government indexed	Y	57,357	58,911
	Overseas Government fixed	Y	37,856	19,210
	UK Other	Y	-	512
	Overseas other	Y	-	9,349
	UK Corporate	Y	3,441	384
	Overseas Corporate	Y	14,913	6,531
Property:	UK Direct	N	78,006	90,544
	Property Funds - UK	N	2,294	2,561
Alternatives:	European Private Equity	N	14,913	13,831
	Global Private Equity	N	29,826	33,042
	Global Infrastructure	N	2,294	2,946
	UK Private Equity	N	2,294	4,610
	Global Private Equity Real Estate	N	10,324	13,319
	Diversified Growth Funds	N	61,946	96,051
	Infrastructure Pooled Fund	Y	-	31,249
	Multi Asset Credit	N	-	31,505
	Other Loan Fund	N	803	896
Cash:	Cash instruments	N	17,207	33,298
	Net current assets	N	1,147	1,282
Total			**1,147,144**	**1,280,682**

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 2017 rolled forward to 31 March 2018. The next triennial valuation will be based on the Fund as at 31 March 2020.

Note 35 – Defined Benefit Pension Schemes (Continued)

The significant assumptions used by the actuary have been:

NESPF		Teachers		NESPF		Teachers
Funded Benefits 2016/17	Unfunded Benefits 2016/17	Additional Unfunded Pensions 2016/17		Funded Benefits 2017/18	Unfunded Benefits 2017/18	Additional Unfunded Pensions 2017/18
			Mortality Assumptions:			
			Longevity at 65 for Current Pensioners:			
22.3	22.3	23.6	Men	22.7	22.7	22.7
24.9	24.9	25.7	Women	24.9	24.9	24.9
			Longevity at 65 for Future Pensioners:			
24.5	-	-	Men	25.6	-	-
27.8	-	-	Women	27.9	-	-
2.30%	2.30%	2.30%	Rate of Inflation	2.10%	2.10%	2.10%
3.80%	-	-	Rate of Increase in Salaries	3.60%	-	-
2.30%	2.30%	2.30%	Rate of Increase in Pensions	2.20%	2.20%	2.20%
2.50%	2.50%	2.50%	Rate for Discounting Scheme Liabilities	2.60%	2.60%	2.60%
50%	-	-	Take-up of Option to Convert Annual Lump Sum Pension into Retirement Lump Sum			

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)	28,673	(28,673)
Rate of inflation (increase or decrease by 0.1%)	28,425	(28,425)
Rate of increase in salaries (increase or decrease by 0.1%)	4,736	(4,736)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(27,894)	27,894

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 2018 and the results indicate that overall the assets represented 108% 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:

Growth Assets 70% (+/- 5%)	Income/Protection Assets 30% (+/-5%)
Global Equities 55% Diversified Growth Funds 10% Limited Partnerships 5%	Bonds 10% Direct Property 10% Index Linked 5% Other 5%

The asset proportions of the Fund at 31 March 2018 were: equities, including alternatives 81.1% (2016/17: 78.7%), bonds 8.9% (2016/17: 12.7%), property 7.3% (2016/17: 7.0%) and cash 2.7% (2016/17: 1.6%).

Impact on the Council's Cash Flows

The next triennial valuation is due to be completed on 31 March 2020.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £35,597,000.

The weighted average duration of the defined benefit obligation for scheme members at the 31 March 2017 valuation is 19 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 2016/17 £'000	Aberdeenshire Share 2016/17 £'000		Total 2017/18 £'000	Aberdeenshire Share 2017/18 £'000
6,625	2,915	Grampian Valuation Joint Board	6,625	2,915

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). Grants received from the Scottish Government are set out in the subjective analysis in Note 6 on Expenditure and Income Analysed by Nature. Grant receipts outstanding at 31 March 2018 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 2017/18 is shown in the Remuneration Report. Councillors have involvement with 185 outside bodies, 62 of which are in a decision-making role and 123 in an observational role as reported to Full Council on 18 May 2017. During 2017/18, works and services to the value of £3,808,000 were commissioned from companies in which 16 Councillors' had an interest (2016/17 £2,964,000 and 26 Councillors). Contracts were entered into in full compliance with the Council's standing orders. In addition, grants totalling £766,000 were awarded to voluntary organisations in which 16 Councillors had positions on the governing body (2016/17 £411,000 and 15 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 25-34. 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.

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 2018, the total comprehensive income and expenditure statement shows a surplus of £1,510,000 (2016/17 £2,733,000 deficit) and the net liabilities were £4,289,000 (2016/17 £5,799,000). The Board is funded by requisitions from the three Councils. The Council paid a requisition in 2017/18 of £1,800,000 (2016/17 £1,772,000). 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.

Note 36 – Related Parties (Continued)

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 2018, the total comprehensive income and expenditure statement was £338,000 surplus (2016/17 £384,000 deficit) and the net liabilities were £591,000 (2016/17 £928,000). The two Councils fund the Partnership. The Council paid a requisition of £32,000 (2016/17 £121,000) and provided capital funding of £969,000 (2016/17 £761,000). A copy of the accounts can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

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 2018, the net assets were £6,370,000 (2016/17 £6,314,000) for Trusts and £2,840,000 (2016/17 £2,875,000) for Common Good Funds. The accounts of the Trusts and Common Good Funds are shown on pages 105-109. The Trusts and Common Good Funds had £4,192,000 (2016/17 £4,158,000) invested in the Council's loans fund at 31 March 2018. 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 2018, Aberdeenshire Council's contribution to the organisations in 2017/18 was £157,000, which was the same as in 2016/17. For the year ended 31 March 2018, the CIES for Scotland Excel shows a surplus of £3,252,000 compared to a deficit of £2,590,000 in 2016/17. The net liabilities were £1,769,000 at 31 March 2018, compared to £4,748,000 at 31 March 2017.

Aberdeenshire Integration Joint Board

Aberdeenshire Integration Joint Board (the Board) of Aberdeenshire Health and Social Care Partnership was established as a Body by Scottish Ministers on 6 February 2016. Its purpose is to improve the wellbeing of the 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 year end 31 March 2018, the total comprehensive income and expenditure statement shows a deficit of £9,000 (2016/17 £9,000 surplus). The net assets were Nil (2016/17 £9,000). The Board is funded by the Council and NHS Grampian. The Council made a payment of £103,946,000 (2016/17 £102,395,000) 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

Restated 2016/17 £'000		2017/18 £'000
(208,205)	**Net Deficit on the Provision of Services**	**(77,291)**
	Adjust net surplus or deficit on the provision of services for non cash movements	
97,186	Depreciation and Impairment	92,750
166,510	Downward Revaluations	20,313
686	Amortisation	644
(114)	Soft Loans (non subsidiary)-Interest adjustment credited to CIES during year	(125)
(36)	Adjustments for Effective Interest Rates	(38)
276	Increase/(Decrease) in Interest Creditors	(125)
(1,145)	Increase in Creditors	7,348
(31)	(Increase)/Decrease in Interest and Dividend Debtors	3
(7,648)	(Increase)/Decrease in Debtors	(5,246)
(132)	(Increase)/Decrease in Inventories	(279)
15,635	Movement in Pension Liability	37,579
(1,119)	Contributions to/ (from) Provisions	6,599
3,677	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	3,178
54	Movement in Investment Property Values	(25)
273,799		**162,576**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(43,771)	Capital Grants credited to surplus or deficit on the provision of services	(45,576)
-	Net Adjustment from the Sale of Short and Long Term Investments	15,000
(5,898)	Proceeds from the sale of property plant and equipment and intangible assets	(4,420)
(49,669)		**(34,996)**
15,925	**Net Cash Flows from Operating Activities**	**50,289**

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
480	Interest Received	510
(29,044)	Interest Paid	(29,910)

Note 38 – Summarised Financial Information of Group Entities

The Council has an interest in the Aberdeenshire Integration Joint Board, the Trusts and Endowments for which the Council is the sole Trustee, Common Good Funds, the Grampian Valuation Joint Board, Create Homes and Nestrans. The Council has concluded that its interests in the Aberdeenshire Integration Joint Board and the Trusts and Endowments for which the Council is the sole Trustee are considered to be material, hence Group Accounts have been prepared which include these entities.

The Trusts and Endowments have been consolidated into the Group Statements as a 100% fully controlled subsidiary of the Council. Full details of the Trusts and Endowments are included on pages 100-102. The Aberdeenshire Integration Joint Board has been consolidated as a joint venture. The accounting year end for these entities is 31 March 2018.

Note 38 – Summarised Financial Information of Group Entities (Continued)

The Council's share of the Aberdeenshire Integration Joint Board is as follows:

2016/17 £'000		2017/18 £'000
(5)	(Surplus)/Deficit on Operating Activities	5
5	Current Assets	-

Aberdeenshire Integration Joint Board

Details of the Aberdeenshire Integration Joint Board are given in note 36 on Related Parties. The contribution provided by the Council to the Board in 2017/18 was £103,946,000 (2016/17: £102,395,000). The Board is consolidated as a joint venture and therefore the percentage share is 50%.

Alignment of Accounting Policies

Details of the Accounting Policies used in compiling the single entity accounts for the Council are contained in note 1. The accounting policies of the Council and its Group Entities noted above are fully aligned.

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.

Restated 2016/17 £'000	HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT	2017/18 £'000	Notes Ref
	Expenditure		
20,250	Repairs and Maintenance	20,243	
8,985	Supervision and Management	10,494	
179,922	Depreciation, Amortisation and Impairment of Non-Current Assets	25,553	
410	Movement in the Allowance for Bad Debts	550	
8,062	Other Expenditure	8,813	
217,629	**Total Expenditure**	**65,653**	
	Income		
(45,888)	Dwelling Rents	(47,626)	
(1,020)	Non-dwelling Rents	(1,063)	
(10,260)	Other Income	(11,052)	
(57,168)	**Total Income**	**(59,741)**	
160,461	**Net Cost of HRA Services as Included in the CIES**	**5,912**	
381	HRA Services' Share of Corporate and Democratic Core	431	
1	HRA Share of Other Amounts Included in the Whole Council's Net Cost of Services but Not Allocated to Specific Services	2	
160,843	**Net Expenditure for HRA Services**	**6,345**	
	HRA Share of the Operating Income and Expenditure Included in the CIES		
(1,514)	Gain on Sale of HRA Non Current Assets	(1,153)	
5,352	Interest Payable and Similar Charges	5,340	
(24)	Interest and Investment Income	(38)	
543	Net Interest on Net Defined Benefit Liability (Asset)	663	
(3,259)	Non-specific Grant Income	(5,328)	
161,941	**Deficit for the Year on HRA Services**	**5,829**	
	HRA Notes		2 - 5

Restated 2016/17 £'000	MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT	2017/18 £'000	Notes Ref
(2,000)	**Balance on the HRA at 1 April**	**(2,000)**	
161,941	Deficit for the Year on the HRA Income and Expenditure Statement	5,829	
(161,984)	Adjustments Between Accounting Basis and Funding Basis Under Statute	(2,373)	7~
(43)	Net Decrease/(Increase) before transfers to/from reserves	3,456	
43	Transfer (from)/to reserves	(3,456)	1
-	Movement in Year on the HRA	-	
(2,000)	**Balance on the HRA at 31 March**	**(2,000)**	

~Refers to note 7 to the Council's Financial Statements on pages 55-56.

Housing Revenue Account Disclosures

HRA Note 1 – Transfer to (from) Reserves

2016/17 £'000		2017/18 £'000
-	Transfer from General Fund	(3,502)
43	Transfer to Insurance Fund	46
-	Transfer from Repairs and Maintenance Fund	-
43	**Total**	**(3,456)**

HRA Note 2 – Housing Stock

The Council's housing stock at 31 March 2018 was 12,918 (12,929 at 31 March 2017) in the following categories:

2016/17	Types of dwellings:	2017/18
1,509	- Sheltered Housing	1,509
38	- 1 apartment	46
3,715	- 2 apartment	3,712
5,081	- 3 apartment	5,075
2,442	- 4 apartment	2,433
144	- 5 + apartment	143
12,929	**Total Housing Stock as at 31 March**	**12,918**

The Council's housing stock includes 33 properties (2016/17: 34 properties) that are not in the ownership of the Council.

HRA Note 3 – Rent Arrears

Rent arrears at 31 March 2018 were £2,396,000 (£2,353,000 at 31 March 2017).

HRA Note 4 – Impairment of Debtors

In 2017/18 an impairment of £1,749,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £2,000 from the provision in 2016/17.

HRA Note 5 – Void Properties

The loss on void properties in 2017/18 was £1,360,000 compared to a loss on void properties of £864,000 in 2016/17.

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 2017/18, for Band D properties, the Council Tax was £1,169.53. The Scottish average Band D Council Tax for 2017/18 was £1,173.00. This statement also includes any residual Community Charges collected.

2016/17 £'000		2017/18 £'000	Notes Ref
(141,312)	**Gross Council Tax Levied and Contributions in Lieu**	**(155,833)**	
	Less:		
7,235	Council Tax Reduction Scheme	7,734	
14,622	Other Discounts and Reductions	15,744	
-	Write Off of Uncollectable Debts and Allowance for Impairment	41	
21,857		**23,519**	
(191)	Adjustments to Previous Years'	(642)	
(1,595)	Second Homes Council Tax – In Year*	(1,243)	
(2,390)	- Prior Years**	-	
(123,631)	**Transfer to CIES**	**(134,199)**	
	Council Tax Income Account notes		1 - 2

*****The accounting treatment for reporting Ring-fenced income from Second Homes Council Tax has changed in 2017/18. Any balance at 31 March was previously carried as a creditor in the Annual Accounts. This income is now being recognised in the year it was collected and transferred to an Earmarked Reserve.

**2016/17 has been re-stated to reflect this change in accounting treatment, resulting in accumulated balances collected in previous years being recognised in 2016/17.

CT Note 1 – Council Tax Charges

The Council Tax Charges are set out below:

Band	Property Value	2016/17 Proportion of Band D	2016/17 Council Tax	2017/18 Proportion of Band D	2017/18 Council Tax
A	Up to £27,000	0.6667	£760.67	0.6667	£779.69
B	£27,001 – £35,000	0.7778	£887.44	0.7778	£909.63
C	£35,001 – £45,000	0.8889	£1,014.22	0.8889	£1,039.58
D	£45,001 - £58,000	1.0000	£1,141.00	1.0000	£1,169.53
E	£58,001 - £80,000	1.2222	£1,394.56	1.3139	£1,536.63
F	£80,001 - £106,000	1.4444	£1,648.11	1.6250	£1,900.48
G	£106,001 - £212,000	1.6667	£1,901.67	1.9583	£2,290.32
H	Above £212,000	2.0000	£2,282.00	2.4500	£2,865.34

CT Note 2 – Calculation of Council Tax Base 2017/18

BAND	Band A*	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
Properties	20,546	16,110	14,421	17,747	21,622	16,368	10,407	606	**117,827**
Less:									
Exemptions	1,389	688	540	506	384	216	125	11	**3,859**
Discount - 25%	2,599	1,656	1,262	1,285	1,163	628	308	14	**8,915**
Discount - 50%	454	295	255	270	238	156	101	16	**1,785**
Number of chargeable dwellings subject to disabled reduction	(60)	(46)	(8)	(72)	35	63	83	5	**-**
Number of adjusted chargeable dwellings	16,164	13,517	12,372	15,758	19,802	15,305	9,790	560	**103,268**
Ratio to Band D	0.6667	0.7778	0.8889	1.0000	1.3139	1.6250	1.9583	2.4500	
Number of Band D equivalents for RSG purposes	10,771	10,513	10,998	15,758	26,018	24,871	19,174	1,372	**119,475**
Contributions in lieu in respect of class 17 and 24 dwellings: Band D equivalents in the financial year 2017-18									**13**
Less: Adjustment to base for Council Tax Reduction Scheme									**6,138**
COUNCIL TAX BASE 2017/18									**113,350**
COUNCIL TAX BASE 2016/17									**104,815**

* Of the 10,771 Band A properties, 52 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 receive reductions to the charge, the level of reduction varies depending on the last use of the Property. Similarly, certain properties in Rural Areas, e.g. Post Offices can also qualify for relief from the full charge. Charities can also receive reductions against the rates bill for any property. Other reliefs and exemptions may also be received by certain properties, these include Transitional and Local reliefs which were introduced from 1st April 2017. A full list of Reliefs and Exemptions can be viewed on Aberdeenshire Council Website.

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.

2016/17 £'000		**2017/18 £'000**	**Notes Ref**
(118,689)	Gross Rates Levied and Contributions in Lieu	(141,110)	
	Less:		
18,570	Reliefs and Other Deductions	25,885	
-	Payment of Interest	2	
29	Write Off of Uncollectable Debts and Allowance for Impairment	35	
(100,090)	Net Business Rate Income	(115,188)	
3,643	Adjustments to Previous Year's Business Rates	3,717	
(258)	Council Discretionary Relief	(2,362)	
(96,705)	Total Business Rate Income (before Council Retentions)	(113,833)	
932	Business Rate Income Retained by the Council (BRIS)	954	
(95,773)	**Contribution to National Non-Domestic Rate Pool**	**(112,879)**	
	Business Rate Income Account Notes		1 - 2

Business Rates Disclosures

BR Note 1 – Rateable Values and Number of Premises at 1 April 2017

As at 1/4/16 Number of Entries	As at 1/4/16 Rateable Value £'000		As at 1/4/17 Number of Entries	As at 1/4/17 Rateable Value £'000
1,942	35,920	Shops	1,958	40,913
105	2,150	Public Houses	103	2,719
1,431	31,873	Offices (Including Banks)	1,482	40,281
244	5,616	Hotel, Boarding Houses etc.	239	7,351
3,174	78,898	Industrial and Freight Transport Subjects	3,246	107,547
1,059	7,879	Leisure, Entertainment, Caravans and Holiday Sites	1,095	9,510
398	2,838	Garage and Petrol Stations	392	3,886
57	586	Cultural	56	680
177	304	Sporting Subjects	176	354
215	18,952	Education and Training	266	21,079
762	11,727	Public Services Subjects	763	14,172
43	4,639	Communications (Non Formula)	43	5,156
215	1,327	Quarries, Mines etc.	215	1,439
15	18,610	Petrochemical	15	16,432
445	1,772	Religious	443	1,990
129	3,550	Health Medical	135	3,936
1,103	2,611	Other	1,072	1,829
134	4,453	Care Facilities	132	4,774
19	49	Advertising	19	64
31	1,534	Undertaking	34	2,064
11,698	**235,288**	**Total**	**11,884**	**286,176**

Note: The 2017 Revaluation Roll came into force on 1 April 2017 and contains revised rateable values. National revaluations normally take place every five years throughout Scotland.

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

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 2017/18 is detailed in the table below and this has been compared with 2016/17.

2016/17		**2017/18**	
Properties with a rateable value up to £35,000	48.4 pence	Properties with a rateable value up to £51,000	46.6 pence
Properties with a rateable value of more than £35,000	51.0 pence	Properties with a rateable value of more than £51,000	49.2 pence

Businesses with properties with a combined rateable value of £18,000 or less are entitled to claim under the Small Business Bonus Scheme for rates relief. The relief available for the qualifying businesses is as detailed below:

Combined Rateable value up to £15,000	100% relief
Combined rateable value of more than £15,000 and up to £18,000	25% relief

In addition, where the cumulative rateable value of a business with multiple properties is £35,000 or less, the scheme will offer 25% relief on 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 2018 and details of how these balances were invested at that date are shown below.

INCOME AND EXPENDITURE STATEMENT

Restated All Trusts 2016/17 £'000	Restated Charitable Trusts 2016/17 £'000	Expenditure	All Trusts 2017/18 £'000	Charitable Trusts 2017/18 £'000	Notes Ref
54	55	Administrative Costs	53	54	2
66	58	Donations, Grants etc.	63	60	
2	-	Other Costs	3	-	
122	**113**	**Total Expenditure**	**119**	**114**	
		Income			
(137)	(89)	Investment Income	(143)	(121)	
(59)	(75)	Other Income	(58)	(63)	2
(196)	**(164)**	**Total Income**	**(201)**	**(184)**	
(74)	**(51)**	**(Surplus) for the year**	**(82)**	**(70)**	

BALANCE SHEET

Restated All Trusts 2016/17 £'000	Restated Charitable Trusts 2016/17 £'000	Current Assets	All Trusts 2017/18 £'000	Charitable Trusts 2017/18 £'000	Notes Ref
2	-	Other	1	9	
3,628	2,939	Investments	3,601	2,908	
2,690	1,508	Loans Fund Balance	2,774	1,579	
6,320	**4,447**	**Total Current Assets**	**6,376**	**4,496**	
		Current Liabilities			
(6)	(4)	Creditors	(6)	(5)	
6,314	**4,443**	**Net Current Assets**	**6,370**	**4,491**	
6,314	**4,443**	**Total Net Assets**	**6,370**	**4,491**	
		Financed by:			
(4,925)	(3,994)	Capital	(5,003)	(4,050)	
(1,389)	(449)	Revenue Balance	(1,367)	(441)	
(6,314)	**(4,443)**	**Reserves**	**(6,370)**	**(4,491)**	
		Other Trusts and Endowments notes			1,3

SUMMARY OF FUNDS

Restated Total Funds 2016/17 £'000	Restated Charitable Trusts 2016/17 £'000		Total Funds 2017/18 £'000	Charitable Trusts 2017/18 £'000	Notes Ref
		Education Trusts			
3,850	3,850	Aberdeenshire Educational Trust	3,872	3,873	
		Other Trusts			
1,423	498	General	1,458	522	
151	91	Libraries	154	92	
		Endowment Funds			
501	4	Educational Endowments	496	4	
389	-	Social Work Endowments	390	-	
6,314	**4,443**	**Total**	**6,370**	**4,491**	

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

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 2018 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 – 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

The Common Good Funds were inherited from the former Town Councils and can be disbursed on projects within the boundaries of these former Burghs. The Accounts for the Common Good fund are presented below:

Income and Expenditure Account for the Year Ended 31 March 2018

Net Expenditure 2016/17 £'000	Services	Net Expenditure 2017/18 £'000	Notes Ref
6	Donations, Grants etc.	46	
25	Depreciation	25	
-	Repairs to Assets	174	
31	**Expenditure**	**245**	
(18)	Rental Income	(18)	
(8)	Interest Receivable and Similar Income	(8)	
-	Grants Receivable	(174)	
(26)	**Income**	**(200)**	
5	Deficit on the Provision of Services	45	
(23)	Transfer from Revaluation Reserve	(24)	
(18)	**Decrease/(Increase) in the Year**	**21**	
	Other Notes		CG1

Balance Sheet as at 31 March 2018

2016/17 £'000		2017/18 £'000	Note Ref
1,392	Property, Plant and Equipment	1,370	
1,392	**Long Term Assets**	**1,370**	
15	Short Term Investments	14	
1,468	Cash and Cash Equivalents	1,466	
1,483	**Current Assets**	**1,480**	
-	Creditors	(10)	
-	**Current Liabilities**	**(10)**	
2,875	**Net Assets**	**2,840**	
	Usable Reserves:		
(1,109)	Revenue	(1,087)	CG 2
(370)	Capital	(379)	CG 2
	Unusable Reserves:		
(1,396)	Revaluation Reserve	(1,374)	
(2,875)	**Total Reserves**	**2,840**	
	Other Notes		

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

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 2016/17 £'000		**Total Funds 2017/18 £'000**
195	Macduff	187
1,543	Banff	1,547
4	Rosehearty	4
6	Portsoy	5
4	Aberchirder	4
64	Fraserburgh	64
455	Peterhead	457
89	Turriff	85
5	Oldmeldrum	5
109	Inverurie	100
45	Kintore	24
102	Stonehaven	102
55	Inverbervie	56
36	Laurencekirk	36
128	Huntly	128
35	Banchory	36
-	Ballater	-
2,875	**Total**	**2,840**

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.

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 2017	**(1,120)**	**(298)**	**(2,924)**	**(4,342)**
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	-	-	(1,925)	**(1,925)**
Grants used to fund capital expenditure transferred to the Capital Adjustment Account	-	-	1,409	**1,409**
Total Adjustments Between Accounting Basis and Funding Basis Under Regulations	**-**	**-**	**(516)**	**(516)**
Transfers to/from Statutory Reserves	460	(1)	-	459
(Increase)/Decrease in 2017/18	**460**	**(1)**	**(516)**	**(57)**
Balance at 31 March 2018 Carried Forward	**(660)**	**(299)**	**(3,440)**	**(4,399)**

	Capital Receipts Reserve £'000	Capital Fund £'000	Capital Grants Unapplied Account £'000	Total Capital Reserves £'000
Balance at 31 March 2016	**(673)**	**(3,923)**	**(2,419)**	**(7,015)**
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	-	-	(1,792)	**(1,792)**
Grants used to fund capital expenditure transferred to the Capital Adjustment Account	-	-	1,287	**1,287**
Total Adjustments Between Accounting Basis and Funding Basis Under Regulations	**-**	**-**	**(505)**	**(505)**
Transfers to/from Statutory Reserves	(447)	3,625	-	3,178
(Increase)/Decrease in 2016/17	**(447)**	**3,625**	**(505)**	**2,673**
Balance at 31 March 2017 Carried Forward	**(1,120)**	**(298)**	**(2,924)**	**(4,342)**

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 2018, Aberdeenshire Museums Service has been 22,577 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 6th-8th 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.

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	Integration 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
SLT	Strategic Leadership Team
TF	Trust Funds
The Code	Code of Practice on Local Authority Accounting in the UK 2016/17
VAT	Value Added Tax