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To: Councillor Flynn, Convener; Councillor Yuill, Vice Convener; and Councillors Allard, Duncan, Graham, Lumsden, Avril MacKenzie, Reynolds and Townson.

Town House,
ABERDEEN 22 June 2018

AUDIT, RISK AND SCRUTINY COMMITTEE

The undernoted items are circulated in connection with the meeting of the **AUDIT, RISK AND SCRUTINY COMMITTEE** to be held here in the Town House on **TUESDAY, 26 JUNE 2018 at 2.00 pm**.

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

FINANCE, PERFORMANCE RISK AND SERVICE WIDE ISSUES

Financial Reporting

Should you require any further information about this agenda, please contact Karen Finch, tel 01224 522723 or email kfinch@aberdeencity.gov.uk

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Aberdeen City Council

ISA 260: Audit report to those charged with governance

We present this draft audit highlights memorandum for your consideration. We will update following receipt of adjusted financial statements.

Items highlighted red are still being finalised or concluded at the time of drafting

22 June 2018

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Contents

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Aberdeen City Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks

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– Revaluation of property, plant and equipment	Page 9
– Retirement benefits	Page 10
– Capital expenditure	Page 11

Key outstanding matters

- Final Council responses to KPMG valuer queries and review of valuation inputs.
- Additional control testing : council tax, housing revenue, commercial income.
- Other testing: Common Good, receipt of legal confirmations, final review of updated annual accounts received on 21 June 2018
- Substantive testing of journals

Control deficiencies

Appendices five and six

	Number
Significant control deficiencies (IT controls)	2
Other control deficiencies (IT and general controls)	5
Prior year control deficiencies - on progress	2

Uncorrected audit misstatements

Page 31

Understatement/(overstatement)

	£m	%
Deficit on provision of services	0.6	0.7
Net assets	(0.6)	0.0

Corrected audit misstatements

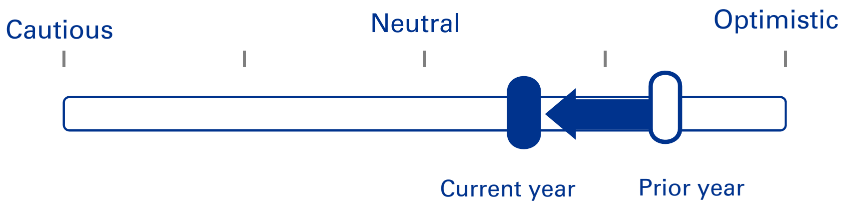
Pages 28-31

Understatement/(overstatement)

	£m	%
Deficit on provision of services	(16.2)	(27.7)
Net assets	16.2	1.2

Accounting judgements related to estimates

Page 14



Overall we are satisfied with the key accounting judgments taken and that discussion of these matters in the section of the accounting policies appropriately addresses the matters we have communicated to you.

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Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Aberdeen City Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our ISA 260 report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at Aberdeen City Council and the Controller of Audit. ‘ISA 260’ refers to International Standard on Auditing (UK and Ireland) 260: *Communication with those charged with governance.*

The scope and nature of our audit were set out in our audit strategy document which was presented to the audit, risk and scrutiny committee (“ARSC”) at the outset of our audit.

Audit Scotland’s Code of Audit Practice (‘’the Code’’) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. We will comment on these areas in the Annual Audit Report to be issued in September 2018.

Accountable officer responsibilities

The Code sets out Aberdeen City Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix nine sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to ARSC, together with previous reports to ARSC throughout the year, discharges the requirements of ISA 260.

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Audit conclusions

Audit opinion
Following approval of the annual accounts by the ARSC we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2018, and of the deficit for the year then ended. We also expect to issue unqualified opinions on the truth and fairness of the state of the Aberdeen City Council Charitable Trusts' affairs as at 31 March 2018. This conclusion is pending completion of outstanding matters (page three). The proposed long form audit opinion, prepared as a requirement of the Council's status as an EU Public Interest Entity, in accordance with ISA 700, is provided at appendix ten. There are no matters identified on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation. The Aberdeen City Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.
Annual accounts preparation and audit readiness
The Council accelerated its financial reporting and external audit timetable for 2017-18, with complete draft accounts available for audit on 3 May 2018. The statutory deadlines are 30 June 2018 for unaudited accounts and 30 September 2018 for audited accounts. The Council's finance team performed well in its delivery of high quality annual accounts and in its readiness for audit, effectively responding to our queries during the audit. As it is the first year of this accelerated timetable, there are opportunities to develop the process further.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
Thirteen audit misstatements were identified during the audit, of which eleven have been adjusted. There are two unadjusted audit misstatements.
Written representations
Our representation letter will not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £8.78 million for the Council's standalone financial statements, and £8.99 million for the Group financial statements. This equates to 1% of cost of services expenditure, adjusted for revaluation decreases recognised in the year. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £5.70 million. For the Group accounts it was £5.84 million. We report all identified misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

— performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;

— communicated with the head of internal audit and reviewed internal audit reports as issued to ARSC to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;

— reviewed estimates and accounting judgments made by management and considered these for appropriateness;

— considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

— attended ARSC meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

— Management override of controls fraud risk;

— Fraudulent revenue recognition;

— Retirement benefits*;

— Revaluation of property, plant and equipment*; and

— Capital expenditure*.

In accordance with paragraph 19A of ISA 700, we are required to describe those assessed risks of material misstatement which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, in our audit opinion. The * matters shown above have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and on directing the efforts of the engagement team. We report on these areas in our financial statements annual audit opinion.

We also previously identified an audit focus area in respect of faster accounts close.

No further significant risks or other matters were identified during our audit work.

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Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraudulent income recognition International Standards on Auditing require us to consider if the fraud risk from revenue recognition is significant. We determined only the fraud risk from recognition of 'other income' to be significant and rebutted the assumed risk for the remaining income streams, as set out in the audit strategy document. Other income relates to charges or service income from various streams where we consider there to be judgement in recognition. Within this we consider investment property revenue recognition to represent a significant risk. There was no change to the planned audit work over income streams which did not contain a significant risk.	We performed substantive sampling: — Test of detail over a sample of investment property income to confirm whether the revenue is recognised in the correct period (population of £9.1 million subject to statistical sampling procedures). — Test of detail over a sample of 'other income' to consider the period and amount recognised (population of £139.3 million subject to statistical sampling procedures), including vouching to third party supporting documentation where relevant. Our other audit work over the 'other income' streams included: — Analytical reviews of other income at service level compared to prior year. — Cut off testing over relevant income streams to confirm that those sampled items are recognised in the correct financial year. — Review of the presentation of internal recharges in the annual accounts. — Identification and test of design and implementation of relevant controls over invoice authorisation.	We did not identify exceptions from our testing over investment property rental income. Our testing included £2.9 million accrued income in respect of Marischal Square. There are a number of complex legal agreements underpinning the commercial arrangements at Marischal Square, including the operation of a hotel, general property letting, rent and profit sharing. We are satisfied that the income has been correctly accrued. The Council is required, by one agreement, to submit invoices in respect of estimated income due from the base void account within ten days of each quarter end. We note that the invoices have not yet been submitted. ***Recommendation five*** We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.

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Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Management override of controls fraud risk Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.	Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. Our audit procedures included: — controls testing and substantive procedures, including over journal entries and accounting estimates (such as over provisions and pensions); and — review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual. In 2017-18 this included voluntary severance and accounting for the completion and operation of Marischal Square.	We did not identify any indicators of management bias or management fraud. We discussed two significant unusual transactions, specifically, accounting for Marischal Square (see opposite and pages nine and eleven) and voluntary severance. Exit packages, related to voluntary severance of £11.3 million, were included in the draft annual accounts. Of the total, £6.7 million was held as a provision as at 31 March 2018 and the balance paid or accrued for payment. We reviewed all packages relating to senior staff and a statistical sample of other severance payments against relevant government guidance and the Council's policies and procedures. Included within the provision was an erroneous strain on fund cost of £3.8 million in respect of one individual. This was removed by way of an audit adjustment (appendix four) and reduced the total cost of exit packages shown in the remuneration report together with the associated provision by an equal amount. Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of the planned procedures and no further issues were identified.

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Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 "other land and buildings" have been subject to revaluation and the movement is material. Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement. The Council also holds £85 million of investment property which is subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations.	Our procedures included: **Control design:** — Assessing the approach that the Council has adopted to consider the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer's credentials:** — In relation to those assets which have been revalued during the year, assessing the valuer's qualifications, objectivity and independence to carry out such valuations. **Assessing methodology choice and benchmarking assumptions:** — Utilising our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. Our testing included a sample of 25 property valuations across the range of categories revalued in 2017-18. We also: — Considered management's impairment review documentation. — Considered balances in respect of assets under construction and transferred to property, plant and equipment during the year. — Reconciled revaluation movements from the valuer's report to the financial statements, including reserve movements. — Tested a sample of valuation inputs, such as land / floor area, to supporting documentation.	[We found the resulting valuation of property, plant and equipment and investment property to be acceptable and based on an appropriate basis, being depreciated replacement cost for specialised assets and fair value for investment property.] Awaiting final conclusion on this area We identified a number of audit adjustments, summarised in appendix four. These adjustments relate to the accounting for the revaluations. The adjustments are: — Land, associated with the demolished Bankhead Academy, which had been erroneously recorded as disposed (£5.6 million). — Additions associated with the new Stoneywood School, which had been erroneously written down in value, having been attributed to the existing Stoneywood School, subject to revaluation (£7.6 million). — Additions to social housing properties at Manor Walk and Smithfield School which had been erroneously written off in full in the year of addition (£4.4 million). — The Marischal Square investment property valuation was initially excluded from the annual accounts because of the Council's assessment as an operating lease. The valuation was originally £4.5 million and was revised following audit challenge to £60 million, and recognised in the updated annual accounts. Key assumptions underpinning the valuation include expected rent levels, inflation, time to initial let and voids. ***Prior year recommendation five***

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Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.	Our audit approach included: **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. — Testing the assets recorded and disclosed, using our actuarial team. — Assessing if the disclosures within the annual accounts are in accordance with the Code's requirements.	The net liability associated with the North East Pensions Fund in the balance sheet increased from £219 million as at 31 March 2017 to £281 million as at 31 March 2018. Controls in respect of provision of information to the actuary were satisfactory. We are satisfied that the retirement benefit obligation: — is correctly recognised on the balance sheet as at 31 March 2018; — has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and — assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable. We set out further information in respect of the defined benefit obligation on pages 14 and 27. The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis.

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Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Capital expenditure The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. The Council is utilising some innovative methods of delivery of capital projects. This includes the use of a 'development strip lease' basis for Marischal Square (completed in 2017-18) and further PPP agreements for the Aberdeen Western Peripheral Route. These can give rise to more complex accounting arrangements. Due to the significance of this capital investment programme and complexity of some of the projects, we considered there to be a significant risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. We also considered that large capital projects inherently bring a fraud risk.	Our procedures included: **Control design:** — Testing the design and operating effectiveness of controls over the capital projects. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. **Control re-performance:** — Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. **Tests of detail:** — Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Testing capital accruals for completeness. — Review and corroboration of manual journals.	The treatment of capital expenditure is satisfactory, after the adjustments included below (and appendix four) Management considered *IAS 17 Leases*, the applicable standard, and determined that the Marischal Square agreement should be treated as an operating lease and investment property in the draft annual accounts. No investment property valuation for Marischal Square was included in the draft annual accounts and the Code requires that operating leases which are deemed to be investment properties, should be accounted for as if they are finance leases. The initial determination was made on the basis that while the arrangement demonstrated most of the indicators of a finance lease, it did not transfer substantially all the risks and rewards to the Council (given the letting agent's involvement and presence of the void account). The initial accounting consideration was relatively high level and did not adequately consider the complex legal and accounting of the development. Following review, it was agreed that Marischal Square, including the hotel arrangement, should be classified as a finance lease and accounted for as an investment property, subject to annual revaluation. We challenged the basis of the original market value provided by the Council's valuer (£4.5 million) which resulted in revision to £60 million. The original valuation had incorporated the lease amounts payable by the Council. The revised valuation includes acceptable assumptions regarding voids, rental income and incentives and profit arising from the hotel. ***Prior year recommendation four*** A harbour expansion project, £1.5 million of which was funded by the Council, was incorrectly included within additions as the Council does not own the asset.

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Faster accounts close The Council accelerated the timetable for production and audit of the financial statements by three months. Acceleration of the timetable increases the risk of error, notwithstanding the Council's detailed planning for the new timetable. In 2016-17 the Council become the first Scottish local authority to issue a £370 million bond for capital financing, listed on the London Stock Exchange. Consequently, the Council is subject to the continuing obligations set out in the Listing Rules and the Disclosure Rules and Transparency Rules. Members of the public have a right to inspect and object to local authority accounts under the Local Government (Scotland) Act 1973. The Local Authority Accounts (Scotland) Regulations 2014 require the Council to: - give public notice of the inspection period by 17 June; - have an inspection period of at least 15 working days; and - commence the inspection period at least 14 days after publication of the notice. The inspection period extended in to the audit fieldwork period.	Our audit approach included: — reviewing and challenging the suitability of the Council's arrangements for faster accounts close; — understanding the revised accounts preparation and audit timetable and revising our approach accordingly; — assessing management's arrangements to comply with the public inspection rules; — conducting a substantive audit of finalised financial statement numbers to the end of quarter three, in February 2018; and — testing the roll forward of balances from 31 December 2017 to 31 March 2018, with specific reference to areas of judgement (pensions valuation/plan and property valuation). We also: — accelerated our audit of Aberdeen City Integration Joint Board; — issued group audit instructions and met with the auditor of Bon Accord Care Limited and Bon Accord Support Services Limited, to align with the accelerated timetable; and — planned to review the valuation of property, plant and equipment in February 2018.	The draft annual accounts were completed to a high standard and made available for public inspection and audit in line with the accelerated timetable which represents a significant achievement. The majority of actions, planned to ensure achievement of timetable were successful. In order to ensure continued improvement, it is recommended that: — Preparation of valuation reports, with detailed supporting calculations are completed in line with the timetable (being expected in early March 2018 and received in April 2018). — Significant unusual transactions are identified as part of the preparation of the draft annual accounts, with supporting commentary on accounting treatment prepared by management and subject to review by the Chief Officer - Finance. ***Continued…***

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Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Faster accounts close **(Continued)**		***…continued*** — Having closed the finance ledger to routine transactions on 19 March, management undertook an exercise to require officers to consider all invoices between 19 March and 23 May and consider whether they had been or should be accrued. This was good practice. We consider that a sample approach could be developed for 2018-19 for efficiency, and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger. Three cut-off adjustments, one being a balance sheet reclassification, were identified by our testing of a £44 million adjustment made to ensure correct recognition year end accruals (appendix four: items six, seven and 13). ***Recommendation six***

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Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code. We considered the level of prudence within key judgments in the 2017-18 financial statements and accounting estimates. We set out our view below:

Subjective areas	2017-18	2016-17	Commentary
Bad debt provisions (excluding Council tax) *£5.8 million*	4	6	In the prior year draft annual accounts, for debtor balances greater than 120 days overdue but under 10 years overdue, a bad debt provision of 40% was initially recognised. We considered that this was optimistic and an audit adjustment was made. We then recommended management review the bad debt policy. In 2017-18, a sliding scale of provisions ranging from 15% (for debts between 120 days and one year old) to 90% for debts up to five years old has been implemented. Debts over five years old have been substantially written off in the year (together with release of the associated provision) and are otherwise provided at 100%.
Council tax bad debt provisions *£35.6 million*	2	3	We consider that the methodology for calculating the council tax bad debt provision is overly complex in calculation, but uses a simplistic method in application. We do not consider it leads to a materially cautious estimate but a more sophisticated method would result in a lower provision. There was a £1.1 million increase in the council tax bad debt provision from the prior, and collection rates remained stable. ***Prior year recommendation five***
Other provisions and contingent liabilities *£10.3 million*	4	4	The Council recognises a number of specific provisions and contingent liabilities, relating to matters such as holiday pay, equal pay and ongoing legal matters. Individually, and in aggregate, these provisions are not considered material, although management tends to take an optimistic approach to calculating these provisions. Legal letters support management's estimates.
Pension assumptions *Liability: £351 million*	4	3	For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Mercers, using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate, as set out on page 27.
Property, plant and equipment revaluations	3	3	Our findings over the valuation of PPE is discussed on page nine. We did not identify any indications of management bias and consider that the valuations are balanced in the round. Investment property has always been revalued.
RPI assumptions built in to effective interest rate on the bond *3.5% RPI assumption*	2	2	Management has chosen an RPI assumption of 3.5% to include within the bond effective interest rate calculation, which is in line with other similar RPI assumptions included in estimates within the financial statements, for example, within the pension assumptions. RPI of 3.5% is broadly in line with publically available forecasts albeit cautious.

Level of prudence

0	1	2	3	4	5	6
Audit difference	Cautious		Balanced		Optimistic	Audit difference

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Going concern

Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed.

The Council had net assets of £1.4 billion (2016-17 £1.5 billion) as at the balance sheet date. Net assets decreased on 2016-17 by £112.9 million, reflecting the total comprehensive expenditure for the year.

During 2017-18, the Council set a net revenue expenditure budget of £543 million (being £446 million on the General Fund and £97 million on the Housing Revenue Account). The core outturn is a surplus of £5 million (being £4.5 million on the General Fund and £0.5 million on the Housing Revenue Account).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed general revenue grant (which includes non-domestic rates income) of £328.9 million is sufficient to meet debts as they fall due. Financial assets were £154.9 million as at 31 March 2018.

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Strategic Transformation Committee approved savings for 2018-19 of £17 million on 9 February 2018, to be achieved through various means including effective delivery of the Target Operating Model . The 2018-19 budget presented proposals to address the remaining funding gap of £4.8 million to Elected Members from which to balance the budget.

Conclusion

The Council has a strong net assets position and a significant value of available financial assets. It has put in place savings plans and prepared short, medium and long term financial forecasts. These are inherently dependant on a number of assumptions out with the Council's control although the Council is currently performing broadly in line with budget. Management has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control

In light of the financial position, the short-term and medium-term forecasts and the confirmation of general revenue grants we are content that the going concern assumption is appropriate.

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Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.	We are satisfied that the information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following enhancement to certain sections which were hyperlinked in the draft document, are content with the proposed report.
Our view of Alternative Performance Measure ("APM") presentation	As an EU Public Interest Entity ("EU-PIE"), we are required to provide a view on the APMs that the Council uses in its management commentary. APMs are those amounts presented which do not directly appear in the financial statements themselves. The local government finance circular 5/2015 provides clear guidance to Councils on the type of information to be included within the management commentary. Furthermore, the changes to the CIPFA Code to include an expenditure and financing analysis, provides a requirement for a reconciliation from the Council's internal management reporting to the statutory position. The key performance measure which users of the accounts consider is the achievement of over or under spends against budget. An appropriate reconciliation from the £5 million underspend against budget to the statutory position presented in the comprehensive income and expenditure account is provided in the management commentary. This reconciliation does not give undue prominence to an adjusted measure.	We consider the presentation of alternative performance measures in the management commentary to be appropriate in the context of the Council's accounts.

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Management reporting in financial statements (continued)

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided. We recommended some minor enhancement to the disclosure of senior staff emoluments which included the cost of exit packages arising in 2017-18 and otherwise resulted in a lack of comparability with the previous year.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2017-18 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework. We reviewed a draft of the proposed statement in April 2018, and provided the Programme Manager (Governance Review) with detailed comments and recommendations to support its development.	We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

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Financial statements preparation

Management significantly accelerated the timetable for the production (and audit) of the annual accounts for the year ended 31 March 2018. This included bringing forwards the timetable for significant components of the Group, such as the Integration Joint Board and Bon Accord Care.

Draft annual accounts were provided on 3 May 2018, only slightly after the expected date of 30 April 2018. The draft annual accounts were complete and included the management commentary, annual governance statement and remuneration report.

High quality working papers were provided at the start of the audit fieldwork.

Management considered the requirements of the Local Authority Accounts (Scotland) Regulations 2014 in respect of public inspection and made the unaudited accounts available from 14 May to 4 June 2018.

Management made good arrangements in advance of the accelerated timetable for preparation of the annual accounts, with some scope for further improvement (as noted on page 12 and in recommendation six).

A number of audit adjustments were identified by the audit team, mainly in respect of non-routine items such as revaluations. The procedures to ensure accurate cut-off and capture of routine income and expenditure items were robust.

We consider that management has performed creditably in its approach and delivery of a faster accounts closure.

Readiness overview	2017-18	2016-17
Preparation and planning	H	M
Production of accounts	M	L
Oversight and review	M	M
Significant judgements	M	M
Supporting information	H	H

KPMG qualitative assessment:
H/M/L – High/medium/low level of preparation, accuracy and detail

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Group financial statements

Our audit appointment of the Council extends to the audit of the Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board. Appendix seven sets out the group structure. The table below sets out the key audit findings from these entities and also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 2.5% of total assets. There was one audit adjustment made to the draft accounts which increased the value of investments for the year and reduced the net loss on investments by £13,003. Two investments, with a combined value as at 31 March 2017 of £104,755 were recorded as disposed during 2017-18, with no proceeds receivable. We understand that the Council was unable to obtain confirmation that these investments were still held, with records relating to their transfer to Barclays who have confirmed that the account was closed in 2012. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.	We expect to issue an unqualified audit opinion on the charitable trusts. It is recommended that management continue to trace the balances recorded as disposals through discussion with Barclays. ***Recommendation seven***
Common Good	Aberdeen City Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.	The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.
IJB	A separate annual audit report is presented to the audit and performance systems committee of the Aberdeen City Integration Joint Board. No significant exceptions were identified during the audit. One audit adjustment arose following consolidation of the IJB accounts in respect of a late accrual. The Council opted not to adjust the Group accounts on grounds of materiality, although given its value (£0.26 million) we include in appendix four (adjustment 12)	We expect to issue an unqualified audit opinion on the IJB.
Bon Accord entities	As set out in our audit strategy document, we provided group audit instructions to the component auditor of Bon Accord Care Limited and Bon Accord Support Services Limited (together the Bon Accord entities). Formal reporting from the component auditor has been provided and no audit adjustments were raised. There were no significant findings that we would be required to report.	Component auditors have stated they will issue an unqualified audit opinion on the Bon Accord entities. There are no matters to report which would impact the group accounts.

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Future developments

Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the CIPFA Code for IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers. A separate publication Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018-19, has been issued as a companion publication to the CIPFA Code setting out the approach to these two standards.

Other changes to the 2017 CIPFA Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the narrative report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting polices and going concern reporting.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard. It is expected that this standard will be incorporated in to the 2019-20 CIPFA Code.

Management are commencing an exercise to consider the impact.

Internal audit and internal controls

Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards (“PSIAS”), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS.

Every local authority internal audit function must be externally assessed against the PSIAS once every five years. In 2017 reviewed the internal audit function, covering the PSIAS requirements as well as comparisons to best practice for an entity with debt listed on the London Stock Exchange. Recommendations were largely accepted.

We reviewed internal audit reports and conclusions and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit’s annual opinion confirmed, “that 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.”

Internal controls

We summarised our consideration of key internal controls which were subject to audit testing, in our interim update report dated 13 April 2018, which were satisfactory.

Two areas were not complete at that time, in respect of bank reconciliations and general IT controls and a results are summarised below.

Test	Description	Results
Bank reconciliations	Bank reconciliations are prepared weekly or monthly by the income team and reviewed by a more senior officer. We test a sample of 40 bank reconciliations across all bank accounts to verify they had been authorised and completed on a timely basis.	All accounts were reconciled and reviewed in line with our expectations. ***Satisfactory***
General IT controls	We intended to perform testing over key IT systems on which we will place reliance on as part of our audit. This included ICON, eFinancials and Northgate: — programme changes — user access; — leavers; and — system administrators.	In order to rely on system generated reports (for the purposes of audit testing or the basis of a management review control) and automated controls, we require the general IT controls in respect of the relevant application and operating environment to be effective. Internal audit identified during the year that controls over super-user access should be strengthened, and this weakness results in general IT controls being assessed as not effective. As technology becomes increasingly complex and experience of fraud apparent, the level of controls necessary to enable audit reliance continues to increase. In addition to internal audit’s findings, we identified control improvements which would be required in order for us to place reliance on the relevant applications. This did not impact upon our expected testing approach in 2017-18 as we conducted this review to determine whether we could modify the approach to be more efficient in 2018-19. ***Recommendations one to four***

Appendices

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Required communications with the Audit, Risk and Scrutiny Committee

Type	Response
Our draft management representation letter	OK — We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	OK — There were 11 adjusted audit differences with a deficit reduction impact of £16.2 million. See appendix four.
Unadjusted audit differences	OK — The aggregated profit impact of unadjusted audit differences would be £544,000. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See appendix four.
Related parties	OK — There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	OK — There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK — We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing on 13 April 2018 (included in this report where relevant)
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK — No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	OK — No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK — None.
Disagreements with management or scope limitations	OK — The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK — No material inconsistencies were identified related to other information in the annual accounts. The Management Commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK — No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	OK — Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspond-dence with management	OK — The key audit matters (summarised on pages seven to 13) arising from the audit were discussed, or subject to correspondence, with management.

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Additional report relating to EU Public Interest Entities

Type		Response
Our declaration of independence	OK	No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Key audit partner(s)	OK	We have identified each key audit partner at page three in our Audit Strategy report dated 9 February 2018.
Independence of external experts engaged by KPMG and non-KPMG auditors	OK	We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our group audit.
Communications with audit committee and management	OK	We have described the nature, frequency and extent of communication with the ARSC and management at pages 26 and 27 in our Audit Strategy report dated 9 February 2018.
Scope and timing of the audit	OK	We have described the scope and timing of the audit at pages 26 and 29 in our Audit Strategy report dated 9 February 2018
Audit methodology	OK	Our audit methodology is described at page six in this report.
Valuation methods	OK	On page nine (and in the accounting policies of the annual accounts), we report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	OK	There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	OK	No matters to report. All requested explanations and documents were provided by management.

Type		Response
Materiality	OK	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page six in our Audit Plan and Strategy report dated 9 February 2018
Non-compliance with laws and regulation or articles of association	OK	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	OK	There are no significant deficiencies to report in this report or our reports dated 9 February 2018 or 13 April 2018.
Significant difficulties	OK	No significant difficulties were encountered during the audit. The significant matters (pages seven to 13) arising from the audit were discussed, or subject to correspondence, with management. In our professional judgment, no matters arose from the audit that were significant to the oversight of the financial reporting process.
Non-KPMG component auditors	OK	We described the work of non-KPMG component auditors at pages, five, 14 and 29 in our Audit Strategy report dated 9 February 2018.
Management's approach to consolidation	OK	We report on management's approach to consolidation on page 18. It is consistent with the Code. The consolidated financial statements include all material subsidiaries.
Independence – Relationships and audit fees	OK	No relationships have been identified between the firm, and the entity that, in our professional judgment, may reasonably be thought to bear on independence. We received £201,610 of fees during the period covered by the financial statements for audit services provided by the firm and KPMG member firms to the entity and components controlled by the entity. There were no non-audit fees receivable.

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Auditor independence

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Assessment of our objectivity and independence as auditor of Aberdeen City Council ("the Council")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period overleaf, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted.

Total fees charged by us for the period ended 31 March 2018 can be analysed as follows (there are no future services - contracted or with written proposal submitted, with the exception of continuing audit services).

Total fees charged by us for the period ending 31 March 2018 can be analysed as follows:	2017-18 continuing (exc VAT) £	2016-17 (exc VAT) £
Audit of the Council's financial statements	193,110	194,431
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	8,500	8,500
Total audit services	**201,610**	**202,931**
Other non-audit services	-	477,920
Total	**201,610**	**680,851**

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Auditor independence

The ratio of non-audit fees to audit fees for the year was 0 : 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Joint ventures

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board.

We are also appointed as external auditor of Aberdeen Sports Village Limited, a subsidiary of the Council, this is not an appointment of the Accounts Commission.

Contingent fees

Under the FRC's Revised Ethical Standard, no new tax contingent fees for listed entities can be entered into after 17 June 2016. We confirm that no new contingent fees for tax services have been entered into for the Council since that date.

Supplier relationship

KPMG LLP paid £219,186 to the Council in the year ended 31 March 2018, in relation to rent, rates and services. This is not material to the Council or to KPMG LLP and we note that it is at a commercial "arm's-length" rate.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Risk and Scrutiny Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit, Risk and Scrutiny Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

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Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit in the North East Scotland Pension Fund ("NESPF") and Scottish Teachers Superannuation Scheme ("STSS") are within an acceptable range of KPMG's expectations. We are of the view that this therefore represents a reasonable and balance approach, in accordance with the requirements of IAS 19. We set out below the assumptions in respect of defined benefit obligations.

North East Scotland Pension Fund and Scottish Teachers Superannuation Scheme

2018 £'000	2017 £'000	KPMG comment
310,251	249,767	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	Aberdeen City Council	KPMG Central	Comment
Discount rate (duration dependent)	2.60%	2.51%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2018 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.
CPI Inflation	2.20% RPI less 1.00%	2.20% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption.
Salary growth	1.4% above CPI inflation	Typically 0%-2% above CPI inflation	Assumed salary growth is set equal to CPI+1.4%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.4% p.a. above CPI inflation. This can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.

The overall assumptions applied by management are considered to be reasonably balanced. The actuarial report was prepared as at 28 February 2018 to support the faster accounts close process and therefore there is a small difference in circumstances which underpin the assumptions at that date compared with 31 March 2018 KPMG central assumptions. The closing deficit increased by £61.9 million compared to 2016-17.

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Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2017-18 audit procedures.

Nature of adjustment	Balance sheet £'000 DR	Balance sheet £'000 CR	Income and expenditure account £'000 DR	Income and expenditure account £'000 CR
1. HRA asset adjustment				
PPE cost	4,413			
Revaluation loss				(4,413)
Being additions in 2017-18 to Manor Walk and Smithfield School, written off at 100% instead of 37%. (Page 9)				
2. Stoneywood School additions				
PPE cost	7,641			
Revaluation loss				(7,641)
Being additions to the new Stoneywood School erroneously revalued downward based on the valuation of the existing Stoneywood School. (Page 9)				
3. Bankhead Academy land				
PPE cost	5,583			
Gain / loss on disposal				(5,583)
Being Bankhead Academy land erroneously recorded as a disposal. (Page 9)				
4. Interest classification				
Interest expense			950	
Interest income				(950)
Being the presentation of interest gross in the annual accounts.				
5. Bond interest classification				
Operating expenditure			4,336	
Financing and investment income and expenditure				(4,336)
The 2016-17 bond effective interest rate journal, recognised in the prior year financial statements, was posted to the general ledger in period one of 2017-18. The journal was not posted correctly and consequently this adjustments amends the classification.				

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Audit differences – adjusted (continued)

Nature of adjustment	Balance sheet £'000 DR	Balance sheet £'000 CR	Income and expenditure account £'000 DR	Income and expenditure account £'000 CR
6. Capital VAT accrual classification				
Other debtors	2,342			
Short term creditors		(2,342)		
Being understatement of creditors associated with the year end adjustment to debtors in respect of post year end payments related to pre year end accruals (linked to faster accounts close). (Page 13).				
7. Prepayment classification				
Short term debtors	1,404			
Short term creditors		(1,404)		
Being reclassification of a prepayment (linked to faster accounts close). (Page 13).				
8. Charitable trusts – valuation of investment				
Investments	13			
Loss on investments				(13)
Being the difference in valuation of two investments between 13 March and 31 March 2018.				
9. Marischal Square classification				
Finance lease creditor		(58,793)		
Investment property	60,040			
Short term debtors	250			
Short term creditors		(1,404)		
Financing and investment income and expenditure			1,636	
Operating expenditure				(1,729)
Revaluation gain / loss				
Being reclassification of Marischal Square arrangement as a finance lease and investment property. (Page 11)				

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Audit differences – adjusted (continued)

Nature of adjustment	Balance sheet £'000 DR	Balance sheet £'000 CR	Income and expenditure account £'000 DR	Income and expenditure account £'000 CR
10. Harbour expansion				
PPE cost		(1,500)		
Operating expenditure			1,500	
Being transfer of harbour expansion costs from capital to revenue, as the Council will not own the completed asset. (Page 11)				
11. Voluntary severance				
Provisions	3,816			
Statutory reserves		(3,816)		
Being reduction in provision made in error. (Page 8).				
TOTAL	**85,502**	**(69,259)**	**8,422**	**(24,665)**

A number of small presentational amendments were also identified and adjusted.

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Audit differences - Unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2017-18 audit procedures. These adjustments are not considered material.

	Balance sheet		Income and expenditure account	
Nature of unadjusted difference	**£'000 DR**	**£'000 CR**	**£'000 DR**	**£'000 CR**
12. IJB outturn				
Operating expenditure			257	
Short term debtors		(257)		
Being adjustment to the IJB annual accounts during the audit process, not reflected in the Council's Group accounts.				
13. Accrued expenditure				
Operating expenditure			287	
Short term creditors		(287)		
Being expenditure post year end, relating to the year ended 31 March 2018 which has not been accrued (linked to faster accounts close). (Page 13).				

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Action plan

The action plan summarised specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions:

— financial sustainability

— financial management

— governance and transparency

— value for money

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Priority rating for recommendation		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
1. Assignment of highly privileged access and monitoring of access		Grade one
Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Oracle e-Financials, Orbis Northgate and Airs), required to perform user administration activities (e.g. assigning and changing user access rights), system development and configuration, and to ensure ongoing support and maintenance activities. We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year . The weaknesses in the access assigned includes, but is not limited to: — The privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and — The Oracle e-Financials and Orbis Northgate system administrators within the business can make direct changes to the data within the underlying database and bypass system controls (not logged); and — A shared system administrator account is used for Airs by two members of business staff (not logged). Risk: Where privileged user access is not robustly controlled the risk is increased that: — unauthorised access is gained to process erroneous or fraudulent transactions, make changes to data, and system settings; — unauthorised changes are not detected and appropriate action taken; — IT / operational system downtime is experienced; and — the system does not function as intended by management.	Management should ensure that: — A formal, documented and agreed policy is established that guides the Council's management of highly privileged access. — The sharing of the user accounts is investigated, risk assessed and the root cause is understood. — User accounts are only used by the approved and appropriate persons. — Each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained. — The feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate. — The logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.	Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems. **Implementation date:** 31 August 2018. **Responsible officer:** Incident & Problem Co-ordinator, in conjunction with System Owners.

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Appendix five

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
2. Regular user access appropriateness review		Grade one
There is not a regular review performed of user access to determine if the access is appropriate for active business users on the Airs and Infosmart application, database and operating system (including privileged user access). User access is reviewed for the Oracle e-Financials and the Orbis Northgate applications, but the review does not establish if the user access assigned is appropriate for an individual's current role. Risk: Where user access is not reviewed on a regular basis, the risk is increased that individuals may gain or retain unauthorised access rights that are not needed for their business role. This can lead to controls and segregation of duties being by-passed, leading to erroneous or fraudulent transactions being processed.	— Management should perform a periodic review of user access assigned to ensure that this is appropriate at the application, database and operating system level. — This should include an assessment of user access across the production, development and test environments to ensure appropriate segregation of duties exist. — Where inappropriate access is identified, this should be investigated and removed in a timely manner. — The review should be formal, documented and retained as evidence for audit purposes.	Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems. **Implementation date:** 31 August 2018. **Responsible officer:** Incident & Problem Co-ordinator, in conjunction with System Owners.

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Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
3. Changes to IT systems		**Grade two**
There is no system generated log of changes to show the full population of changes to the Council's IT systems (Oracle e-Financials, Orbis Northgate and Airs). For example, this includes changes to underlying system code or configuration. Management is therefore unable to review the changes made to the system to ensure these are appropriately approved and tested. It is also noted that the system administrators for Oracle e-Financials and Orbis Northgate have access to the production, test and development environments. Risk: Where a system generated log of changes is not available and reviewed, the risk is increased that changes are made to the IT systems that do not function as intended. The risk is further increased where: — user access is not reviewed on a periodic basis (as identified by internal audit in the Finance Systems review); — passwords to highly privileged user accounts are shared (finding 1); and — access to the production, test and development IT system environments are not segregated (this finding).	Management should ensure that: — Access to the production, test and development IT system environments are appropriately segregated, and any exception is risk assessed and approved. — The feasibility of implementing a system generated change log for the application, database, and operating system is considered. Further, a sample of higher risk changes should be reviewed by an independent person on a periodic basis to identify if changes have been approved and tested.	Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems. **Implementation date:** 31 August 2018. **Responsible officer:** Incident & Problem Co-ordinator, in conjunction with System Owners.

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
4. Password parameters configuration		**Grade two**
The Council has established a range of information security policies and procedures which set out the minimum password parameters required. Our review identified the following which is not in line with the Council's information security policies and procedures: — The Infosmart application does not have any password parameters assigned for the system administrator's accounts (the Council specifies these should be enforced). — The Airs application system administrator password has never changed (the Council specify these should be changed). — The Northgate application minimum password length is six characters (the Council specify this should be eight characters). Risk: Where the passwords have weak configurations or are not compliant with the security policies approved by the Council, there is a risk that unauthorised users can have access to the applications. This could lead to system downtime, data not processed completely and accurately, or system changes that do not function as intended.	— Management should review the password parameters and ensure that they are appropriate at the application, database and operating system level. — Where password parameters can not be implemented in line with minimum requirements, this should be risk assessed on a periodic basis and formally approved by the business and IT (e.g. IT security function).	Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems. **Implementation date:** 31 August 2018. **Responsible officer:** Incident & Problem Co-ordinator, in conjunction with System Owners.

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
5. Managing complex legal agreements		**Grade two**
The Council is required, by part of the legal agreements surrounding Marischal Square, to submit invoices in respect of estimated income due from the base void account within 10 days of each quarter end. This requirement had not been billed at the time of testing to support a material income accrual (£2.9 million). We understand that a process for regular claims in respect of the account is being developed. Risk: The Council may breach the terms of its agreements and be unable to collect money it is due, or suffer a loss of interest due to delays in receipt.	It is recommended that a suitably senior officer is assigned responsibility for managing Council, and monitoring third party compliance, with complex legal agreements including: - Marischal Square; and - Marriot Hotel. This should include use of calendar reminders to ensure compliance with key deadlines.	Agreed. **Implementation date:** 31 August 2018. **Responsible officer:** Chief Officer – Finance.
6. Faster accounts close – cut off review		**Grade three**
Management undertook an exercise to require officers to consider all invoices between 19 March and 23 May and consider whether they had been or should be accrued. While good practice, more efficient methods are possible and the existing approach was not relied upon by us, due to difficulty in confirming completeness of the invoices considered by officers. A sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger. Risk: The Council may be inefficient in the use of resources, delay preparation of the annual accounts and impact adversely on officer capacity around the year end.	It is recommended a sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.	In line with normal practice, a review and lessons learnt session will be held to consider improvement for future years. This recommendation will be considered through that process. **Implementation date:** 31 August 2018. **Responsible officer:** Finance Operations Manager.
7. Charity investments		**Grade three**
Two investments, with a combined value as at 31 March 2017 of £104,755 were recorded as disposed during 2017-18, with no proceeds receivable. We understand that the Council was unable to obtain confirmation that these investments were still held, with records relating to their transfer to Barclays who have confirmed that the account was closed in 2012.	It is recommended that management continues to trace the balances recorded as disposals through discussion with Barclays.	Agreed. **Implementation date:** 31 August 2018. **Responsible officer:** Finance Operations Manager.

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Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2016-17 final audit and their current status.

Number recommendations raised	Implemented	In progress	Not yet due
6	3	2	1

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2017-18
1. Development of documentation *Audit dimension: financial management*		**Grade two**
There are a number of areas where supporting documentation for management's judgements or complex reconciliations could be enhanced. Without clear documentation of significant judgements, there is a risk of inappropriate accounting treatment particularly where staff change. Furthermore, there is a risk that balances recognised in the financial statements cannot be supported by appropriate evidence. — Internal revaluations of heritage assets are documented on the TMS system which is accessed by the Curator team. There is limited documentation, narrative or evidence to justify and support the valuations. — The impairment review does not fully document the scope of the assessment carried out by management and there is a risk that the full scope of challenge to assess any indicators of impairment is not recorded. — There are a number of large capital projects which have complex reconciliations of different types of expenditure to support the value of additions. The audit trail of such reconciliations was limited and required additional time to support such capital additions.	It is recommended that: — sufficient supporting documentation and evidence be uploaded and held on the TMS system to support heritage asset valuations; — management strengthens the level of documentation produced in relation to the processes and challenge given to any indicators of impairment on properties within their remit; and — all relevant officers should be reminded of the importance of maintaining supporting documentation for capital additions and keeping appropriate records.	**Status update 2017-18:** Complete. **Original response:** Finance will work with services to progress the recommendations made. **Implementation date:** 31 March 2018. **Responsible officer:** Senior Accountant.

KPMG

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Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2017-18
2. Revenue recognition *Audit dimension: financial management*		**Grade two**
Our testing identified a number of transactions credited to revenue where earmarked reserves were used for expenditure in the year. This is not in line with the Code's accounting treatment of recognising revenue. There is a risk that revenue is incorrectly inflated and the CIES does not present a transparent representation of transactions.	We recommend that management reviews the approach to recording movements from earmarked reserves. This should not recognised revenue and movements should be appropriately highlighted within the financial statements.	**Status update 2017-18:** Complete. **Original response:** Finance will review the approach to recording such movements and will implement a new procedure as part of the 2017-18 accounts preparation process. **Implementation date:** 31 April 2018. **Responsible officer:** Senior Accountant.

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Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
3. Heritage assets valuation *Audit dimension: financial management*		**Grade two**
Heritage assets are revalued internally by a team of Curators on an ad hoc basis. Whilst we agree that this in line with the requirements of the CIPFA Code, there is a risk that high value heritage assets are not being valued to precision where the insurable value is correct.	Management should review the process for valuing heritage assets and consider engaging an external art specialist valuer to value the highest value heritage assets on a rolling basis.	**Status update 2017-18:** Complete. **2016-17 response:** Finance will work with the service to progress this recommendation. **Implementation date:** 31 March 2018. **Responsible officer:** Senior Accountant.
4. Complex accounting treatments *Audit dimension: financial management*		**Grade two**
Accounting for the bond issuance is complex and involves the calculation of an effective interest rate based on future forecast cashflows. Transactions for the bond were not included in the draft accounts, and were not agreed until late in the process. The Council has a number of ongoing projects which will have similar complex accounting treatments. There is a potential risk that accounts may contain significant errors or be delayed if complex accounting treatments are not agreed early or adequately documented.	For future complex financial transactions we recommend that management considers the accounting implications prior to the transaction taking place, and provide an accounting paper before the year end, to ensure these transactions can be agreed and incorporated into the draft financial statements.	**Status update 2017-18:** In progress. While documentation was enhanced in respect of some areas, including bond accounting and preparation of a technical analysis in respect of lease classification of Marischal Square, there is scope for further improvement. The technical analysis prepared for Marischal Square was relatively basic in comparison the complexity of the underlying legal agreements and contained inappropriate conclusions as a result. Other one off capital transactions were not subject to sufficiently detailed consideration, resulting in erroneous accounting entries being made in the draft annual accounts (page 9). **2016-17 response:** This will be put in place for future complex transactions. **Implementation date:** 31 March 2018. **Responsible officer:** Senior Accountant.

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Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
5. Debtor provisioning *Audit dimension: financial management*		**Grade two**
For debtor balances greater than 120 days overdue, but under 10 years overdue, a bad debt provision of 40% is recognised. We consider that this is at the most optimistic end of an acceptable range as it is unlikely that significant debts over a year old will be collected and recommend that management review their debtor provisioning levels. Furthermore we consider the methodology for calculating the council tax bad debt provision is overly complex. There is a risk that debts unlikely to be recovered are not provided for and the Council has to write off significant balances in future years.	We recommend that management reviews: — its debtor provisioning methodology for council tax to ensure an efficiency of process whilst still providing for an appropriate level of potential bad debt; and — the level of bad debt provision for debts that are greater than 120 days old but less than 10 years old to adequately provide for those debts unlikely to be collected.	**Status update 2017-18:** In progress. Management implemented a revised approach to calculating the provision for general bad debts which is more sophisticated than in previous years. The approach to calculating the provision for council tax bad debts has yet to be revised. **2016-17 response:** Finance will review the methodology around debtor provisions to improve process efficiency and ensure the appropriateness of the level of provision. **Implementation date:** 31 March 2018. **Responsible officer:** Senior Accountant.
6. National Fraud Inquiry ("NFI") *Audit dimension: governance and transparency*		**Grade three**
After the identification of frauds during the NFI process, the matching system does not allow the Council to monitor recovery. The Council does not have a mechanisms for monitoring the effectiveness of recovery between different services. There is a risk that current practices are ineffective or inefficient without oversight and monitoring.	It is recommended that the Council implements monitoring of the effectiveness of recovery from the NFI reports, to ensure resources are used efficiently.	**Status update 2017-18:** Not yet due. **2016-17 response:** The recovery process of losses to frauds in each service is different and is undertaken in accordance with relevant legislation. As such direct comparison of effectiveness in recovery is not possible. It is accepted that we do not gather the total losses to fraud and will , as part of our preparation for the NFI 2019 exercise, identify how this information can be collated and reported on. **Implementation date:** 31 January 2019. **Responsible officer:** Corporate Investigation Manager

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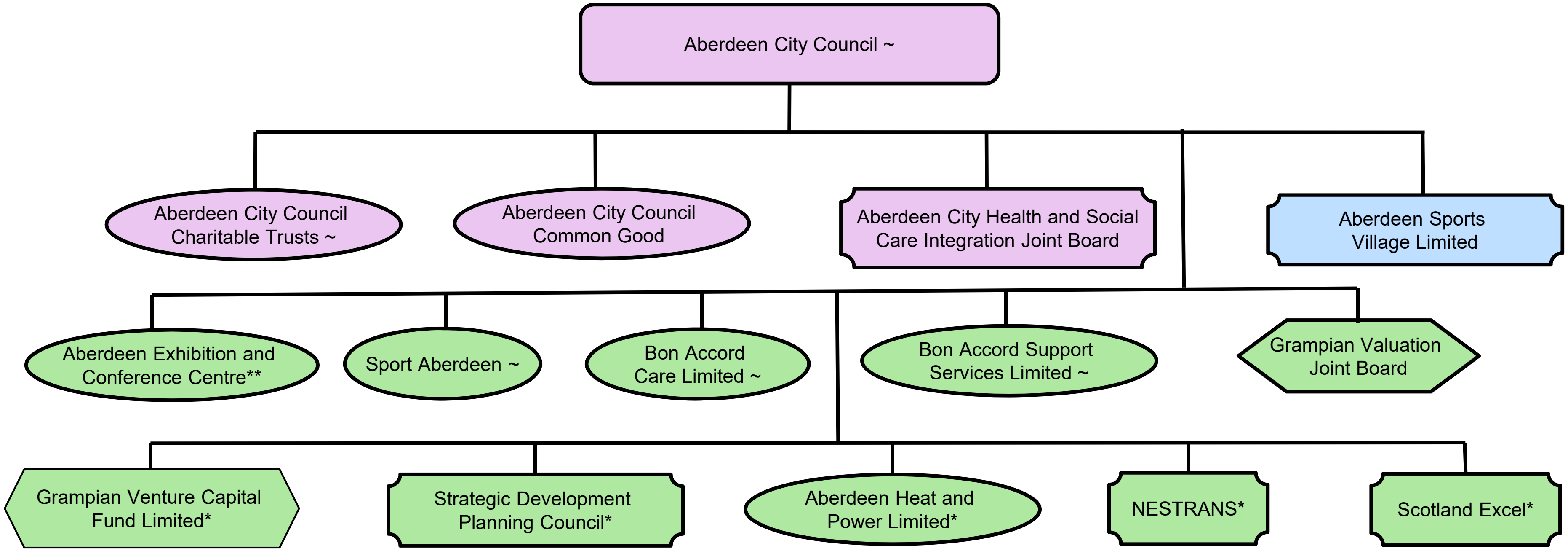
Aberdeen City Council group structure



Key

- Audited by KPMG “core team”
- Audited by KPMG – separate audit team
- Audited by component auditor – group audit instructions to be issued where considered significant components

Main body
Subsidiary
Associate
Joint Venture / Joint Board / Partnership

* Entities not included in the group comprehensive income and expenditure account

** Aberdeen Exhibition and Conference Centre Limited ceased trading on 1 April 2017, and is classified as “held for sale” within the group financial statements

~ Five group reporting components (as discussed in the long form audit report at appendix ten), of which Sport Aberdeen was not considered to be a significant component.

Audit Quality
AQR report - All firms

The Audit Quality Review (AQR) team of the Financial Reporting Council ('FRC') undertakes independent inspections of certain UK audit firms. The AQR published reports on the findings of its 2017-18 inspection of KPMG and the other large firms (which largely covered years ending between 30 June 2016 and 30 April 2017) on 18 June 2018.

The full reports are available on the FRC's website at the following link: **https://www.frc.org.uk/getattachment/c2c92d13-4a5a-4711-9ec5-9d69c60da278/KPMG-LLP-Public-Report-2017-18.pdf**

We are very disappointed with our 2017-18 report and our overall trend in results. We recognise the fundamental importance of quality in restoring trust in audit and acknowledge the role of the AQR in this process. We cannot and will not be satisfied with these results and, as a firm, we are already implementing actions (developed following extensive root cause analysis) to put this right as explained on page 44. The AQR generally reports by exception and has identified the following areas for our attention.

— Ensure that the extent and rigour of challenge of management in areas of judgement fully demonstrate professional scepticism. (This was raised across most firms)

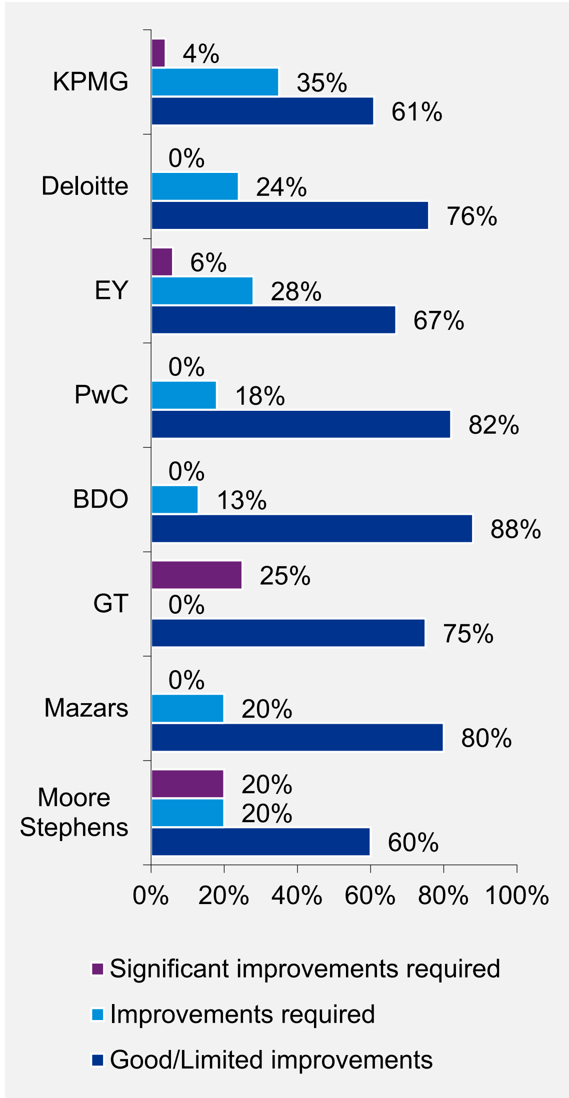
— Strengthen the involvement of the group audit team in component audits. (Raised at three Big-4 firms)

— Improve the consistency and quality of audit work over pension scheme assets and liabilities (Raised at half of the firms)

— Enhance the audit of management review controls, in particular for entities with long-term contracts

We also consider feedback from audit committees and management and the feedback we receive routinely comments on the strong challenge we demonstrate. However, we recognise that more work is clearly needed to allow us to demonstrate this in the context of an independent file review

It was pleasing to note that KPMG was the only firm that did not receive adverse comment on its firm-wide ethics and independence processes.



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Appendix eight

Audit Quality
Our response

Our root cause analysis has demonstrated that we needed to:

- accelerate the deployment of standardised and structured audit programme to allow team to demonstrate the quality and consistency of their work;
- provide greater support to teams in understanding the requirements of complex and emerging issues;
- continue to increase the use of technology; and
- provide greater challenge to and oversight of engagement teams from central Subject Matter Experts.

Standardisation

- Mandated approaches
- Template work papers
- Case study examples

Increased use of technology

- Mandated use of existing market leading tools
- Increased deployment support
- Technology as an enabler for ‘smart’ work programmes
- Technology to release time for focus on risk and judgements

Greater support to teams

- Tailored in-flight review team
- Experienced partner risk panel challenge process
- Expanded Audit Centre of Excellence (‘ACE’) to coach teams in complex or emerging areas

Increased central monitoring

- Mandated planning deadlines to accelerate audit execution
- Enhanced project management
- Increased consultation requirements
- Greater involvement from ACE on emerging or complex issues

Appendix eight

Audit Quality
Our response (continued)

At the level of individual topics our response includes:

Challenge of management

- Focussed quality transformation topics, e.g. impairments, business combinations
- Significant risk summaries introduced to evidence basis for conclusions
- Coaching and training
- Risk panels and other monitoring
- 2^{nd} line of defence in-flight review support to more teams

Audit work over pension scheme assets and liabilities

- Quality transformation work programmes for assets and liabilities
- Updated templates for reporting from internal actuaries
- Central team for asset testing work being established

Group audit team involvement

- Templates for structure and consistency
- Quality transformation deliverables around group audit conduct including instructions
- Coaching and training
- 2^{nd} line of defence in-flight review support to more teams

Audit of management review controls

- Quality transformation work programmes for Management Review Controls delivered and long term contracts
- Awareness of findings: coaching and training
- 2^{nd} line of defence in-flight review support to more teams

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Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix three outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page five summarises the opinions we have provided. Pages16 and 17 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. We have not yet issued opinions in respect of grant claims and whole of government accounts.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	We will conclude on these in our annual audit report in September 2018.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information	We set out our conclusions on wider scope and best value in our annual audit report which will be issued in September 2018.

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Independent audit report

Independent auditor's report to the members of Aberdeen City 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, we 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

We certify that we have audited the financial statements in the annual accounts of Aberdeen City 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, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, and any other disclosures presented as financial statements 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 our opinion the accompanying financial statements:

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

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment including previous renewals and reappointments of the firm is two years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Risk and Scrutiny Committee.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us 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 Director of Resources 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.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of significance, in arriving at our opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

All of these key audit matters relate to the Group and parent Council.

	The risk	**Our response**
Revaluation of property, plant and equipment (£612 million; 2016-	**Subjective valuation:** The Code requires that where assets are subject to revaluation, their year end carrying value should	**Our procedures included:** **Control design:** — Assessing the approach that

Independent audit report (continued)

17: £284 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 to 55 (accounting policy) and pages 90 and 96 to 99 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 “other land and buildings” and investment property have be subject to revaluation. There is significant judgment involved in determining the appropriate basis of valuation for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation, such as the condition of the asset. Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement. The Council also holds £209 million of investment property which is subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations.	the Council has adopted to consider the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer’s credentials:** — In relation to those assets which have been revalued during the year, assessing the valuer’s qualifications, objectivity and independence to carry out such valuations. **Assessing methodology choice and benchmarking assumptions:** — Utilising our internal specialist to challenge the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. **Our sector expertise:** — We critically assessed, in the light of our knowledge of the Group’s assets and changes in market conditions, the assumptions used compared to our own expectations **Our results** We found the resulting valuation of property, plant and equipment and investment property to be acceptable

Independent audit report (continued)

		(2016-17 result: acceptable)
Retirement benefit obligation (£1,545 million; 2016-17: £1,434 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 42 to 44 (accounting policy) and pages 78 to 85 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	***Subjective valuation*** Small changes in the assumptions and estimates relating to discount rate, inflation rate, mortality/life expectancy and rate of increase in pensionable salaries which are used to value the pension obligation (before deducting scheme assets) would have a significant effect on the net pension liability. Employees of the Council participate in a local government defined benefit pension scheme; North East Scotland pension fund.	**Our audit approach included:** **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results:** We found the valuation of the retirement benefit obligation to be acceptable (2016-17 result: acceptable).
Capital expenditure	***Accounting application***	**Our procedures included:**

(£218 million; 2016-17: £222 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 and 98 (accounting policy) and pages 96 to 97 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. The Council is utilising some innovative methods of delivery of capital projects. Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a significant risk of misstatement in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.	**Control design:** — Testing the design and operating effectiveness of controls over the capital projects. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. **Control re-performance:** — Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. **Tests of detail:** — Use of substantive sampling methods to corroborate the amount and evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Review and corroboration of manual journals. **Our results:** We found the Group's treatment of capital expenditure to be acceptable (2016-17 result: acceptable).

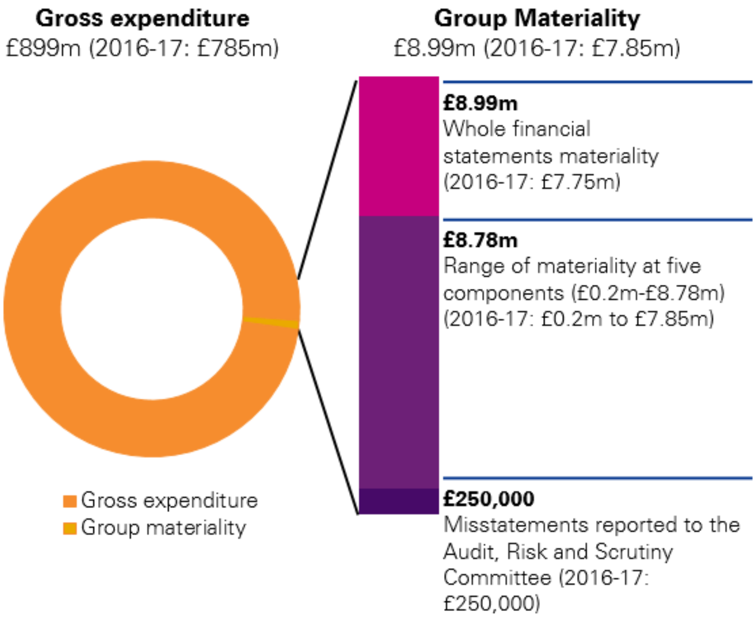
Our application of materiality and an overview of the scope of our audit

Independent audit report (continued)

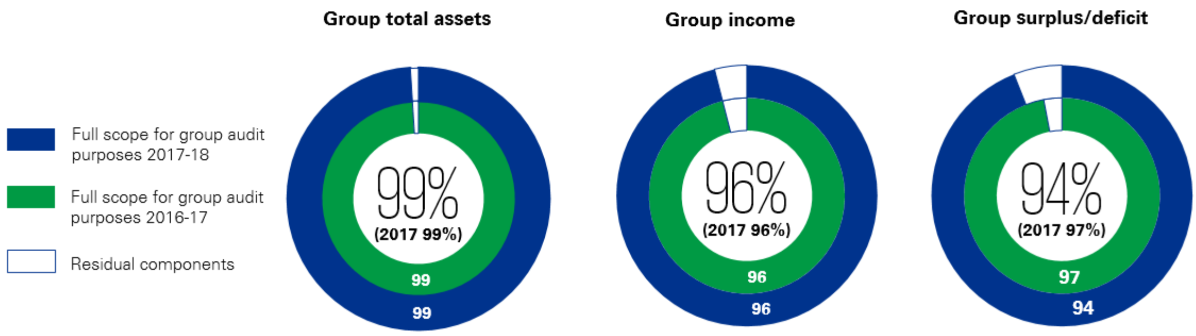
Materiality for the Group financial statements as a whole was set at £8.99 million (2016-17: £7.85 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%). We consider gross expenditure to be more stable than a surplus- or deficit-related benchmark.

Materiality for the parent Council's financial statements as a whole was set at £8.78 million (2016-17: £7.75 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%).

We agreed to report to the Audit, Risk and Scrutiny Committee any corrected and uncorrected identified misstatements exceeding £250,000 (2016-17:£250,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Of the group's five (2016-17: five) reporting components, we subjected four (2016-17: four) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated below.



Independent audit report (continued)

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities which ranged from £7.50 million to £8.78 million, having regard to the mix of size and risk profile of the Group across the components. The work on two of the five components (2016-17: two of the five components) was performed by component auditors and the rest, including the audit of the Council, was performed by the Group team.

The Group team held discussions with these component auditors. During these discussions, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Responsibilities of the Director of Resources and Audit, Risk and Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Resources 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 Director of Resources 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 Director of Resources 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, Risk and Scrutiny Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our 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 our 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 our auditor's report.

Irregularities – ability to detect

Independent audit report (continued)

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations and certain aspects of local government legislation recognising the statutory nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Other information in the annual accounts

The Director of Resources 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 our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we 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 our audit of the financial statements, our 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 our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are 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 we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

Independent audit report (continued)

In our 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 we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Andrew Shaw, for and on behalf of KPMG LLP

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 June 2018
REPORT TITLE	Audited Annual Accounts 2017/18
REPORT NUMBER	RES/18/044
DIRECTOR	Steven Whyte
CHIEF OFFICER	Sandra Buthlay
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	Section 4.1 consider and approve the Council's Annual Report and Annual Accounts

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2017/18 audited Annual Accounts.

1.2 The report also provides the audited Annual Accounts 2017/18 for those registered charities where the Council is the sole trustee and is subject to statutory requirements for separate accounts and audit opinions.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:-

2.1.1 approve the Council's audited Annual Accounts 2017/18 for signature by the Director of Resources, Chief Executive and Council Co-Leader, and;

2.1.2 approve the audited Annual Accounts 2017/18 for those registered charities where the Council is sole trustee and nominate a trustee to sign the accounts.

3. BACKGROUND

3.1 Audited Annual Accounts

3.1.1 On 22 February 2018 this committee received and noted the contents of a report, "Annual Accounts 2017/18 – Action Plan" which provided high level information and key dates in relation to the production of the 2017/18 Annual Accounts.

3.1.2 The key dates contained within the above report were:-

31 March 2018	End of the financial year 2017/18
Jan – June 2018	Information from Group Entities (including ALEO's)
20 April 2018	Public Notice for the Public Inspection Period to be issued
8 May 2018	Signing of the unaudited Annual Accounts by the Proper Officer
8 May 2018	Audit, Risk and Scrutiny Committee to consider the unaudited Annual Accounts
14 May – 4 June 2018	Public Inspection Period for the unaudited Annual Accounts
26 June 2018	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature
26 June 2018	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader
30 June 2018	Statutory deadline for the Proper Officer to sign the unaudited Annual Accounts, submit to the Auditor and publish on the website
20 July 2018	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
28 September 2018	Deadline for submission of the signed audited Annual Accounts to the Auditor
25 September 2018	Audit Risk & Scrutiny Committee to consider the Auditor's Annual Report
September 2018	Deadline for submission of the audited WGA to the Scottish Government (date to be confirmed)
31 October 2018	Statutory deadline for the publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
24 December 2018	Deadline for submission of the audited Charitable Trust Annual Accounts to OSCR

3.1.3 On 8 May 2018 this committee considered the unaudited Annual Accounts and they were signed by the Director of Resources (as Proper Officer).

3.1.4 The unaudited Annual Accounts were available for public inspection for the period 14 May – 4 June 2018.

3.1.5 This committee must now consider and aim to approve the audited Annual Accounts for signature.

3.1.6 In a separate report, this committee has considered the external auditor's ISA 260 Report on the audit of the financial statements to Members and the Controller of Audit. This report highlights any significant findings from the audit of the accounts and provides their audit opinion.

3.2 Financial Performance and Review of the Accounts

3.2.1 It should be noted that the audited Annual Accounts are prepared according to the requirements of the IFRS based Code of Practice on Local Authority Accounting (the Code) and as a result are more complex and detailed than the information included in the monitoring reports provided to Committee throughout the year.

3.2.2 A report covering the detailed financial position of the Council was considered by the City Growth and Resources Committee on 24 April 2018. This report covered the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2018.

3.2.3 The following paragraphs explain the audit adjustments made to the Annual Accounts:

3.2.3.1 Capital expenditure on HRA new build housing was reinstated to reflect its social housing value.

3.2.3.2 Corrections were made to the Stoneywood School and Bankhead Academy (new Stoneywood School site) to reflect their individual values.

3.2.3.3 An adjustment has been made to show interest income and expenditure gross in the accounts.

3.2.3.4 The prior-year accounting entries in relation to the Council's bond issuance have been amended to correct the interest expense in 2017/18.

3.2.3.5 The accounting entries in relation to the accrual of capital expenditure has been amended to correct an understatement at year end.

3.2.3.6 Expenditure incurred in relation to the Harbour Expansion project has been amended to reflect proper accounting treatment.

3.2.3.7 The accounting entries in relation to the treatment of Marischal Square have been amended to reflect proper accounting treatment.

3.2.3.8 The trust fund accounts have been amended to reflect the difference in value which arose between the cut off date and the year end.

3.2.4 The group accounts have been amended to reflect the above adjustments as well as any changes arising from the audit of other group entities.

3.2.5 These adjustments do not affect the overall financial position of the Council as reported to City Growth and Resources committee on 24 April 2018.

3.3 Registered Charities

3.3.1 This encompasses those trusts, registered with OSCR, for which the Council (all 45 Councillors) is the sole trustee. There are nine separately registered charities, which for reporting purposes can be grouped together into a single Annual Report and Accounts.

3.3.2 These accounts are subject to the same audit process as the Council with the audited accounts and related auditor's report included with the afore-mentioned report from the external auditor.

3.3.3 The committee must now consider and aim to approve the audited Annual Accounts for signature.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report.

5. LEGAL IMPLICATIONS

5.1 There is a statutory requirement for the Council to produce both unaudited and audited Annual Accounts within certain timescales and to a high standard in accordance with The Local Authority Accounts (Scotland) Regulations 2014, the CIPFA Code of Practice on Local Authority Accounting and generally accepted accounting practices. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Legal	Risk of Legislation not being followed	L	Staff working with external audit to ensure compliance with legislation
Employee	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Customer	Customer/relationship management	L	External Auditors will examine and scrutinise the Annual Accounts and report their findings in the Annual Audit Report.
Environment	n/a	n/a	n/a

Technology	Risk that the Finance systems could be disrupted.	L	Digital strategy that includes regular and rigorous checks to protect the integrity of all systems.
Reputational	Information contained in the Annual Accounts may cause damage to the Council's reputation.	L	Independent examination by senior staff and external auditors.

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	The accounts for 2017/18 have recognised the role of the Council in delivering specific projects that will deliver economic impacts in their own right; and the Council's corporate role in delivering wider 'business facing' activity in supporting the competitiveness of the business environment.
Prosperous People	The accounts for 2017/18 provide details of income and expenditure incurred in the provision of services to the citizens of Aberdeen for the year.
Prosperous Place	The Annual Accounts report provides financial information to the people of Aberdeen regarding the services in their area. The narrative report contained within explains the governance of the Council, and projects that ACC has undertaken over the past year, along with future plans for Aberdeen City.
Enabling Technology	This report does not impact on technology

This report does not impact on the design principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	not required
Privacy Impact Assessment	not required
Duty of Due Regard / Fairer Scotland Duty	not applicable

9. BACKGROUND PAPERS

'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities (2016 Edition)' CIPFA & SOLACE, 2016;
Audited Annual Accounts 2017/18

10. APPENDICES

Appendix A - audited Annual Accounts 2017/18
Appendix B - Aberdeen City Council Registered Charities audited Annual Report and Accounts 2017/18

11. REPORT AUTHOR CONTACT DETAILS

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ABERDEEN CITY COUNCIL

ANNUAL ACCOUNTS

FOR THE PERIOD

1 APRIL 2017 TO 31 MARCH 2018

Contents

Management Commentary

Introduction

The purpose of the management commentary is to inform users of the Annual Accounts and help them assess how the Council has performed during 2017/18 and understand our financial performance for the year to 31 March 2018. It also provides an insight into the medium term financial planning we undertake to provide stability, financially, to allow our customers to have confidence that we can continue to provide the diverse portfolio of services on which they rely.

In 2017/18, we moved to a quarterly financial reporting regime including our core financial statements, which has culminated in a faster year end closedown and the production of these Annual Accounts some two months earlier than in previous years.

This publication represents the Annual Accounts of both Aberdeen City Council (the Council) and its group for the year ended 31 March 2018, which have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code). The Code is based on International Financial Reporting Standards (IFRS) and as such the accounts provide a reconciliation between the two reporting methodologies.

Highlights

Aberdeen City Council is the main provider of services to the city's 229,000 residents and those who visit, work and do business in the city encompassing the wider North East population. Our resources are focused on the provision of Education, Social Work, Housing and Community Services, as well as supporting investment in the city's infrastructure.

In 2017/18, Education and Children's services remained our largest spending responsibility, accounting for £254 million of our total £875 million service expenditure with education being provided to over 22,0000 children. £221 million was spent on Social Work services as part of the Integrated Joint Board arrangement with NHS Grampian, £158 million was spent on Communities, Housing and Infrastructure Services and £107 million was spent on Council Housing – managing and maintaining 22,365 homes. The balance was spent on Housing Benefit, Corporate Governance and Chief Executive functions.

In 2017/18, we received total income of £877 million with this comprising £206 million and £111 million raised locally through non-domestic rates and council tax respectively whilst £120 million was received from government grants and the balance from service related grants, fees, charges and other income.

In setting its 2017/18 General Fund budget, against a backdrop of reducing revenue grant, £21.8 million of budget savings and increased income targets were approved. These comprised the increased removal of underspends from vacant posts of £5.8 million, procurement savings of £3 million, a voluntary severance scheme of £4 million, transformation savings of £3.2 million, increased fees and income targets of £2.3 million and £3.5 million of other specific service related savings. Substantially these savings were achieved, and governance was put in place to track the savings and mitigate or offset any risk areas to achieve a favourable financial position

Significant progress has been achieved on capital projects during 2017/18 with a total investment of £218 million including:

- Aberdeen Exhibition and Conference Centre - construction works are now well underway with the frameworks of all the main buildings now being in place.
- The City Centre Masterplan - progress on the Art Gallery refurbishment, plans for the re-design of Union Terrace Gardens, and the urban realm of Broad Street to complement the recently completed Marischal Square development.
- The Local Transport Strategy - continuation of works towards the opening of the Aberdeen Western Peripheral Route and associated works, along the Berryden Corridor and the new A96 Park & Choose and Dyce Drive link road.
- City Region Deal project - Aberdeen Harbour Expansion at the Bay of Nigg and enhanced digital connectivity with the expansion of the City's fibre network.
- Waste Disposal Infrastructure - the opening of the new Materials Recycling and Refuse Derived Fuel Plant at Altens East, in conjunction with the new Waste Collection depot.

- School estate - opening of the new Orchard Brae School for Complex Needs and significant progress in the construction of Stoneywood Primary and Lochside Academy,with both due to open for pupils during 2018/19.
- Community Investment - the refurbishment of the Station House Media Unit and construction commencing on the Tillydrone Community Hub.
- Rolling asset investment programmes - street lighting improvements continued with further corroded column replacements and the second year of installing new energy efficient LED lanterns.
- Council Housing - investment of £42 million, to ensure our properties meet quality standards, are free from serious disrepair and are energy efficient.

The annual review of our credit rating was undertaken during the year, with the rating affirmed in November 2017 at Aa3 with a stable outlook.

The Council and Our Plans and Performance

- **Who we are -** We are one of 32 Councils in Scotland. We have 8,600 employees and their commitment and professional expertise is critical to service delivery. The very nature of our services is such that we employ a diverse range of professionals including teachers, social workers, engineers, architects, lawyers, accountants, surveyors and administrators.
- **What we do -** Our governance is overseen by 45 members who are elected every 5 years by the citizens of Aberdeen. Following the Local Government Election on 4 May 2017, a joint Administration was formed by the Conservative, Labour and Independent Alliance.
- **Our Goal and Plans -** On 23 August 2017 the Council agreed its policy statement - Stronger Together - *Prosperity for Aberdeen 2017-2022* and on 11 October 2017 the Strategic Business Plan was refreshed building on the Local Outcome Improvement Plan approved in August 2016. These policies and plans continue to build on the achievement of the council vision:

To ensure the people and place prosper and to protect the people and place from harm

The vision will be achieved through the delivery of three themes - Economy, People and Place and under these themes there are four priority areas for strategic partnership:

- Aberdeen Prospers;
- Children are our Future;
- People are resilient, included and supported when in need; and
- Empowered, resilient and sustainable communities.

A fourth theme of Technology cuts across all priorities as a key enabler of innovative and integrated future public services.

The Council operates across different planning levels from the North East region to individual localities, whilst internally planning from the corporate level to individual members of staff.

Our key documents can be found below, and are available to view on the Council's website as detailed:

- **Regional Economic Plan**

Approved in December 2015, providing a twenty year vision for the well-being of the place and our people through a longer term plan for economic development. Full details can be viewed on the Council's website in Committee Reports for the Council meetings on 16 Dec 2015.

- **Local Outcome Improvement Plan (LOIP)**

Adopted during 2016/17, establishing improvement outcomes and associated measures for a ten year period, to be monitored and reported, in terms of outcomes, to the Community Planning Aberdeen (CPP) Board. The LOIP can be viewed on the website of Community Planning Aberdeen.

- **Policy Statement**

Approved in August 2017, providing the Administrations vision, Stronger Together – Prosperity for Aberdeen 2017-2022. Full details can be viewed at the Council's website in Committee reports for the Council meeting in August 2017.

- **Strategic Plan: Aberdeen -The Smarter City**

Refreshed and approved in February 2017, the Council's vision for Aberdeen is to be a ambitious, achieving, smart city, which:
- Develops an economy based on knowledge and innovation;
- Encourages more efficient use of greener resource which generates a competitive economy;
- Uses technology and data to enable informed decisions to be taken;
- Enables citizens to interact in a city where there is a sense of place, and;
- Encourages a form of governance which engages its citizens

The Strategic Plan can be viewed at the Council's website in Committee reports for the Council meeting in February 2017.

- **The Target Operating Model**

On 23 August 2017, the Council approved a fundamental change in the way council services are managed and delivered through the implementation of a new Target Operating Model. Further development of the model was approved by Council on 11 December 2017 and a new governance structure aligned to the model was approved on 5 March 2018.

The reports set out a case for an organisational change resulting from the Council's operating environment.
The particular drivers for change include:
- ongoing and increasing fiscal restraints;
- evolving customer needs and expectations;
- the need to have increasingly engaged and flexible staff;
- legislative and policy changes; and
- opportunities afforded through modern technologies.

Giving consideration to these drivers, the new model aims to change the way the council works centred on the following 7 design principles:
- Customer Service
- Organisational Design
- Use of Technology
- Processes
- Workforce
- Governance/Accountability
- Relationship with partners and alliances

The key documents can be found at the ACC website in Committee reports for the Council meeting in August and December 2017.

In summary, the current directorate model will be entirely removed in favour of one bound by functional responsibility. The delivery on our priorities and ambitions, by working together, will be achieved through the interrelationship between the four main future functions of operations, resources, commissioning and customer.

The future leadership will:
- Align delivery to outcomes, breaking down directorate and service silos;
- Retain a consistency and focus on agreed outcomes, but agility around the choice of delivery model;
- Enable the investment decisions to be made about the best use of the collective Aberdeen pound;
- Put customers at the heart of operations, and creating a culture of customer excellence and community empowerment;
- Create an environment to support a ‘self-sustaining’ and sustainable future, enabling us to live within our means;
- Support a ‘one Council’ approach and avoiding silos and boundaries, reducing hierarchy and reinforcing a shared approach to delivery; and
- Create organisational capacity to enable an external and strategic focus to contribute to shaping Aberdeen as a place, and in terms of regional public services recognising the need for multi-disciplinary/ multi organisational responses to challenges and facilitating a response.

Changes to the leadership team are already taking shape with the four functional Directors and a number of Chief Officers below that in post by the end of the financial year. Work will continue in 2018/19 to complete the recruitment of Chief Officers and embed the principles and culture of the target operating model, with the leadership team working together towards the commissioning cycle, that will support improved decision making and use of resources.

Investing in our workforce

Investing in the future is an important outcome for us. However, investing is not just about infrastructure and buildings. We recognise that the ultimate success of our plans for the city depends on the quality of our workforce and so we have made significant investment in developing staff capability at all levels in order to ensure the long term sustainability of our workforce. In November 2017 we achieved external endorsement of our employee practices through achieving accreditation as a Scottish Living Wage Employer by the Poverty Alliance.

Engaging with our staff

As well as investment in staff development we recognise the importance of an engaged and committed workforce. Over the last year we have ensured that staff engagement is a key part of our Key Performance Indicators. During 2017/18 we continued to develop programmes of engagement around transformation and the transformation zone. Initiatives that have already been implemented include listening and responding to our staff through means such as opinion surveys and staff events; recognising and celebrating employee success, such as our annual STAR Awards ceremony; a focus on employee wellbeing through health fairs, free health checks and other wellbeing initiatives; and providing a means for staff to put forward ideas and suggestions through the introduction of our online Ideas Hub.

Diversity at Work

As an equal opportunities employer we comply with our obligations under the Equality Act 2010. As a diverse city we have a diverse workforce and operate with a culture which is open, fair and transparent where any unlawful or unfair discrimination, prejudice, stereotyping or harassment is challenged and addressed. We maintain pay equality within and across our workforce.

Our Relationship with Scottish and UK Governments and Europe

We work closely with both governments and seek to help to deliver national policy decisions. Significantly, work continues to progress on the City Region Deal – a commitment from both governments to invest £125 million each with ourselves and Aberdeenshire to improve the infrastructure, business diversification and digital accessibility within the region and the additional commitment to £254 million from the Scottish Government which demonstrates the strategic importance of the City as an economic engine room within the UK.

As the United Kingdom continues to negotiate the implementation of the referendum on exiting the European Union the Council continues to monitor the impact this may have on its operations. At present there is no immediate financial risk but this will be monitored to ensure any impact can be mitigated against.

Performance Management System

The Council is required to report details of its performance across a range of indicators, aligned to identified priorities each year, and does so regularly to our relevant committees. The performance of all thirty two councils in Scotland is monitored through the Local Government Benchmarking Framework, through which Audit Scotland in part express their Statutory Direction on Performance Reporting.

The Council is involved with a number of Arm's Length External Organisations (ALEOs), a number of which form part of our group and are reflected in the group accounts on pages 133 to 151. Significant investment is made in ALEOs by the Council and proper consideration must be given to their performance and governance arrangements. An ALEO Assurance Hub is in place to scrutinise a range of information including operational and financial performance and people and risk management. This provides a strong platform from which to ensure review of the performance of ALEOs is embedded in the Council's culture.

Financial Performance

- **Balance Sheet**

The Balance Sheet on page 38 shows Net Assets of £1,384 million as at 31 March 2018 (£1,493 million at 31 March 2017), a reduction of £109 million. Long Term Assets have increased by £162 million (from £2,522 million at 31 March 2017) , reflecting additions of £217 million to Property, Plant & Equipment (PPE), revaluation decreases of £46 million to the value of PPE and Heritage Assets, disposals of £12 million and depreciation of £71 million. Short Term Assets have reduced by £168 million from the previous year, in Cash & Cash Equivalents (£125 million) and Short Term Investments (£43 million). There was no significant change in Current Liabilities. Long term liabilities have increased by £107 million, mainly due to an increase in pension liabilities.

Liabilities anticipated as a result of past eventsfuture liabilities are recognised as Provisions, where reasonably certain and quantifiable, and Contingent Liabilities where there is less certainty and limited or no data available to quantify any future financial liability. Full details can be found at Notes 36 and 37 on pages 103 – 106.

Total debt outstanding amounts to £936.9 million (2017 £950 million). The majority of borrowing comes from the Public Works Loans Board (PWLB) and a Bond Issuance, with the remainder coming from Market Loans and temporary borrowing from various public bodies and financial institutions.

- **Reserves**

Having reached the end of the financial year, a review of the overall position for both revenue and capital has been undertaken (as in previous years) to ensure the Council is suitably prepared for future revenue and capital investment purposes.

This review has taken cognisance of the impact of adjustments required to ensure compliance with accounting standards, particularly in relation to the Council's bond issuance which must be accounted for using an Effective Interest Rate (EIR) method rather than purely the cash transactions during the year. As the bonds are indexed linked and have a three-year repayment holiday, the use of the EIR method recognises the impact of indexation on future amounts payable, including principal repayments and in effect accounts for these in advance of the actual cash transactions. Whilst for the purposes of complying with accounting standards, this is a charge to revenue which can also be viewed as the Council de-risking its financial position by building up a reserve to cover future bond payment liabilities. It should be noted that following a review of the bond accounting entries undertaken in 2016/17, changes were made which resulted in an adjustment to the General Fund balance at 31 March 2017 which has been utilised to cover the charge to revenue in 2017/18.

The review also considered the option, as available through statutory guidance from the Scottish Government, subject to certain conditions, to use capital receipts to fund the costs of Voluntary Severance/Early Retirement and concluded this to be the most suitable option at this time. To facilitate this, capital receipts previously held in the Capital Fund have been utilised to fund the costs incurred in 2017/18 and to create a provision for 2018/19 costs. The previously identified earmarked reserve for this purpose has been utilised to de-risk the Council through the creation of the provision for future bond payment liabilities.

In certain circumstances, funds are required to be earmarked for use in future years. This can be to fulfil statutory obligations or where funding has been received but has not yet been spent. The most significant of these are income from second/long term empty homes, bus lane enforcement, pupil equity funding and general revenue grant received in advance.

Our reserves are detailed in Notes 5 and 6 on pages 60 to 65.

- **Treasury**

The first annual review of the Council's credit rating was undertaken and affirmed at Aa3 with a stable outlook in November 2017. In its credit opinion, the credit rating agency Moody's recognised the Council's "strong institutional framework" and "strong track record of operating performance". The credit rating had previously been adjusted during the year from Aa2 with a negative outlook to Aa3 with a stable outlook, in line with a downgrading of UK Sovereign Rating in September 2017.

The credit rating review followed the initial awarding of a credit rating last year in advance of the successful £370million bond issue on the London Stock Exchange.

The Council's Treasury Management Strategy for 2017/18 set the policies and boundaries for our investments and borrowings, with the stated investment priorities being a) security of capital; and b) the liquidity of investments. Full details can be viewed at the ACC website in Committee Reporting for Council Meeting on 5 March 2018.

- **Revenue**

During 2017/18, the Council set a net revenue expenditure budget of £543 million (being £446 million on the General Fund and £97 million on the Housing Revenue Account. The performance during the year resulted in a surplus of £5 million (represented by £4.5 million on the General Fund and £0.5 million on the Housing Revenue Account. This reflects the service performance prior to any year-end adjustments, such as the use of reserves and statutory funds, and statutory accounting adjustments such as revaluations, depreciation and IAS 19 adjustments and can be reconciled to the Expenditure and Funding Analysis (EFA) on page 37 and the Comprehensive Income and Expenditure Statement (CIES) on page 66 as follows:

Financial Performance 2017/18	(Surplus)/ Deficit	Transfers between Funds & Other adjustments	(Surplus)/ Deficit per EFA	Statutory & Other Adjustments	(Surplus)Deficit per CIES
	£'000	£'000	£'000	£'000	£'000
General Fund	(4,483)	46,942	42,459	13,920	56,379
Housing Revenue Account	(500)	(9,460)	(9,960)	26,584	16,624
(Surplus)/Deficit on provision of services	**(4,983)**	**37,482**	**32,499**	**40,504**	**73,003**
Other Comprehensive Income & Expenditure					39,900
Total Comprehensive Income & Expenditure Surplus	**(4,983)**	**37,482**	**32,499**	**40,504**	**112,903**

- **Capital**

The Capital budget for the period 2017/18 to 2021/22 was set at £888 million (General Fund £722 million, Housing £166 million). Total investment in Non Housing Capital 2017/18 was £218 million. This was financed by capital grants (£59 million), Capital Fund (£20 million), increase in borrowing (£123 million), capital receipts and other income (£16 million).

The Marischal Square development was completed in November 2017. The council has entered into a number of lease agreements in relation this development which are reflected in Note 25 Leases on page 88.

- **Group Accounts**

The Aberdeen City Council Group consists of subsidiaries, joint ventures and associate companies that are combined with Aberdeen City Council to produce a group balance sheet with total assets of £3,036 million. This is an increase against the total assets of the Council, which are £2,924 million, and is principally due to the inclusion of the net assets of the Common Good and Trust Funds (the in-year performance of which are detailed below). Performance of subsidiary companies varied with a mixture of surpluses and deficits reported in 2017/18. Details can be seen on page 133.

- **Common Good**

The Common Good recorded a surplus of £0.7 million, largely due to increased rental income and lower than anticipated spend on a number of projects. As many of these projects are ongoing a sum of £0.3 million has been earmarked to provide the necessary funding to complete them during 2018/19.

The above surplus is before gains on the disposal and revaluation of assets and other accounting adjustments are applied. The value of the Common Good is £114.4 million at 31 March 2018, an increase of £3.2 million from last year, reflecting movements in the value of assets to reflect current market conditions. Further details on the Common Good can be seen at pages 127 to 129.

- **Trust Funds and Endowments**

The Council administers a number of trust funds and endowments. Some of these have charitable status which requires separate accounts to be prepared and audited for submission to OSCR (Office of the Scottish Charity Regulator). The value of all the Trust Fund balances at 31 March 2018 was £10.5 million, an increase of £1 million from last year, largely due to changing asset values reflecting the current market. Further details on the Trust Funds and Endowments can be seen at pages 130 to 132.

Outlook including Risks and Uncertainties

- **Economy**

Aberdeen sits at the centre of the North East of Scotland economy which is one of the most prosperous regions in the UK. Economic activity in Aberdeen and the North East is high due to a host of factors including the Oil and Gas Sector. This diversity provides significant opportunities to sustain and grow activity in both the short and longer term.

The decline in the price of oil between 2014 and 2016 has had an impact on the Aberdeen economy. Oil & Gas UK estimate that the UK Continental Shelf (UKCS) currently supports around 330,000 jobs, most of which are highly skilled and well paid. 2017/18 has seen a limited recovery in the oil price from its historic low in January 2016, that has enabled the sector in Aberdeen to refocus and look to the future.

The Council recognises that there is a continued shortage of housing within the City to attract and house new workers. Population growth is still estimated to grow over the next 35 years and this is borne out by the views captured within the local development plan of developers within the city. The extracted data, from the Housing Land Audit September 2017 (AberdeenCity and Aberdeenshire Councils), on the developer's views of construction of new houses in Aberdeen up to 2025 shows new house units of more than 11,000 units. These units will vary in size and value depending on where they are built in the city. The population is predicted to increase by a further 21,000 from 2025 to 2039, which with an average number of residents per household of 2.08, suggests a further 10,000 units are required between 2025 and 2039.

This will obviously increase pressure on a range of Council services, including roads, education and social care, as well as partner services such as health but will also provide us with new opportunities to grow our income base and further embed Aberdeen as an economic anchor in the wider UK economic performance. The housing developments referred to above will be required if this projected population growth comes to fruition and we are actively looking at how we can facilitate this continued demand pressure by generating new income streams and growing our financial strength and sustainability.

The council has prioritised prosperous Economy as one of the key themes of the Local Outcome Improvement Plan and Policy Statement, with the sub themes of investment in infrastructure, inclusive economic growth, innovation and internationalisation. The importance of supporting the wider community and economic regeneration to the success of achieving the council's wider outcomes is a key principle, with the new Target Operating Model building cohesion through the Place and City Growth functions.

- **2018/19 Budget and Medium Term Financial Outlook**

The Council set its 2018/19 General Fund revenue budget and five-year indicative capital budget on 6 March 2018. Against a backdrop of reducing revenue funding, the Strategic Transformation Committee had already approved savings for 2018/19 of £17 million on 9 February 2018 to be achieved through rationalisation of assets and third party spend and transition to the new Target Operating Model. Therefore the 2018/19 budget presented proposals to address the remaining funding gap of £4.8 million to Elected Members from which to balance the budget. The budget report and minute sets out the detailed proposals, risks and assumptions behind the future financial proposals. This can be found on the ACC website at Committee Reporting for Council meeting on 6th March 2018.

- **Risks and Uncertainties**

The council operates a risk management policy and strategy which identifies risks affecting the council, aligned to the strategic plan objectives. During 2017/18 a review of the system of risk management was undertaken and a number of actions identified for implementation to improve our risk management.

The risk review and the corporate risk register were presented to the Audit, Risk and Scrutiny Committee on 26 September 2017. The key risks to the council along with risk owners and mitigating actions are set out in this document. It can be found on the ACC website in Committee Reporting for the above committee.

Conclusion

The Council continues to maintain a strong credit rating of Aa3 with a stable outlook, recognising “a strong institutional framework” and “a strong track record of operating performance” and thereby demonstrating external assurance on the financial governance and strength of the organisation.

The 2017/18 financial year results showed a surplus of £5 million for the year across all accounts. This shows another strong performance over the year and this surplus will be set aside to provide investment to ensure longer term stability in service delivery going forward.

We will continue to invest in our staff and the infrastructure of the City in a financially sustainable way and the changes to the council as it aligns to the new Target Operating Model give us a strong direction for the future. Investment in providing an economically diverse and culturally rich environment, we believe, will continue to make Aberdeen a location of choice.

Acknowledgement

The production of the Annual Accounts is very much a team effort involving many staff from across the organisation, as well as those in the wider Aberdeen City Council group. We would like to take this opportunity to personally acknowledge the considerable efforts of all staff in the production of the 2017/18 Annual Accounts.

Steven Whyte, FCPFA	Angela Scott	Councillor Douglas Lumsden
Director of Resources	Chief Executive	Co-Leader of the Council

29 June 2018

Statement of Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Council 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 Resources;
- 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

Signed on behalf of Aberdeen City Council

Councillor Douglas Lumsden
Co-Leader of the Council
29 June 2018

The Director of Resources responsibilities:

I am responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, I have:

- 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 local authority Accounting Code (in so far as it is compatible with legislation);

I have also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the Council will continue in operational existence for the foreseeable future; and
- maintained such internal control as determined is necessary to enable the preparation of financial statements that are free from misstatement whether due to fraud or error.

I certify that these Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2018.

Steven Whyte, FCPFA
Director of Resources
29 June 2018

Annual Governance Statement

Purpose of the Annual Goverance Statement

The CIPFA / SOLACE Framework "*Delivering Good Governance in Local Government: Framework (2016 Edition)"* sets out a standard for good corporate governance and a requirement for local authorities to produce an Annual Governance Statement.

The purpose of this Statement is to report publicly on the extent to which we comply with our own Local Code of Corporate Governance, which in turn is consistent with the good governance principles in the Framework. This includes how we have monitored and evaluated the effectiveness of our governance arrangements over the previous year, and on any planned changes in the year ahead. It provides assurance in relation to our internal control structure and how we manage our resources. This Statement when compared to those from previous years demonstrates that governance arrangements are up to date and improving.

This Statement will include, as per the requirements of the Framework:

Section 1	An acknowledgement of our responsibility to ensure that there is a sound system of governance in place.
Section 2	Reference to and assessment of the effectiveness of the Council's governance framework and those of group entities, to the roles played in maintaining these, and to the issues raised in the previous Statement and the extent to which these have been resolved.
Section 3	A commitment to monitoring implementation as part of the next annual review.
Section 4	An action plan to deal with Significant Governance Issues.
Section 5	An opinion on the level of assurance that the governance arrangements can, and will continue, to provide.

Section 1 Scope of Responsibility

A governance framework has been in place at Aberdeen City Council for the year ended 31 March 2018 and up to the date of approval of the annual accounts.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out in the Strategic Business Plan 2017/18, where the role of governance, performance management and risk management are recognised as crucial in improving stewardship and how we do business. Reviewing our governance activity enables us to consider whether those objectives have led to the delivery of appropriate, cost effective services to the citizens of Aberdeen. It also provides a measure of progress towards the Target Operating Model which relies on sound governance arrangements.

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 or comly with controls, 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;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and manage those risks efficiently, effectively and economically.

The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be considered by the committee and referred to Council for its consideration. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk and Scrutiny Committee. The Council also has an approved Local Code of Corporate Governance. The Code sets out our commitment to the seven principles recommended in the CIPFA / SOLACE Framework 2016, by citing the primary sources of assurance which demonstrate the effectiveness of our systems of internal control.

Principle A Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Principle B Ensuring openness and comprehensive stakeholder engagement

Principle C Defining outcomes in terms of sustainable economic, social and environmental benefits

Principle D Determining the interventions necessary to optimise the achievement of the intended outcomes

Principle E Developing the entity's capacity, including the capability of its leadership and the individuals within it

Principle F Managing risks and performance through robust internal control and strong public financial management

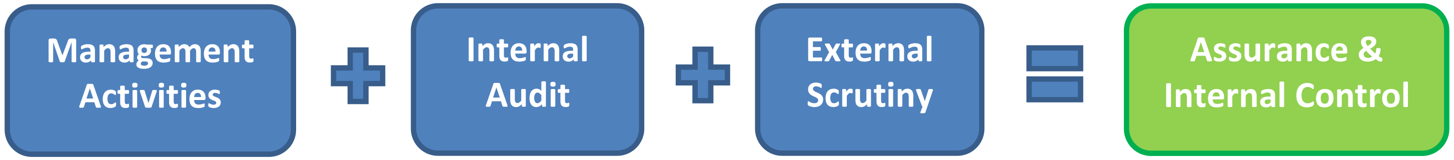
Principle G Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The Council is a complex organisation with many controlling interests in other businesses. This statement extends to cover our relationships with the organisations included in the Council's Group Accounts, referred to as the "ACC Group". As such the influence, accountability and responsibilities that the Council has to the organisations which form part of its Group are vitally important and it is essential that arrangements are in place which provide assurance to the Council in its relationship with these organisations.

Section 2 Review of Effectiveness

2.1 Sources of Assurance

The Council approaches its review of governance activity with reference to three layers of assurance, namely management assurance both internally through the Council and externally through the Group; the assurance and recommendations provided by internal audit; and external audit and other external scrutiny reports.



2.1.1 *Management Assurance*

Each Chief Officer has reviewed the arrangements in his / her portfolio and certified their effectiveness to the Chief Officer – Governance and the Director of Resources. These are summarised in Table A below. This has included reference to the Governance Review Programme initiated in March 2016, which delivered a revised Scheme of Governance in March 2018 to support implementation of the Target Operating Model, as well as a number of additional outputs. This was overseen by the Governance Delivery Board and the elected member Governance Reference Group.

These assurances included internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. Any significant control weaknesses are incorporated into the 'Significant Governance Issues' section (Section 4) further to assessment of returns by the Chief Officer – Governance. For 2017/18, other than those included in the significant issues table below, no issues were highlighted.

It has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer (CFO) in Local Government (2015). Furthermore in relation to the statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship they have had throughout the year with the Council and its officers, being full members of the extended Corporate Management Team. In addition the CFO and Monitoring Officer, or their nominees, were in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the Finance, Policy and Resources Committee.

During 2017/18 the Council began transitioning towards the Target Operation Model and reviewed its Committee and Officer Delegations to ensure that these were aligned to the interim structure and well placed to support the transitional period. The following committees were established, in addition to the existing regulatory committees, with Terms of Reference in place for each linking all committee business to outcomes through the report template and tracker:

- Staff Governance Committee
- Public Protection Committee
- Operational Delivery Committee / Educational Operational Delivery Committee
- Strategic Commissioning Committee
- City Growth and Resources Committee
- Capital Programme Committee

Powers delegated to Officers are aligned to Directors and Chief Officers in the interim structure, with a number of general delegations assigned to all.

Group Entities

In terms of the controlling interest in the group entities, assurances in relation to their control environment have been sought and received from organisations included within the Group. This assurance has been provided by either the Chief Executive or Director of Finance as evidenced by each organisations most recent audited accounts. There are no significant areas to be included in this statement. The Council receives assurance from elected members and officers who attend board meetings and receive operational and performance information on a regular basis. The ALEO Strategic Partnership, established in 2016/17, meets quarterly and brings together senior Council officers with senior ALEO representatives to discuss corporate governance, strategic planning, business planning and horizon scanning.

A new ALEO Assurance Hub has been introduced which includes officers with expertise on corporate governance and has a remit to to provide oversight of each ALEOs risk management, financial management and governance arrangements. The Hub reports to the Audit, Risk and Scrutiny Committee three times a year where Hub officers outline the level of assurance from ALEOs and advise on the level of risk to the Council. The purpose of the Hub is to provide assurance to Council on ALEO governance whilst balancing this need with the rights of ALEOs to govern themselves as independent entities. The Hub has met on two occasions, the first in November 2017 was observed by Audit Scotland during their on-site visit to review Bon Accord Care and the second on 8 March 2018. The Hub has covered the following areas:-

- Decision Making, Board composition and capacity;
- Review of risk registers;
- Review of quarterly trading accounts and annual audited accounts;
- Review of internal and external audit arrangements;
- Implications of the Barclay Review; and
- Readiness for GDPR.

Integration Joint Board

The Aberdeen City Integration Joint Board (IJB) has taken a number of steps during 2017/18 to strengthen its governance arrangements. These include:-

- Accommodating a significant turnover in membership due to the passage of time and the Local Government elections in May 2017. Induction training was delivered in May-June 2017 and refresh training and Board workshop sessions are delivered on an ongoing basis throughout the year;
- Audited Annual Accounts agreed by the Audit and Performance Systems (APS) Committee on 21 August 2017;
- Internal and External Audit Plans for the IJB were agreed by the APS Committee and Annual Reports were considered which placed reasonable assurance on the IJB's governance arrangements;
- The 2018/19 IJB Budget and Medium Term Financial Strategy was agreed by the Board on 27 March 2018;
- IJB Standing Orders and Integration Scheme were reviewed by the Board and a formal Roles and Responsibilities document was approved by the Board which set out which areas are within the operational remit of the Chief Officer and Chief Finance Officer and which decision making powers were reserved to the Board;
- The Local Code of Governance was reviewed by the APS Committee and included sources of assurance used to measure the effectiveness of the governance principles contained in CIPFA/SOLACE's *Delivering Good Governance in Local Government* framework;
- The IJB Annual Governance Statement was approved by the APS Committee on 10 April 2018;
- A review of the Financial Governance Arrangements was undertaken by the APS Committee;
- The Board Assurance and Escalation Framework was approved by the Board which set out the Board's approach to performance, risk and financial management and which integrated the Local Code of Governance;
- A Strategic Risk Register is submitted to the APS Committee every second meeting with a mechanism in place to escalate risk to the Board. The IJB has scheduled a development workshop to focus on risk management and review risk appetite and internal controls on 24 April 2018; and
- A recruitment and selection process was agreed by the Board on 10 April 2018 to appoint to the post of Chief Officer following the current Chief Officer's resignation in February 2018.

The IJB Chief Officer considers that the internal control environment operating during the reporting period provides reasonable and objective assurance that any significant risks impacting upon the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the internal control environment and action plans are in place to identify areas for improvement. It is the IJB Chief Officer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board's systems of governance.

2.1.2 *Internal Audit*

The Audit, Risk and Scrutiny Committee remained responsible for ensuring the effectiveness of the Internal Audit function which continued to be provided through a shared arrangement with Aberdeenshire Council's Internal Audit Team during the financial year.

In June, the Chief Internal Auditor will provide the Council with an Annual Report and Statement on its Internal Control System for the year ending 31 March 2018.

The report will provide details of the position relating to the audits contained within the 2017/18 audit plan and highlight that the majority of recommendations made had been accepted by management and if taken to full implementation will improve the Council's internal control environment. Having taken all factors into consideration the Statement on the Internal Control System as drafted concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2018. The report further confirms the organisational independence of Internal Audit.

The Audit, Risk and Scrutiny Committee received a range of reports during the year produced by Internal Audit which enabled scrutiny and questioning of officers to take place. This helped the committee to gain assurance about the identified weaknesses and the actions being taken to address them. The Internal Audit plan for 2017/18 was agreed by the Audit, Risk and Scrutiny Committee on 22 February 2017. A total of 21 audits were completed by the end of the year, with a further 6 underway, 1 planned and 1 rescheduled to 2018/19. 293 recommendations were made of which none were classed as major at corporate level and 1 major at a service level/within the audited area. The remainder were either significant within the audited area or important within the audited area. Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to each Audit, Risk and Scrutiny Committee.

2.1.3 *External Scrutiny*

The External Auditor, KPMG, reports regularly to the Audit, Risk and Scrutiny Committee and its reports cover the range of year end financial audits that are required at a local level and with a national perspective, together with updates on outstanding audit recommendations.

Every local authority internal audit function must be externally assessed against the Public Sector Internal Audit Standards (PSIAS) once every 5 years. In 2017 KPMG reviewed our existing function covering the PSIAS requirements as well as making comparisons to best practice for an entity listed on the London Stock Exchange. The specific recommendations made by KPMG, together with a proposed management response and details of the specific actions proposed in response to the recommendations were reported to the Audit, Risk and Scrutiny Committee in November 2017 and a series of actions agreed. Progress with these is being monitored by the Chief Officer – Governance.

The Local Scrutiny Plan 2018/19 was reported to the Corporate Management Team and following further discussion with the Council's external auditors is being adjusted ahead of its submission to the Audit, Risk and Scrutiny Committee.

2.2 Assessment of Governance

Table A below summarises governance activity against the requirements of the Local Code of Governance for the period 1 April 2017 to 31 March 2018. This includes a self evaluation of effectiveness as at 31 March 2018 thereby providing assurance around our systems of internal control:

Table A

CIPFA Principle of Good Governance	Summary of Governance Activity 2017/18
A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	➢ Approval of a new Scheme of Governance including Powers Delegated to Officers, Committee Terms of Reference, Standing Orders, Financial Regulations and Procurement Regulations. ➢ Approval of an Annual Report template to ensure that committees review their own effectiveness against their Terms of Reference. ➢ Approval of a Bond Governance Protocol to help ensure that the Council complies with its statutory and regulatory requirements as an entity holding a credit rating and having issued bonds on the London Stock Exchange. ➢ Approval of Proper Officer Register listing statutory appointees and proper officers within the Council. ➢ Staff Governance Committee established to strengthen partnerships with trade unions and monitor staff governance standards and corporate health and safety. ➢ Public Protection Committee established to provide assurance on the following statutory regulatory duties: • Child protection • Adult protection • Consumer protection and environmental health • Civil contingencies

CIPFA Principle of Good Governance	Summary of Governance Activity 2017/18
	• Building control • Police and Fire ➢ All draft reports to full Council and committees are monitored for legal compliance (e.g. vires, state aid, procurement, equalities, data protection). ➢ Readiness Plan for implementation of the General Data Protection Regulation 2018 (in force 25 May 2018) covering risks and issues. ➢ Work to review the Whistleblowing Policy begun.
B - Ensuring openness and comprehensive stakeholder engagement	➢ Introduction of an ALEO Assurance Framework approved by the Audit, Risk and Scrutiny Committee in June 2017. ➢ Approval of Policy on the Appointment of Elected Members to Outside Bodies. ➢ With the exception of social work, the management of complaints is now undertaken by a centralised specialist Customer Feedback Team to help ensure complaints are handled consistently and appropriately across all council services. This includes quality checking all Stage 2 responses. ➢ A new system to manage Members Enquiries was implemented to enable the organisation to handle enquiries more effectively and reduce response times. ➢ Consultation protocol for Trade Unions to achieve consistency and quality. ➢ Participation of trade unions in the Transformation Governance Framework. ➢ Introduction of a procedure for Participation Requests under the Community Empowerment Act. ➢ Process in place for Corporate Management Team to review and respond to consultations. ➢ Consultation on the review of the Community Council Scheme of Establisment. ➢ Appointment of trade union advisors to Staff Governance Committee. ➢ Endorsement of civic leadership principles by full Council. ➢ Council approval of regional economic coordinating structures for urban governance.
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	➢ The Council is a lead statutory partner in the City's Community Planning Partnership (CPP) and has approved, both as an individual organisation and as part of the CPP, the Local Outcome Improvement Plan (LOIP) which defines outcomes for the City in terms of "Economy; People, Place; and Enabling Technology". The Council has applied these same thematic areas in developing an organisational "Strategic Business Plan" which expresses both relevant outcomes and how these will be delivered. ➢ Approval of a Target Operating Model to build a Council for the future linked to the LOIP. ➢ Development of Service Improvement Plans linked to the LOIP. ➢ Approval of a Strategic Commissioning Committee with a focus on outcomes.
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	➢ Committee Terms of Reference linked to reporting trackers and a revised report template – all recommendations are linked with Committee purpose and remit ➢ Evolution of the ALEO Governance Hub to an ALEO Assurance Hub with a focus on assurance rather than scrutiny.
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	➢ Recruitment of new Corporate Management Team – Directors of Resources, Operations, Commissioning and Customer, Chief Officer – Governance, Chief Officers – Strategic Place Planning and City Growth ➢ Powers Delegated to Officers widely revised to empower staff and improve compliance. ➢ Governance training programme developed for officers and elected members – interactive and online sessions. ➢ Training of councillors and officers on their legal duties/responsibilities (e.g. General Data Protection Regulation, Bonds, Outside Bodies and ALEOs, Appeals Committees, Licensing Board/Committee, Integration Joint Board, Pensions Committee, Councillors' Code of Conduct. ➢ Regular meetings of the Third Tier Network/Extended Corporate Management Team to develop interim transitional structure and supporting governance. ➢ Delivery of Elected Member Induction Programme "first 100 days".

CIPFA Principle of Good Governance	Summary of Governance Activity 2017/18
	➢ Multiple improvement projects progressed applying the improvement methodology, both by the Council and in partnership with other agencies. Council officers have led the development of an "Improvement Faculty" covering Community Planning partners and have been active in training colleagues in the use of the improvement methodology. ➢ Capital Training Programme delivered to ensure that all those involved in managing and implementing capital projects are operating and delivering to same standards of corporate delivery. This has been delivered to officers and elected members.
F - Managing risk and performance through robust internal control and strong public financial management	➢ Internal Audit's Annual Report and Internal Financial Control Statement for 2016/17 presented to Audit, Risk and Scrutiny Committee in June 2017. ➢ Completed Common Good Fund review of governance, controls and structure, web-based application form and legal acceptance criteria / scoring mechanism. ➢ Risk Management Action Plan agreed to respond to Good Governance Institute recommendations on risk approach. ➢ Approval of a new Risk Management Framework setting out risk approach and process, including: ○ Monthly review of Corporate Risk Register by the Corporate Management Team. ○ Development of new risk registers for each Cluster in Interim Functional Structure to be reported to Committees in September 2018. ➢ Organisational Resilience Group commissioned the development of a self assessment framework, completed the self assessment and agreed a Resilience Self-Assessment Action Plan. The Group also established a quarterly meeting cycle with incident reports and actions arising being managed by the group. ➢ Bond Governance Project team meeting quarterly. ➢ Business Continuity Internal Audit carried out. All critical function Business Continuity Plans submitted during March 2018. ➢ Development of Health and Safety Improvement Plans for each service. ➢ Creation of Establishment Control Board to manage and monitor reduction of headcount. ➢ Financial monitoring arrangements refined in order to meet the requirements of the London Stock Exchange and quarterly reports developed to include full balance sheet reporting. ➢ Credit rating annual review confirmed no change to rating with a move to a stable outlook, reflecting strong operational performance.
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	➢ Revised Committee Management Procedures and Committee Report template to help ensure informed decision making focused on outcomes. ➢ The Council applies a Performance Management approach through which regular tiered reporting is undertaken to provide the public, the Community Planning Partnership, Council and its Committees, as well as other forums, with data and information to support transparency and accountability. ➢ Improvement actions in place for the Internal Audit function after review by KPMG. ➢ Introduction of paperlight Council meetings. ➢ Introduction of quarterly financial performance reporting including core financial statements and an audited hard close at Quarter 3, prior to a faster year end close, with unaudited annual accounts completed 30 April 2018 and audited annual accounts due by 30 June 2018.

Section 3 Monitoring Implementation and Future Developments

In 2018/19 we will continue to progress with the review and monitoring of the Council's governance arrangements and a number of key activities will be completed. This will be supported by the Governance Delivery Board, which will oversee the Governance Review Programme. An action plan is in place to take forward areas of development identified by CIPFA, who will assess the Council for the Governance Mark of Excellence in 2019/20. The table below highlights the *primary* actions planned in 2018/19.

Table B

CIPFA Principle of Good Governance	Primary Actions Planned 2018/19
A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	➢ Completion of a corporate policies and strategies register. ➢ Implementation of a digital policy framework to standardise and improve the process for developing, monitoring and reviewing the effectiveness of and compliance with policies. ➢ Development of a Leadership framework for the consideration of the Staff Governance Committee. ➢ Monitor Scheme of Governance to ensure that it supports the requirements of the interim functional structure and the Target Operating Model. ➢ First annual review by Committees of their effectiveness against Terms of Reference. ➢ Continuation of the Scheme of Governance training. ➢ Implementation of a new Scheme of Establishment and complaints process for Community Councils. ➢ Bond Governance – continue to embed implications of trading on London Stock Exchange within organisation.
B - Ensuring openness and comprehensive stakeholder engagement	➢ Annual review of the ALEO Assurance Hub by December 2018. ➢ As part of its commitment to transparency, the Council is participating in a programme, through the Scottish Cities Alliance, which will increasingly make "open data" available through a dedicated portal. The availability of "open data" is not only a tool for promoting openness and transparency, but is a potentially valuable resource for individuals or groups outside the Council to increase value for the city by creating insight and / or applications. ➢ Launch of the CoreHR project to deliver a cloud based HR and Payroll platform that will combine the functionality of multiple existing systems, improve staff experience through improved self-service and provide better way of developing our employees talent. ➢ The customer feedback function is to be fully consolidated, including social work complaints to ensure further consistency in complaint handling and a new system to manage complaints will be implemented early 2018/19 to help services to manage complaints more effectively. ➢ The Customer Feedback Team will continue to work with services to improve the quality and speed of responses to Elected Members. ➢ Development of models for civic leadership and engagement to strengthen collaborative decision making. ➢ Terms of Reference for Urban Governance Co-ordinating Structures.
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	➢ Review of support to Trusts to ensure that funding and support is aligned with outcomes. ➢ The Strategic Commissioning Committee will perform a key role as the Council changes from budget led service provision to outcome focused delivery to deliver the Target Operating Model. It will undertake population-need assessments and will approve commissioning activity to meet those needs and the outcomes specified in the LOIP. The committee will perform a monitoring role to help ensure that the needs and outcomes identified are being achieved.
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	➢ Preparation and collation of data for first annual report to Committees. Review of annual report after first year to ensure that format is effective. ➢ Creation of Business Intelligence and Performance Management service within Commissioining Function which will accomplish better understanding of need, demand, service delivery and support data driven decision making , as well as Early Intervention and Community Empowerment service within Customer which will help to manage the increasing demand being placed on the Council's services.
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	➢ A leadership capability framework to identify the skills and knowledge required at Service Manager level and above to be reported to the Staff Governance Committee. Once approved the framework will be used for development planning, succession planning, career planning and performance management, ensuring clarity of what's expected and consistency in approach. ➢ Development and launch of good governance training module as part of the Leadership Programme. ➢ Three month induction programme to develop the new Corporate Management Team. ➢ Two new management programmes will be rolled out – Step on, Step up for managers who manage teams and Lead on, Lead up for

CIPFA Principle of Good Governance	Primary Actions Planned 2018/19
	managers who manage managers. These programmes will be piloted in Building and Fleet Services as part of a culture change programme taking place in these services. ➢ A framework for embedding workforce capabilities and characteristics to support the Target Operating Model is being developed for discussion at the Staff Governance Committee in August. ➢ Development and review of Performance Review and Development ➢ Continuation of development planning sessions for new and existing Chief Officers based on outcomes from the matching/ recruitment process.
F - Managing risk and performance through robust internal control and strong public financial management	➢ Implementation of a new Governance Function with a focus on risk and assurance to support the Council. ➢ Completion of Organisational Resilience Self-Assessment actions together with actions arising from incidents and exercises. Particular focus on training and exercising. ➢ Participation in a peer review for the Prevent agenda. ➢ Self testing schedule for each Business Continuity plan owner to be completed including a table top exercise. One corporate level exercise to be held to test interdependencies between plans. ➢ Creation of Risk Registers, Business Continuity plans and Health and Safety Improvement Plans for Functions within interim transitional structure. ➢ Develop business case for digital platform for closing health and safety audits, fire risk assessments, compliance monitoring, workplace inspections and incident investigations. ➢ Establish Common Good Review Panel.
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	➢ Extend paperlight to the consultation process for draft reports. ➢ Embed committee trackers for Functions to ensure clear reporting lines, timescales and accountability. ➢ Alignment of Internal Audit improvement recommendations within Governance Function.

Section 4 Signifcant Governance Issues Action Plan

The Annual Governance Statement from 2016/17 identified 13 significant governance issues and in reviewing the progress made by officers of these actions, 9 of these have progressed sufficiently to be removed. Four remain outstanding as at 31 March 2018. One additional issue has been added.

While the review of effectiveness allows the Council to place reasonable reliance on the Council's and its Group's systems of internal control, the Council continues to address control weaknesses identified during audits and other significant matters arising as set out below:

Table C

Issue Ref.	Issue Description	Source of Evidence	Action
	Outstanding Issues from Prior Years		
1	**Craft Workers Terms and Conditions** To review the completion of timesheets and compliance with agreed terms and conditions.	Internal Audit Report 2015/16	The 2017/18 Internal Audit plan contained an audit of Craft Workers Payroll, to ensure that the new terms and conditions have been implemented and complied with. However the recommendations from the 2015/16 Internal Audit report due to be implemented in June 2016 have been delayed to June 2018 due to a requirement for terms and conditions to be agreed at regional level. In view of this it is proposed to defer the planned audit to 2018/19.
2	**Failure to comply with the Council's decision making processes.** Reports presented to Audit, Risk and Scrutiny Committee demonstrated a requirement to improve compliance with the Council's committee management procedures and decision making processes.	Self-Evaluation 2017/2018	A Scheme of Governance was approved setting out the Council's decision making processes along with updated committee management procedures. The Scheme of Governance sets out Powers Delegated to Officers in the transitional structure and to Committees. This will be kept under review as we progress towards the Target Operating Model. Key performance indicators will continue to be monitored and a Governance Training Programme will be implemented. Governance issues have arisen over the year, including powers being exercised when they had not been delegated. Further work is therefore required to embed the Scheme of Governance to remove this as a significant issue.
3	**Scottish Child Abuse Inquiry** Potentially, as a result of the Inquiry and subsequent potential legislation regarding the Limitation (Childhood Abuse) Act 2017, the Council could face an unquantified number of cases of child abuse.	Self-evaluation 2017/18	A Governance group has been appointed and daily monitoring of the position continues.
4	**Kingsmead Home** A nursing home operated by a private sector provider subject to embargo on new placements following discussions with the Care Inspectorate. Review of contract management and service delivery processes and how this information is escalated is required.	Self-evaluation 2017/18	The Council assumed responsibility for the operation of the home as from 1 April 2017. BAC Ltd are now responsible for this care home. The Care Inspectorate have visited twice informally since then and are happy with the improvement they have seen. It is proposed to purchase the home with IJB helping to cover the purchase and running costs.

Issue Ref.	Issue Description	Source of Evidence	Action
	New issues in 2017/18		
5	**Multi- Storey Blocks - Inspection, Maintenance and Compliance** Ability to track and compile data to offer assurance that we are complying with legislation; concerns that processes are not in place to track notifications that we receive advising that there are issues in any specific building following an inspection.	Self-evaluation 2017/18	Inspection regime in place and current processes to be reviewed with partners to ensure they are sufficient to capture issues. IT support to be sought to identify single system approach to recording. Report of the Scottish Ministerial Working group on Fire Safety and any outcomes relating to the fitting of automatic fire suppression systems awaited.

Section 5 Level of Assurance Obtained

The Council has undertaken a self-evaluation of its Local Code of Corporate Governance as at 31 March 2018. This demonstrates that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council and its systems of governance. As the interim transitional structure beds in over the coming year, including the creation of a Governance Function, this level of assurance is expected to increase.

This review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively, and provides a clear pathway for the enhancement of our governance arrangements over the coming year. We are satisfied that the programme of improvement actions will help to raise the standard of governance towards the level required to achieve CIPFA's Mark of Excellence in governance, and to provide assurance to our external auditors and other bodies with a role to play in evaluating our structures. We are also satisfied that their implementation and operation will be monitored closely as part of the next annual review.

Councillor Douglas Lumsden
Co- Leader of the Council

Angela Scott
Chief Executive

On behalf of Aberdeen City Council

29 June 2018

Remuneration Report

The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of their Annual Accounts.

All information disclosed in Tables 1 to 9 in this report will be audited by external audit. The other sections of the Remuneration Report will be reviewed by external audit to ensure that they are consistent with the financial statements.

Remuneration:

The remuneration of councillors is regulated by the Local Governance (Scotland) Act (Remuneration) Amendment Regulations 2017 (SSI No. 2017/66) which amended the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2016 (SSI No. 2016/6). The Regulations provide for the grading of councillors for the purpose of remuneration arrangements, as either the Leader of the Council, the Lord Provost, Senior Councillor or Councillor. The Leader of the Council and the Lord Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the council's political management structure.

The salary that is paid to the Leader of the Council is set out in the Regulations. For 2017/18, the salary of the Leader of Aberdeen City Council is £39,497. The Regulations permit the Council to remunerate one Lord Provost and sets out the maximum salary that may be paid. Council policy is to pay at the national maximum, £29,624.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £442,223. The Council can exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The maximum number of Senior Councillors that the Council can have is 19. Council policy is to pay each of the five principal Committee Conveners 75 per cent of the total yearly amount payable to the Leader of the Council, £29,624, with the remaining Senior Councillors receiving 75 per cent of that sum, £22,218.

In 2017/18, Aberdeen City Council had 19 Senior Councillor posts. The salary and allowances paid to them totalled £393,029 which was below the maximum allowed.

The Regulations also permit the Council to pay contributions covering other payments, as required, to the Local Government Pension Scheme in respect of those Councillors who elect to become councillor members of the pension scheme.

The salary of senior employees is set by reference to local arrangements. During the recruitment of the Chief Executive in 2008/09, the Council agreed to pay the Chief Executive a salary based on local conditions at that time. This pay base line has not changed on any subsequent Chief Executive appointments.

The salaries of the Directors and Heads of Service are based on Aberdeen City Council's local job evaluation model and applied in conjunction with the national Chief Officer spinal column (Salary Scale) points. Functional Directors are based on Chief Officer spinal column point 53. The City Centre Director is paid based on spinal column point 47. The Chief Social Worker and the Heads of Finance and Legal and Democratic Services are paid based on Chief Officer spinal column point 36, and all other Heads of Service are paid based on Chief Officer spinal column point 34.

Aberdeen City Council takes part in the setting of the remuneration of its subsidiaries, Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd only in so far as it is represented on the Board of Directors by elected members.

Remuneration Disclosures:

Table 1: In bands of £5,000 the number of people who have received actual salary remuneration of greater than £50,000. This includes, where applicable, head teachers and other senior teaching staff.

Table 2: Details of total remuneration paid to the Council's Councillors.

Table 3: Details of exit packages.

Table 4: Details of remuneration paid to the Council's Senior Councillors. The 'Other Expenses' shown include the cost of travel and subsistence incurred or booked on behalf of Councillors travelling on Council business.

Table 5: Details of remuneration paid to Senior Employees of the Council.

Table 6: Details of remuneration paid to the Senior Employees of the Council's subsidiary bodies i.e. Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd.

Table 1: Remuneration Bands

	Number of Employees			Number of Employees	
Remuneration Band	**2016/17**	**2017/18**	**Remuneration Band (cont'd)**	**2016/17**	**2017/18**
£50,000 - £54,999	149	138	£150,000 - £154,999	1	2
£55,000 - £59,999	45	51	£155,000 - £159,999	-	1
£60,000 - £64,999	17	26	£160,000 - £164,999	-	1
£65,000 - £69,999	5	10	£165,000 - £169,999	-	2
£70,000 - £74,999	5	4	£170,000 - £174,999	-	1
£75,000 - £79,999	5	11	£175,000 - £179,999	-	1
£80,000 - £84,999	11	7	£180,000 - £184,999	-	2
£85,000 - £89,999	2	6	£185,000 - £189,999	-	1
£90,000 - £94,999	-	4	£190,000 - £204,999	-	-
£95,000 - £99,999	-	-	£205,000 - £209,999	-	1
£100,000 - £104,999	-	2	£210,000 - £219,999	-	-
£105,000 - £109,999	1	3	£220,000 - £224,999	-	1
£110,000 - £114,999	-	2	£225,000 - £229,999	-	1
£115,000 - £119,999	2	2	£230,000 - £234,999	-	-
£120,000 - £124,999	-	1	£235,000 - £239,999	-	2
£125,000 - £129,999	-	2	£240,000 - £259,999	-	-
£130,000 - £134,999	-	2	£260,000 - £264,999	-	1
£135,000 - £139,999	-	-	£265,000 - £289,999	-	-
£140,000 - £144,999	1	1	£290,000 - £294,999	-	1
£145,000 - £149,999	-	1	**Total**	**244**	**291**

Table 1 shows the total number of council employees receiving remuneration in each band, starting at £50,000. Remuneration includes early retirement/voluntary severance costs and pension strain costs, which have increased in 2017-18. All of those over £100,000 (excluding the Chief Executive) are as a result of including pension strain costs.

Table 2: Total Remuneration Paid to Councillors

	2016/17 £	**2017/18 £**
Salaries	880,977	894,559
Allowances	-	-
Expenses	71,003	41,803
Total	**951,980**	**936,362**

Table 3: Exit Packages

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Exit Packages Approved		Cost of Exit Packages £'000					
	2016/17	**2017/18**	**2016/17**	**2017/18**	**2016/17**			**2017/18**		
					Benefits to Employee *	Strain on Fund *	Total	Benefits to Employee	Strain on Fund	Total
£0 - £19,999	-	-	3	115	22		22	1,039	116	1,155
£20,000 - £39,999	-	-	4	52	64	63	127	996	482	1,478
£40,000 - £59,999	-	-	-	17			-	441	364	805
£60,000 - £79,999	-	-	2	10	67	60	127	205	503	708
£80,000 - £99,999	-	-	-	14			-	235	1,044	1,279
£100,000 - £149,999	-	-	1	19	17	125	142	272	2,079	2,351
£150,000 - £199,999	-	-	-	15			-	255	2,323	2,578
£200,000 - £249,999	-	-	-	3			-	40	625	665
£250,000 - £299,999	-	-	-	1			-	23	245	268
Total	**-**	**-**	**10**	**246**	**170**	**248**	**418**	**3,506**	**7,781**	**11,287**

Table 3 shows the number of exit packages agreed during the year and the cost of those packages.

*2016/17 data updated to show benefits to employee and strain on fund separately.

Table 4: Remuneration of Senior Councillors

2016/17			2017/18				
Total Remuneration £	**Councillor Name**	**Responsibility**	**Salary, Fees and Allowances £**	**Non-Cash Expenses & Benefits-In-Kind £**	**Other Expenses £**	**Total Remuneration £**	**Notes**
40,626	Jennifer Laing	Co Leader of the Council (from 5 March 2018)	38,761	340	407	39,508	**1**
-	Douglas Lumsden	Co Leader of the Council (from 5 March 2018)	26,427	108	660	27,195	**2**
42,218	Barney Crockett	Lord Provost (from 17 May 2017)	28,514	944	13,841	43,299	**3**
-	Tom Mason	Depute Provost (from 17 May 2017 until 29 June 2017)	3,293	21	19	3,333	
-	Ryan Houghton	Business Manager (from 5 March 2018)	20,494	89	-	20,583	**4**
25,045	Stephen Flynn	Convener, Audit, Risk and Scrutiny	29,070	114	-	29,184	
3,168	Jackie Dunbar	Convener, Audit, Risk and Scrutiny (until 11 May 2016)	-	-	-	-	
21,081	Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	21,932	105	-	22,037	
22,277	Yvonne Allan	Convener, Staff Governance (from 5 March 18)	28,514	149	217	28,880	**5**
30,429	Neil Cooney	Convener, Communities, Housing and Infrastructure (until 16 May 2017)	2,782	10	8	2,800	
-	Philip Bell	Vice Convener, Operations (Environmental Spokesman)	19,956	98	468	20,522	**6**
-	Freddie John	Vice Convener, Strategic Commissioning (from 5 March 2018)	13,088	57	-	13,145	**7**
-	Brett Hunt	Vice Convener, Communities, Housing and Infrastructure (from 17 May 2017 until 23 August 2017)	7,950	75	-	8,025	
23,690	Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure (until 16 May 2017)	2,086	10	65	2,161	
-	John Wheeler	Convener, Operational Delivery (from 5 March 2018)	26,427	118	698	27,243	**8**
29,785	Angela Taylor	Convener, Education and Children's Services (until 16 May 2017)	2,782	15	-	2,797	
-	Lesley Dunbar	Vice Convener, Education Operational Delivery (from 5 March 2018)	18,728	266	600	19,594	**9**
22,300	Scott Carle	Vice Convener,Education and Children's Services (until 16 May 2017)	2,086	15	-	2,101	
30,668	William Young	Convener, Finance, Policy and Resources (until 16 May 2017)	2,782	13	-	2,795	
23,084	Gordon Graham	Vice Convener, City Growth and Resources	22,043	867	-	22,910	**10**
2,528	Ross Thomson	Vice Convener, Finance, Policy and Resources (until 11 May 2016)	-	-	-	-	
35,665	John Reynolds	Convener, Licensing Committee (from 17 May 2017)	22,580	235	8,053	30,868	**11**
22,965	Len Ironside CBE	NHS/Social Care Integration Joint Board & Social Care Spokesperson (until 16 May 2017)	2,086	4	51	2,141	
28,015	Alan Donnelly	Depute Provost (from 5 March 2018)	22,043	207	2,591	24,841	**12**
42,122	George Adam	Lord Provost (until 16 May 2017)	2,782	47	-	2,829	
30,559	Marie Boulton	Convener, Capital Programme (from 5 March)	29,243	91	-	29,334	**13**
27,372	Ramsay Milne	Convener, Planning Development Management (until 16 May 2017)	3,086	31	82	3,199	
-	Jennifer Stewart	Convener, Public Protection	19,086	180	243	19,509	**14**
16,992	Andrew Finlayson	Vice Convener, Planning Development Management (until 16 May 2017)	1,589	10	-	1,599	
22,305	Ross Grant	Vice Convener, Operations Deliver (from 5 March 2018)	22,043	20	95	22,158	**15**
-	Sarah Duncan	NHS/Social Care Integration Joint Board & Social Care Spokesperson (from 17 May 2017)	19,956	93	62	20,111	**16**
-	Claire Imrie	Mental Health Spokesperson (from 5 March 2018)	1,613	8	-	1,621	
542,894	Total		**463,822**	**4,340**	**28,160**	**496,322**	

Table 4: Notes

Note 1:	Councillor Laing was also appointed as Convener of Strategic Commisioning; Urgent Business Committee: Aberdeen City Region Deal and Strategic Transformation. Prior to her current appointment Councillor Laing was Co-Leader of the Council and the Convener, Urgent Business. As such a full year disclosure of remuneration has been made.
Note 2:	Councillor Lumsden was also appointed as Convener, City Growth and Resources and Vice Convener of the Capital Programme; Urgent Business Committee and Strategic Transformation on 5 March 2018. Prior to his current appointment Councillor Lumsden was also the Convener, Finance Policy and Resources and Vice Convener Urgent Business from 17 May 2017.
Note 3:	Prior to his appointment as Lord Provost Councillor Crockett was Convener, Pensions. As such a full year disclosure of remuneration has been made.
Note 4:	Councillor Houghton was also appointed as Vice Convener Staff Governance. Prior to his current appointment Councillor Houghton was Converner, Appeals from 17 May 2017.
Note 5:	Councillor Allan was also appointed Convener Appeals Committee. Prior to her current appointment Councillor Allan was Convener Communities Housing and Infrastructure from 17 May and prior to this Convener, Appeals. As such a full year of disclosure has been made.
Note 6:	Prior to his current appointment Councillor Bell was Vice Convener, Communities Housing and Infrastructure from 17 May - 23 August 2017.
Note 7:	Prior to his current appointment Councillor John was Vice Convener, Communities Housing and Infrastructure from 24 August 2017.
Note 8:	Councillor Wheeler was also appointed Convener Education Operations Delivery. Prior to his current appointment Councillor Wheeler was Convener, Education and Children's Services (from 17 May 2017).
Note 9:	Councillor Dunbar was also appointed as Convener Licensing Board. Prior to her current appointment Councillor Dunbar was Vice Convener, Education and Children's Services from 17 May 2017.
Note 10:	Prior to his current appointment Councillor Graham was Vice Convener, Finance, Policy and Resources from 17 May 2017 and prior to this Vice Convener , Communities, Housing and Infrastructure. As such a full year disclosure of remuneration has been made.
Note 11:	Councillor Reynolds is also Vice Convener Pensions Committee. Prior to his current appointment Councillor Reynolds was Depute Provost. As such a full year disclosure of remuneration has been made.
Note 12:	Prior to his current appointment Council Donnelly was Convener, Pensions from 17 May to 23 August 2017 and prior to this Vice Convener, Finance, Policy and Resources. As such a full year disclosure of remuneration has been made.
Note 13:	Councillor Boulton is also Convener, Planning Development Management from 17 May 2017. Prior to this Councillor Boulton was Depute Council Leader. As such a full year disclosure of remuneration has been made.
Note 14:	Councillor Stewart is also Vice Convener Planning Development Management from 17 May 2017.
Note 15:	Coucillor Grant is also Regeneration and Transport Spokesperson.
Note 16:	Councillor Duncan is also Vice Convener Public Protection.

Table 5: Remuneration of Senior Employees of the Council

2016/17 Full Time Equivalent £	2016/17 Total Remuneration £	Name	Post Title	2017/18 Full Time Equivalent £	2017/18 Salary, Fees and Allowances £	2017/18 Compensation for Loss of Employment £	2017/18 Total Remuneration * £	Returning Officer Fee Note 1 £	Notes
148,324	153,351	Angela Scott	Chief Executive	149,807	153,801	-	153,801	1,690	
114,853	115,753	Gayle Gorman	Depute Chief Excecutive (Director of Education and Children's Services) (until 3 December 2017)	116,001	85,216	-	85,216	-	
114,853	109,428	Pete Leonard	Depute Chief Executive (Director of Communities, Housing and Infrastructure) (until 3 April 2017)	116,001	46,088	-	46,088	-	2
104,061	116,846	Marc Cole	City Centre Director (until 31 December 2017)	105,102	81,858	4,042	85,900	-	
84,292	84,292	Bernadette Oxley	Chief Social Work Officer	85,135	85,135	-	85,135	-	
114,853	73,787	Gordon McIntosh	Transitioning Director (until 10 August 2016)	-	-	-	-	-	
84,292	89,692	Steven Whyte	Director of Resources (from 1 January 2018)	116,001	92,851	-	92,851	-	3
-	-	Andy MacDonald	Director of Customer Services (from 5 March 2018)	116,001	9,667	-	9,667	-	
-	-	Rob Polkinghorne	Chief Operating Officer (1 from March 2018)	116,001	17,667	-	17,667	-	
84,292	84,792	Fraser Bell	Head of Legal and Democratic Services (Monitoring Officer)	85,135	85,635	-	85,635	-	
80,697	85,948	Ciaran Monaghan	Head of Service, Office of Chief Executive (until 31 October 2017)	81,504	51,692	188,093	239,785	990	4
80,697	144,185	Takki Sulaiman	Head of Communications and Promotion (until 7 May 2017)	81,504	14,293	-	14,293	-	
	1,058,074	**Total**			**723,903**	**192,135**	**916,038**		

*	Some senior employees have carried out duties at Parliamentary Elections held during the year. Remuneration above includes any payment received for these duties.
Note 1:	The total remuneration includes Returning Officer (RO) fees. An RO is the person responsible for administrating a parliamentary election. These duties are separate from any duties undertaken as a local government employee. The total RO fee is regulated by The Scottish Parliament Elections (Returning Officer Fees and Charges) Regulations 2016 (SSI 2016/10). The RO can appoint one or more persons to discharge any or all of the functions of the post but cannot delegate personal responsibility for delivering the election. Angela Scott is the RO for Aberdeen City Council and during 17/18 she delegated some of the RO duties/fees to the Head of Service, Office of Chief Executive and 2 other non senior employees.
Note 2:	The Director of Communities, Housing and Infrastructure post was vacant during 2017/18. The Council commissioned Penna to provide support to fulfil this role at a total cost of £298,280.
Note 3:	Prior to his appointment as Director of Resources, Steven Whyte held the post of Head of Finance (s.95 Officer). As such a full year disclosure of remuneration has been made.
Note 4:	Of the £188,093 shown for compensation for loss of employment £23,656 was paid to Ciaran Monaghan and £164,437 was the strain on the fund cost.

The senior employees included in Table 5 include any Council employee:

- Who has responsibility for management of the Council to the extent that the person has power to direct or control the major activities of the Council (including activities involving the expenditure of money), during the year to which the Report relates whether solely or collectively with other persons;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration, including any remuneration from a Council subsidiary body, is £150,000 or more.

Table 6: Remuneration – the Council's Subsidiary Bodies

2016/17			2017/18				
Total Remuneration £	**Name**	**Post Title**	**Salary, Fees and Allowances £**	**Compensation for Loss of Office £**	**Benefits Other Than in Cash £**	**Total Remuneration £**	**Note**
165,094	Graeme Cumming	Interim Managing Director Aberdeen Exhibition & Conference Centre Ltd (AECC Ltd)	24,725	-	297	25,022	1
92,575	Alistair Robertson	Managing Director Sport Aberdeen Ltd	92,400	-	-	92,400	
95,078	Sandra Ross	Managing Director Bon Accord Support Services Ltd	96,028	-	-	96,028	
352,747	**Total**		**213,153**	**-**	**297**	**213,450**	

Note 1: AECC Ltd ceased to be the operators of the Aberdeen Exhibition and Conference Centre on 31 March 2017. As a result the Company was wound up during 2017/18.

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). Aberdeen City Council is a member of the North East Scotland Pension Fund (NESPF).

Councillors' pension benefits up to 31 March 2015 are based on career average pay. The Councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

From 1 April 2015 the pension is calculated as 1/49th of pensionable pay for each year to 31 March. This is then revalued by the appropriate factor on 1 April and carried forward into the next year.

For local government employees, this is a final salary pension scheme for all service up until 31 March 2015. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. From 1 April 2015 it is a Career Average Revalued Earnings (CARE) scheme where the pension is calculated at 1/49th of the pensionable pay for the year. This is then revalued by the appropriate factor on 1 April and carried forward into the next year.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership.

The tiers and members contribution rates are as follows:

Pensionable pay	Contribution rate 2016/17	Pensionable pay	Contribution rate 2017/18
On earnings up to and including £20,500	5.5%	On earnings up to and including £20,700	5.5%
On earnings above £20,500 and up to £25,000	7.25%	On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,000 and up to £34,400	8.5%	On earnings above £25,300 and up to £34,700	8.5%
On earnings above £34,400 and up to £45,800	9.5%	On earnings above £34,700 and up to £46,300	9.5%
On earnings above £45,800	12%	On earnings above £46,300	12%

Previously, if a person worked part-time, their contribution rate was worked out on the whole-time pay rate for the job with actual contributions paid on actual pay earned. From April 2015 the contribution rate for part timers is worked out on their actual pay and not the whole-time pay rate for the job.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) their annual pension for a lump sum payment up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on $1/49^{th}$ of pensionable pay (from 2009 to 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without a reduction on account of its payment at that age; without exercising any option to commute their 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 necessarily just their current appointment.

The scheme's normal retirement age for both Councillors and employees is their New State Pension Age.

<u>Pension Disclosures</u>:

Table 7: Details of pension contributions made by the Council to the North East Scotland Pension Fund (NESPF) on behalf of Senior Councillors, and their individual pension entitlements as at 31 March 2018.

Table 8: Details of pension contributions made by the Council to the NESPF on behalf of Senior Employees of the Council, and their individual pension entitlements as at 31 March 2018.

Table 9: Details of pension contributions made by the Council's subsidiary bodies i.e. Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd, on behalf of their Senior Employees.

Table 7: Pension Benefits – Senior Councillors

Councillor Name	Responsibility	In-year Pension Contributions by ACC: For year to 31 March 2017 £	In-year Pension Contributions by ACC: For year to 31 March 2018 £	Accrued Pension Benefits	As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
Jennifer Laing	Co Leader of the Council	7,608	7,481	Pension	6	1
				Lump Sum	2	-
Douglas Lumsden	Co Leader of the Council	-	5,101	Pension	1	1
Barney Crockett	Lord Provost (from 17 May 2017)	4,279	5,503	Pension	5	1
				Lump Sum	2	-
Ryan Houghton	Business Manager (from 5 March 2018)	-	3,955	Pension	-	-
Stephen Flynn	Convener, Audit, Risk and Scrutiny	4,814	5,611	Pension	1	-
Jackie Dunbar	Convener, Audit, Risk and Scrutiny (until 11 May 2016)	609	-	Pension	-	(4)
				Lump Sum	-	(2)
Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	4,053	4,233	Pension	4	1
				Lump Sum	2	1
Yvonne Allan	Convener, Staff Governance (from 5 March 18)	4,279	5,503	Pension	5	-
				Lump Sum	2	-
Neil Cooney	Convener, Communities, Housing and Infrastructure (until 16 May 2017)	5,706	537	Pension	7	-
				Lump Sum	2	-
Philip Bell	Vice Convener, Operations (Environmental Spokesman)	-	3,852	Pension	-	-
Freddie John	Vice Convener, Strategic Commissioning (from 5 March 2018)	-	2,526	Pension	-	-
Brett Hunt	Vice Convener, Communities, Housing and Infrastructure (from 17 May 2017 until 23 August 2017)	-	1,534	Pension	-	-
Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure (until 16 May 2017)	4,279	403	Pension	3	-
John Wheeler	Convener, Operational Delivery (from 5 March 2018)	-	5,101	Pension	1	1
Angela Taylor	Convener, Education and Children's Services (until 16 May 2017)	5,706	537	Pension	3	1
Lesley Dunbar	Vice Convener, Education Operational Delivery (from 5 March 2018)	-	3,614	Pension	2	-
Scott Carle	Vice Convener,Education and Children's Services (until 16 May 2017)	4,279	403	Pension	2	-
William Young	Convener, Finance, Policy and Resources (until 16 May 2017)	5,706	537	Pension	4	-
				Lump Sum	2	-
Gordon Graham	Vice Convener, City Growth and Resources	4,279	4,254	Pension	4	-
				Lump Sum	1	-
Ross Thomson	Vice Convener, Finance, Policy and Resources (until 11 May 2016)	486	-	Pension	-	(2)
John Reynolds	Convener, Licensing Committee (from 17 May 2017)	4,279	4,358	Pension	5	-
				Lump Sum	2	-
Alan Donnelly	Depute Provost (from 5 March 2018)	4,279	4,254	Pension	7	2
				Lump Sum	9	-
George Adam	Lord Provost (until 16 May 2017)	5,706	537	Pension	3	1
Marie Boulton	Convener, Capital Programme (from 5 March)	5,706	5,644	Pension	5	1
				Lump Sum	2	-
Ramsay Milne	Convener, Planning Development Management (until 16 May 2017)	4,279	403	Pension	2	-
Jennifer Stewart	Convener, Public Protection	-	4,145	Pension	4	4
				Lump Sum	2	2
Ross Grant	Vice Convener, Operations Deliver (from 5 March 2018)	4,279	4,254	Pension	3	1
Sarah Duncan	NHS/Social Care Integration Joint Board & Social Care Spokesperson (from 17 May 2017)	-	3,852	Pension	-	-
Claire Imrie	Mental Health Spokeperson (from 5 March 2018)	-	311	Pension	-	-
Total		**84,611**	**88,443**	**Pension**	**77**	**9**
				Lump Sum	**28**	**1**

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Table 8: Pension Benefits – Senior Employees

Name	Post Title	In-year Pension Contributions by ACC: For year to 31 March 2017 £	In-year Pension Contributions by ACC: For year to 31 March 2018 £	Accrued Pension Benefits	As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
Angela Scott	Chief Executive	28,627	28,913	Pension	65	4
Gayle Gorman	Depute Chief Excecutive (Director of Education and Children's Services) (until 3 December 2017)	22,167	15,106	Pension	11	2
Pete Leonard	Depute Chief Executive (Director of Communities, Housing and Infrastructure)	22,167	1,847	Pension Lump Sum	41 74	- -
Marc Cole	City Centre Director (until 31 December 2017)	20,620	15,214	Pension	4	1
Bernadette Oxley	Chief Social Work Officer	16,268	16,431	Pension	40	7
Gordon McIntosh	Transitioning Director (until 10 August 2016)	7,985	-	Pension Lump Sum	- -	(37) (250)
Steven Whyte	Director of Resources (from 1 January 2018)	16,268	17,872	Pension Lump Sum	30 45	4 4
Andy MacDonald	Director of Customer Services (from 5 March 2018)	-	1,866	Pension	-	-
Rob Polkinghorne	Chief Operating Officer (1 from March 2018)	-	1,866	Pension	-	-
Fraser Bell	Head of Legal and Democratic Services (Monitoring Officer)	16,268	16,431	Pension	12	2
Ciaran Monaghan	Head of Service, Office of Chief Executive (until 31 October 2017)	15,575	9,176	Pension Lump Sum	38 78	1 1
Takki Sulaiman	Head of Communications and Promotion	15,575	1,591	Pension	4	-
TOTAL		**181,520**	**126,313**	**Pension** **Lump Sum**	**245** **197**	**(16)** **(245)**

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment. This may be enhanced in some cases where the employee has transferred in a previous pension from another pension scheme.

Table 9: Pension Benefits – the Council's Subsidiary Bodies

Name	Post Title	In-year Pension Contributions For year to 31 March 2017 £	In-year Pension Contributions For year to 31 March 2018 £	Accrued Pension Benefits	Accrued Pension Benefits As at 31 March 2018 £'000	Accrued Pension Benefits Difference from 31 March 2017 £'000	Note
Graeme Cumming	Interim Managing Director, Aberdeen Exhibition & Conference Centre Ltd	13,846	3,462		n/a	n/a	1
Alistair Robertson	Managing Director, Sport Aberdeen Ltd	8,640	8,640	Pension	49	2	
Sandra Ross	Managing Director, Bon Accord Support Services Ltd	14,452	14,596	Pension	9	2	
Total		**36,938**	**26,698**	**Total**	**58**	**4**	

Note 1: Aberdeen Exhibition & Conference Centre Ltd contributed towards a money purchase pension scheme and therefore all the benefits that may become payable are retirement benefits, the rate and amount of which is calculated by reference to the payments made by the person (or on behalf of the person) and which are not average salary benefits. As a result no accrued pension benefits are shown.

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

29 June 2018

PRIMARY FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement on the different reserves held by the Council analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund Balance £'000	Housing Revenue Account £'000	Statutory and Other Reserves £'000	Capital Grants Unapplied Account £'000	**Total Usable Reserves £'000**	Total Unusable Reserves £'000	**Total Council Reserves £'000**
Balance at 1 April 2016	**(58,856)**	**(10,808)**	**(30,102)**	**(97)**	**(99,863)**	**(1,424,884)**	**(1,524,747)**
Movement in Reserves during 2016/17							
Total Comprehensive Income & Expenditure	37,672	20,925	0	97	**58,694**	(26,924)	**31,770**
Adjustments between accounting basis & funding basis under regulations (note 5)	(24,901)	(21,425)	250	0	**(46,076)**	46,076	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**12,771**	**(500)**	**250**	**97**	**12,618**	**19,152**	**31,770**
Transfers to/from Other Statutory Reserves (note 6)	(4,391)	0	4,245	0	**(146)**	146	**0**
(Increase)/Decrease in 2016/17	**8,380**	**(500)**	**4,495**	**97**	**12,472**	**19,298**	**31,770**
Balance at 31 March 2017 carried forward	**(50,476)**	**(11,308)**	**(25,607)**	**0**	**(87,391)**	**(1,405,587)**	**(1,492,976)**

	General Fund Balance £'000	Housing Revenue Account £'000	Statutory and Other Reserves £'000	Capital Grants Unapplied Account £'000	**Total Usable Reserves £'000**	Total Unusable Reserves £'000	**Total Council Reserves £'000**
Balance at 31 March 2017 brought forward	**(50,476)**	**(11,308)**	**(25,607)**	**0**	**(87,391)**	**(1,405,587)**	**(1,492,976)**
Movement in Reserves during 2017/18							
Total Comprehensive Income & Expenditure	58,844	14,159	0	0	**73,003**	39,900	**112,903**
Adjustments between accounting basis & funding basis under regulations (note 5)	(27,328)	(14,659)	(1,523)	0	**(43,510)**	43,510	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**31,516**	**(500)**	**(1,523)**	**0**	**29,493**	**83,410**	**112,903**
Transfers to/(from) Reserves	(21,737)	0	13,670	0	**(8,067)**	4,251	**(3,816)**
(Increase)/Decrease in Year	**9,779**	**(500)**	**12,147**	**0**	**21,426**	**87,661**	**109,087**
Balance at 31 March 2018	**(40,697)**	**(11,808)**	**(13,460)**	**0**	**(65,965)**	**(1,317,926)**	**(1,383,891)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with IFRS.

2016/17				2017/18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
239,120	(9,788)	229,332	Education & Childrens Services	246,825	(10,968)	235,857
178,354	(75,845)	102,509	Communities, Housing & Infrastructure	159,950	(61,594)	98,356
218,707	(130,544)	88,163	Integration Joint Board/Social Work	220,697	(135,970)	84,727
58,044	(57,408)	636	Housing Benefits	57,389	(55,784)	1,605
39,109	(4,447)	34,662	Corporate & Miscellaneous	60,657	(13,902)	46,755
37,849	(11,433)	26,416	Corporate Governance	45,686	(11,707)	33,979
5,761	(2,443)	3,318	Office of the Chief Executive	4,852	(1,708)	3,144
111,692	(87,565)	24,127	Housing Revenue Account	103,054	(86,431)	16,623
(37,946)	37,946	0	Elimination of Internal Transactions	(38,077)	38,077	0
850,690	**(341,527)**	**509,163**	**Cost of Services**	**861,033**	**(339,987)**	**521,046**
0	(2,831)	(2,831)	Other Operating Expenditure (note 8)	0	(1,273)	(1,273)
79,191	(46,534)	32,657	Financing and Investment Income and Expenditure (note 9)	89,336	(51,928)	37,408
0	(480,392)	(480,392)	Taxation and Non Specific Grant Income (note 10)	0	(484,178)	(484,178)
929,881	**(871,284)**	**58,597**	**(Surplus) or Deficit on Provision of Services**	**950,369**	**(877,366)**	**73,003**
		(14,575)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(1,532)
		404	(Surplus)/deficit on revaluation of available for sale financial assets			580
		(12,607)	Actuarial (gains)/losses on pension assets/liabilities			36,188
		(49)	Other (gains)/losses			4,664
		(26,827)	**Other Comprehensive Income and Expenditure**			**39,900**
		31,770	**Total Comprehensive Income and Expenditure**			**112,903**

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council.

1 April 2016 £'000	31 March 2017 £'000		Note	31 March 2018 £'000
2,139,615	2,238,305	Property, Plant & Equipment	29	2,311,324
172,092	172,756	Heritage Assets	28	197,370
85,937	85,335	Investment Property	26	148,592
31	0	Intangible Assets	27	0
19,061	18,656	Long Term Investments	39	18,076
19,577	7,311	Long Term Debtors	39	8,222
2,436,313	**2,522,363**	**Long Term Assets**		**2,683,584**
28,375	181,145	Cash and Cash Equivalents	17	56,202
31,119	141,227	Short Term Investments	39	98,705
60,080	78,677	Short Term Debtors	34	77,292
1,674	1,645	Inventories	33	1,174
3,979	5,382	Assets Held for Sale	32	6,198
125,227	**408,076**	**Current Assets**		**239,571**
(113,348)	(81,351)	Short Term Borrowing	39	(79,435)
(87,672)	(90,364)	Short Term Creditors	35	(78,245)
(3,870)	(4,233)	Short Term Provisions	36	(5,758)
(2,478)	(2,611)	PPP Short Term Liabilities	31	(3,222)
(5,618)	(5,515)	Accumulated Absences Account	13	(5,607)
(521)	(473)	Grants Receipts in Advance - Revenue	38	(578)
(2,221)	(518)	Grants Receipts in Advance - Capital	38	(7,855)
(215,728)	**(185,065)**	**Current Liabilities**		**(180,700)**

1 April 2016 £'000	31 March 2017 £'000		Note	31 March 2018 £'000
(464,892)	(900,871)	Long Term Borrowing	39	(890,982)
0	0	Finance Lease	25	(58,793)
(223)	(108)	Long Term Creditors	39	(108)
(1,248)	(679)	Long Term Provisions	36	(679)
(103,584)	(100,973)	PPP Long Term Liabilities	31	(97,751)
(251,118)	(249,767)	Pension Liabilities	22	(310,251)
(821,065)	**(1,252,398)**	**Long Term Liabililties**		**(1,358,564)**
1,524,747	**1,492,976**	**Net Assets**		**1,383,891**
		Usable Reserves:	12	
(58,856)	(50,476)	General Fund Balance		(40,697)
(10,808)	(11,308)	Housing Revenue Account		(11,808)
(30,102)	(25,605)	Statutory and Other Reserves		(13,460)
(97)	0	Capital Grants Unapplied Account		0
(1,424,884)	(1,405,587)	Unusable Reserves	13	(1,317,926)
(1,524,747)	**(1,492,976)**	**Total Reserves**		**(1,383,891)**

Steven Whyte, FCPFA
Director of Resources

29 June 2018

Cash Flow Statement

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2016/17 £'000		2017/18 £'000
(58,597)	Net Surplus or (Deficit) on the provision of services	(73,003)
137,933	Adjust net surplus or deficit on the provision of services for non cash movements	139,785
(54,546)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(37,268)
24,790	Net cash flows from Operating Activities (note 14)	29,514
(273,495)	Net cash flows from Investing Activities (note 15)	(123,402)
401,475	Net cash flows from Financing Activities (note 16)	(31,055)
152,770	Net increase or (decrease) in cash and cash equivalents	(124,943)
28,375	Cash and cash equivalents at the beginning of the reporting period	181,145
181,145	**Cash and cash equivalents at the end of the reporting period (note 17)**	**56,202**

Notes to the Accounts

1. Accounting Policies

i General Principles

The Annual Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year ending 31 March 2018. The Council is required to prepare Annual Accounts under the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

ii Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the 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;
- Revenue 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 those rendered by the Council's officers) 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 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 revenue 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.

Where the Council is acting as an agent for another party (e.g. in the collection of National Non Domestic Rates and Water Charges), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

iii Carbon Reduction Commitment Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The CRC is a mandatory cap and trade emissions trading scheme for organisations whose electricity consumption is greater than 6000MWh or approximately £500k. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

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

v Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service; and
- 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.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by loans fund principal charges in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi Employee Benefits

<u>Benefits Payable during Employment</u>

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

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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements 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.

Post Employment Benefits

Employees of the Council can be members of two separate pension schemes:

- the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency on behalf of the Scottish Government; and
- the Local Government Pension Scheme (referred to as NESPF), 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 – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Childrens Services line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits 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 method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6%.
- The assets of the North East Scotland Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price; and
  - property – market value.

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

- Service cost comprising:

  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs; and

  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure Statement;

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to 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 Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

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.

vii Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are approved. 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 is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Annual Accounts is 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.

viii Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 originally recognised.

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). The interest charged to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

The Council has provided a number of financial guarantees which are reflected as a contingent liability and disclosed as a note to the annual accounts. A suitable value is earmarked from the General Fund Balance to provide financial backing in the event of there being a call on these guarantees.

ix Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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 then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 – except for the Council's Small Business Loan Scheme) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available for Sale Assets

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Reserve within useable reserves and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available for Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

x 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 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 Comprehensive Income and Expenditure Statement.

xi 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 Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. 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.

xii Heritage Assets

The Council's Heritage Assets are held primarily in the City's Art Gallery and Museums. There are eight collections of heritage assets which are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the local area and its history. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's collections of heritage assets are accounted for as follows:

- **Fine Art & Applied Art Collection**

The Art collection includes paintings (both oil and watercolour), installations and sculptures, decorative and applied art including silver, ceramics and glass etc and is reported in the Balance Sheet at valuation. There is no periodic programme of valuations although items in the collection are prompted for revaluation when they are loaned to exhibitions or if a similar item is sold at auction. The Council's Art Gallery and Museums' curators value the items and base this on commercial valuation. In 2017/18 five of the highest value assets were revalued by external valuers to gain further assurance on their values. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation as provided by the Curators with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

- **Civic Insignia**

The collection of Civic Insignia includes items utilised by the Lord and Lady Provost in their official capacity. These items are reported in the Balance Sheet at insurance valuation which is based on valuation. These insurance valuations are updated on an ad hoc basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the Art Gallery and Museum's curators in accordance with the Council's policy on valuations of Civic Insignia. Subsequent measurement is based on insurance valuation performed in line with the Council's Policy.

- **Archaeology**

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet. The Council's acquisitions are well focused with the aim of reflecting the extraordinarily rich archaeological heritage of Aberdeen and the North East of Scotland. Future collecting will largely be due to continued excavation in Aberdeen City. The Council does not (normally) make any purchases of archaeological items.

- **Library and Information Services**

The collection of reference items which could be deemed to be held and maintained principally for their contribution to knowledge and culture include historical book collections, directories and local newspaper archives. The collection is not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £500 and as far as the Council is aware no individual item is worth more than £2,000.

- **Other Heritage Assets**

Collections outwith those stated above are reported in the Balance Sheet at valuation where possible as determined by the curator. This includes city monuments, maritime & social history, numismatics and science technology & industry. Acquisitions are rare and most additions are due to donations which are accepted provided suitable storage is available. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museum's curators in accordance with the Council's policy on valuations of heritage assets.

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 xxi in this summary of significant accounting policies. Disposal of heritage assets is carried out occasionally following the procedures outlined in the Acquisition and Disposal Policy, approved by the Education Culture and Sport committee on 16 October 2010. The Policy also sets out that disposals of assets in the collections are the responsibility of the governing body of the museum acting on the advice of professional curatorial staff and will only be disposed of after considering the public interest and implication for the museum's collections. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the annual accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see notes xxi in this summary of significant accounting policies).

xiii 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) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised).

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 only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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 Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

xiv Interests in Companies and Other Entities

The Council has material interests in companies and other entities. In line with the level of Control that the Council exerts over these entities, they can be classified as Subsidiaries, Associates and Joint Ventures. The Coucil is required to prepare Group Accounts incorporating all of these entities. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at net worth.

xv Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value except for the inventories held by Building Services and Roads Services which are valued at latest price and average price respectively. The difference between these valuations and the lower of cost or net realisable value is not material.

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.

xvi 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. 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 Comprehensive Income and Expenditure Statement. 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 Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

xvii Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

xviii 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, plant or equipment 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.

<u>The Council as Lessee</u>

Finance Leases

Property, Plant and Equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment.

<u>The Council as Lessor</u>

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

xix Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

xx 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 of for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

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. For the purposes of component accounting, in line with the methodology of Social Housing, additions to Council Dwellings will be discounted at an appropriate rate. The beacon discount factor is determined by comparing the Investment Value to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. 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.

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 where there is a legal obligation.

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

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

- infrastructure and vehicles, plant and equipment – depreciated historical cost;
- community assets – historical cost or nominal value;
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- specialised properties – depreciated replacement cost (DRC);
- non-financial assets e.g. surplus assets and investment properties – fair value*; 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).

**Fair Value*

*Valuation Technique – All assets have been valued based on Level 2 of the Fair Value Hierarchy**. This uses significant observable inputs.*

There has been no change in the valuation techniques used during the year for either Investment Properties or Surplus Assets.

***Significant Observable Inputs – Level 2*

Fair value has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

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.

Where decreases in value are identified, the revaluation loss is accounted for by:

- 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 insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

<u>Impairment</u>

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:

- 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 insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Disposals and Assets Held for Sale

When an asset is no longer held for the purposes of generating cash flows it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value. 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 Comprehensive Income and Expenditure Statement. Gains in fair value are recognised in the Comprehensive Income and Expenditure Statement only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

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

Disposals

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 Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement 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. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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 in the Movement in Reserves Statement.

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).

Depreciation is not applied to an asset in the year of acquisition, revaluation nor to expenditure on assets under construction. Assets that are disposed of are fully depreciated in the year of disposal.

Deprecation is calculated on the following bases:

- council dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer; and
- infrastructure and vehicles, plant and equipment – straight-line allocation over the useful life as estimated by management.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

xxi Public Private Partnerships (PPP) and Similar Contracts

PPP and similar 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 PPP contractor. As the Council is deemed to control the services that are provided under its PPP 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.

PPP 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 PPP operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- 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 Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

xxii Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u>

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be exposed to liabilities from court cases that could eventually result in the making of a settlement or the payment of compensation, e.g. equal pay claims, or consider that over time the collection of income will become more difficult and thereby fail to secure the full value of the debt, or may have made a decision in relation to changes in service delivery from which costs arise, e.g. redundancy costs.

Estimation techniques are based on previous experience, prevailing economic conditions, aged analysis, expert and specialist advice and current data held by the Council.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement 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.

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.

Contingent Assets

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

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

xxiii Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to set against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement 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 and retirement benefits that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiv Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

The Council has in the past taken advantage of ‘Consent to Borrow’ given by Scottish Ministers under Para1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 to cover equal pay and statutory redundancy costs up to strictly defined limits. The repayment period is 10 years.

xxv 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.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFRS 9 Financial Instruments - introduces changes to the classification and measurement of financial assets, and a new Expected Credit Loss Model for impairing financial assets. The impact will be to reclassify assets that are currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets.

- IFRS 15 Revenue From Contracts with Customers – this standard provides new requirements for the recognition of revenue, based on a principle-based revenue recognition model. This amendment is not expected to have a significant impact on the 2018/19 accounts.

- Amendements to IAS 12 Income Taxes: recognition of Deferred Tax Assets for Unrealised Losses - applies to deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7 Statements of Cash Flows: Disclosure Initiative – this amendment will involve further disclosure of Cash Flows from Financing Activities with effect from 2018/19. This amendment is not expected to have a significant impact on the 2018/19 accounts.

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 judgements made in these Annual Accounts are:

- 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 of a need to close facilities and reduce levels of service provision; and

- The Council is deemed to control the services provided under the Public Private Partnership arrangements that it has for the 3R's (Reorganise, Renovate, Rebuild) schools project and also to control the residual value of the schools at the end of the agreement. The accounting policies for PPP schemes and similar contracts have been applied to the arrangement and the schools (net value £169.7 million) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

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 made.

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:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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. If the Council were to reduce its spending on repairs and maintenance it could bring into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. For example, it is estimated that for a building worth £30 million with a useful life of 35 years, the annual depreciation charge would increase by £25,210 if the useful life had to be reduced by one year.
Council Dwellings – Housing Stock	Council dwellings are valued combining the Beacon Method which aggregates the vacant possession values of each unit of housing stock and the investment approach where the gross rental income is capitalised adopting an appropriate investment yield. The beacon discount factor is determined by comparing the Investment Value to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The investment yield applied is 8.75%.	If the investment yield is increased by 0.25%, this would lead to a corresponding decrease in the total value of council dwellings of £25.6m. If the investment yield is reduced by 0.25%, this would lead to a corresponding increase in the total value of council dwellings of £27.2m.
Aberdeen City Council Bond	The Council undertook a bond issuance from the Debt Capital Markets in November 2016. £370 million of index-linked bonds were issued to investors. The outstanding bonds are subject to indexation, which is based on movements in the Retail Price Index (RPI).	The amount of principal and interest to be paid is therefore dependent on changes in RPI. For example, a 1% increase in the rate of RPI compared to the prevailing rate would result in an annual increase of £0.4 million in amounts repayable.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £28.4 million. However, if another assumption were increased, e.g. pay inflation, by 0.1% then this would result in an increase in the pension liability of £28.9 million. The interaction of assumptions is therefore extremely complex. See note 22 for further assumptions.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2018 the Council had a balance of short term debtors of £129.357 million. A review of significant balances suggested that an allowance for impairment of debt of £54.657 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 2% on impairment would require a further provision of £2.587 million.

5. **Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

2016/17	**Usable Reserves**					
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Statutory & Other Reserves £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Movement in Unusable Reserves £'000**
Adjustments involving the Capital Adjustment Account (CAA):						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	(40,417)	(27,922)	0	0	0	68,339
Revaluation losses on Property, Plant and Equipment	(25,056)	(32,373)	0	0	0	57,429
Capital grants and contributions applied	36,663	6,736	0	0	0	(43,399)
Write off carrying amount of non current assets sold	(510)	(7,474)	0	0	0	7,984
Write off carrying amount of non current assets scrapped	(2,015)	0	0	0	0	2,015
Statutory provision for the financing of Capital spend (3R's)	2,478	0	0	0	0	(2,478)
Movement in the fair value of Investment Properties	(57)	0	0	0	0	57
Amortisation of Intangible Assets	(31)	0	0	0	0	31
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Loan principal repayments during the year	10,599	6,001	0	0	0	(16,600)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	3,580	22,913	0	0	0	(26,493)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	250	11,289	0	(11,539)
Proceeds from sale of non current assets	860	11,079	0	(11,939)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset disposals	(630)	(20)	0	650	0	0
Adjustments involving the Capital Grants Unapplied Account:						
Adjustments involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	426	0	0	0	0	(426)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(40,405)	(1,444)	0	0	0	41,849
Employer's pensions contributions and direct payments to pensioners payable in the year	29,525	1,068	0	0	0	(30,593)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	89	11	0	0	0	(100)
Total Adjustments	**(24,901)**	**(21,425)**	**250**	**0**	**0**	**46,076**

2017/18	Usable Reserves					
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Statutory & Other Reserves £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Movement in Unusable Reserves £'000**
Adjustments involving the Capital Adjustment Account (CAA):						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	(41,549)	(29,106)	0	0	0	70,655
Revaluation losses on Property, Plant and Equipment	(13,607)	(26,574)	0	0	0	40,181
Capital grants and contributions applied	37,067	11,079	0	0	0	(48,146)
Write off carrying amount of non current assets sold	(1,403)	(3,054)	0	0	0	4,457
Write off carrying amount of non current assets scrapped	(6,754)	0	0	0	0	6,754
Statutory provision for the financing of Capital spend (3R's)	2,611	0	0	0	0	(2,611)
Movement in the fair value of Investment Properties	4,651	0	0	0	0	(4,651)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Loan principal repayments during the year	13,527	7,034	0	0	0	(20,561)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	(191)	22,496		0	0	(22,305)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(1,523)	5,746	0	(4,223)
Proceeds from sale of non current assets	1,732	4,555	0	(6,287)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset	(80)	(461)	0	541	0	0
Adjustments involving the Capital Grants Unapplied Account:						
Adjustments involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	427	0	0	0	0	(427)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(56,667)	(1,753)	0	0	0	58,420
Employer's pensions contributions and direct payments to pensioners payable in the year	32,979	1,146	0	0	0	(34,125)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	(71)	(21)	0	0	0	92
Total Adjustments	**(27,328)**	**(14,659)**	**(1,523)**	**0**	**0**	**43,510**

6. Movement in Reserves Statement – Transfers to/from Earmarked Reserves and Other Statutory Funds

Earmarked Reserves: This note sets out the amounts set aside from the General Fund and HRA balances as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet future General Fund and HRA expenditure.

	Balance at 1 April 2016 £'000	Transfers in 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Purpose of the Earmarked Reserve
General Fund:								
ICT Projects -	(1,606)	0	790	(816)	0	816	0	Investment in ICT projects
Business Plan Service Option	(509)	0	286	(223)	0	70	(153)	Investment regarding delivery of 5 year business plan
Star Awards Sponsorship	(25)	(19)	19	(25)	(18)	18	(25)	Through procurement team, rebates paid by suppliers for sales volumes. Agreed that this funding would be used to fund the Star Awards, which take place each year
Events Review	(23)	0	23	0	0	0	0	To fund an events review, and development of a 3 - 5 year strategy
Employee Benefit Scheme	(77)	0	0	(77)	0	77	0	For marketing the Employee Benefit Scheme
H&S Training Programme for Managers	(25)	0	25	0	0	0	0	Health & Safety Training Programme for Managers
Xerox Print Contract	0	(317)	0	(317)	0	217	(100)	2016/17 rebate from Xerox to fund various Data projects
Events - Silver City Stories	0	(8)	0	(8)	0	8	0	Marketing for Silver City Stories Income received by Events Team during 2016/17
Mither Kirk Reburial of Remains	0	0	0	0	(38)	0	(38)	Reburial of Human Remains
City Deal	(300)	0	81	(219)	0	219	0	Funding to support the city deal scheme
Fairer Aberdeen	(36)	0	36	0	0	0	0	Unspent funding to be utilised for Community Planning Aberdeen
Energy Efficiency Fund	(1,224)	0	489	(735)	(411)	0	(1,146)	Pump-prime funding for energy saving schemes
Road Repairs/Projects	(125)	0	125	0	0	0	0	Road repair and maintenance
Bus Lane Enforcement	(1,290)	(1,087)	1,788	(589)	(420)	118	(891)	As required by the relevant legislation, net income from Bus Lane Enforcement to facilitate the objective's of the Local Transport Strategy
Property Transfer	(155)	0	3	(152)	0	23	(129)	Funding in relation to the transfer of Thomas Blake Glover House to the Council
Sub Total	**(5,395)**	**(1,431)**	**3,665**	**(3,161)**	**(887)**	**1,566**	**(2,482)**	

	Balance at 1 April 2016 £'000	Transfers in 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Purpose of the Earmarked Reserve
General Fund Cont'd:	**(5,395)**	**(1,431)**	**3,665**	**(3,161)**	**(887)**	**1,566**	**(2,482)**	
Second/Long Term Empty Homes	(6,898)	(1,872)	1,969	(6,801)	(1,503)	0	(8,304)	Additional income generated by reducing the discounts which is to be used towards funding affordable housing.
Park Improvement Schemes	(106)	0	106	0	0	0	0	Various Park Improvements
Hazlehead Pets Corner	(100)	0	100	0	0	0	0	Renovation and expansion of Hazlehead Pets Corner
Duthie Park, Winter Gardens Education Room	(39)	0	39	0	0	0	0	Work on David Welch Winter Gardens Education Room at Duthie Park
Mens Shed	(7)	0	2	(5)	0	0	(5)	Contribution to Men's Shed social club, Dyce
Balnagask Community Centre	(5)	0	5	0	0	0	0	Internal improvement scheme
Community Planning	(24)	0	15	(9)	0	9	0	Community Planning Participatory Budgeting
Devolved Education Management (Community Centres)	(870)	0	272	(598)	0	36	(562)	Community Education Centres c/forward
Devolved Education Management (School Funds)	(2,760)	0	1,903	(857)	(136)	0	(993)	School funds c/forward
Music Hall Redevelopment	(800)	0	0	(800)	0	800	0	To contribute towards the redevelopment of the Music Hall
HMT Roof Works	(288)	0	0	(288)	0	162	(126)	HMT Roof Works
Reclaiming Social Work	(3,267)	0	1,837	(1,430)	0	1,430	0	Contribution towards cost of Reclaiming Social Work project
Hilton Outdoor Centre	(25)	0	25	0	0	0	0	Improvements to outdoor area
Developing Young Workforce	(300)	0	234	(66)	0	66	0	To prepare young adults for the transition from education to the workplace
School Drive/Abbotswell	(29)	0	29	0	0	0	0	For adaptations to the school drive service.
De-risk the Council	(2,872)	0	217	(2,655)	0	150	(2,505)	Cash backing for Council guarantees to external organisations
Welfare Reform	(2,000)	0	2,000	0	0	0	0	Recognised priority of the Council and additional risk associated with being uncertain about the full financial impact on the Council
Scottish Welfare Fund	(35)	0	35	0	0	0	0	Unspent funding to be utilised in 2016/17 as per advice from the Scottish Government
Pupil Equity Fund	0	0	0	0	(1,621)	0	(1,621)	Scottish Government Grant to raise attainment in Schools
18/19 GRG Redetermination	0	0	0	0	(1,211)	0	(1,211)	Scottish Government Grant issued during 2017/18 carried forward to 2018/19
Investment Strategy (Digital Strategy)	(1,350)	0	684	(666)	0	666	0	ICT Digital Strategy
Sub Total	**(27,170)**	**(3,303)**	**13,137**	**(17,336)**	**(5,358)**	**4,885**	**(17,809)**	

	Balance at 1 April 2016 £'000	Transfers in 2016/17 £'000		Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Purpose of the Earmarked Reserve
General Fund Cont'd:	**(27,170)**	**(3,303)**		**13,137**	**(17,336)**	**(5,358)**	**4,885**	**(17,809)**	
Investment Strategy	0	(4,335)	*	0	(4,335)	0	4,335	0	Funding set aside towards the future investment strategy of the Council
Transformation Fund	(18,309)			3,331	(14,978)		3,746	(11,232)	Funding set aside towards the ongoing transformation of the Council
VS/ER	0	(5,976)		0	(5,976)	0	5,976	0	Funding set aside towards Voluntary Severance & Early Retirement
Revenue Grants Unspent	(1,380)	(530)		1,451	(459)	0	446	(13)	Various revenue grants that remained unspent at year end to which no repayment conditions apply
Big Belly Bins	(105)	0		105	0	0	0	0	To finance the next phase of city centre bin investment in partnership with Aberdeen Inspired
Building Services IT Upgrade	0	(148)		0	(148)	0	70	(78)	Equipment identified as having the specifications that are required for business/service needs, and to help drive forward productivity and efficiencies with in mobile working
Various Projects	(601)	0		313	(288)	0	107	(181)	Provide funding to support a variety of projects
Total General Fund	**(47,565)**	**(14,292)**		**18,337**	**(43,520)**	**(5,358)**	**19,565**	**(29,313)**	
* Restated figure for Bond adjustment in 2016/17									

	Balance at 1 April 2016 £'000	Transfers in 2016/17 £'000		Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Purpose of the Earmarked Reserve
Housing Revenue Account (HRA):									
Housing repairs	(1,193)	(1,326)		1,193	(1,326)	(1,854)	1,326	(1,854)	Repairs ordered prior to the year end
House Sales - Non right to buy	(245)	0		0	(245)	(309)	246	(308)	One-off vacant properties sold on the open market
Total HRA	**(1,438)**	**(1,326)**		**1,193**	**(1,571)**	**(2,163)**	**1,572**	**(2,162)**	
Total Earmarked Reserves	**(49,003)**	**(16,002)**		**19,914**	**(45,091)**	**(7,521)**	**21,137**	**(31,475)**	

2016/17	General Fund £'000	HRA £'000
Total Transfers in during the year	(9,957)	(1,326)
Total Transfers out during the year	18,337	1,193
Net Movement in Earmarked Reserves in 2016/17	**8,380**	**(133)**

2017/18	General Fund £'000	HRA £'000
Total Transfers in during the year	(5,358)	(2,163)
Total Transfers out during the year	19,565	1,572
Net Movement in Earmarked Reserves in 2017/18	**14,207**	**(591)**

Other Statutory Funds: The Council holds a number of other statutory funds. This note sets out the amounts held and a summary of transactions undertaken in the financial year.

Name of Fund	Balance at 1 April 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Purpose of the Earmarked Reserve
Capital	(27,952)	(1,215)	5,465	(23,702)	(11,850)	23,758	(11,794)	To meet the capital expenditure and the repayment of the principal on loans
Insurance	(1,802)	(207)	451	(1,558)	(135)	354	(1,339)	To meet the cost of uninsured claims
City Improvement	(343)	(3)	6	(340)	(2)	6	(336)	To meet the cost of carrying out improvements to the city as decided by the Council
Lord Byron	(5)	0	0	(5)	0	0	(5)	To meet the costs of maintaining Lord Byron's statue
Total Statutory and Other Funds	**(30,102)**	**(1,425)**	**5,922**	**(25,605)**	**(11,987)**	**24,118**	**(13,474)**	

7. **Expenditure and Funding Analysis**

The Expenditure and Funding Analysis shows how the expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17				2017/18		
Net Expenditure chargeable to GF & HRA balances £'000	**Adjustments between funding & Accounting basis**	**Net Expenditure in the CIES £'000**	**Services**	**Net Expenditure chargeable to GF & HRA balances £'000**	**Adjustments between funding & Accounting basis**	**Net Expenditure in the CIES £'000**
210,889	18,443	229,332	Education & Childrens Services	214,062	21,794	235,856
77,487	25,022	102,509	Communities, Housing & Infrastructure	83,863	14,493	98,356
86,295	1,868	88,163	Integration Joint Board/Social Work	83,319	1,408	84,727
636	0	636	Housing Benefits	1,605	0	1,605
30,385	4,277	34,662	Corporate & Miscellaneous	39,849	6,906	46,755
25,387	1,029	26,416	Corporate Governance	24,556	9,423	33,979
3,285	33	3,318	Office of the Chief Executive	2,979	165	3,144
(500)	24,627	24,127	Housing Revenue Account	(9,960)	26,584	16,624
433,864	**75,299**	**509,163**	**Net Cost of Services**	**440,273**	**80,773**	**521,046**
(425,975)	(24,591)	(450,566)	Other Income and Expenditure	(407,774)	(40,270)	(448,044)
7,889	50,708	58,597	**(Surplus) or Deficit on Provision of Services**	32,499	40,503	73,002
(69,665)			Opening General Fund and HRA Balance at 31 March 2017	(61,784)		
7,889			(Surplus)/deficit on General Fund and HRA Balance in Year	32,499		
(8)			To/From Other Statutory Reserves	(23,220)		
(61,784)			**Closing General Fund and HRA Balance at 31 March 2018**	(52,505)		

Note 7. Expenditure & Funding Analysis - Adjustments between Funding and Accounting Basis 2016-17

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Education & Childrens Services	22,412	805	(4,774)	18,443
Communities, Housing & Infrastructure	31,874	780	(7,632)	25,022
Integrated Joint Board/Social Work	1,658	233	(23)	1,868
Housing Benefits	0	0	0	0
Corporate and Miscellaneous Services	40	21	4,216	4,277
Corporate Governance	915	843	(729)	1,029
Children's Social Work	0	41	(8)	33
HRA	60,295	89	(35,757)	24,627
Net Cost of Services	**117,194**	**2,812**	**(44,707)**	**75,299**
Other Income and Expenditure from the Funding Analysis	(38,032)	8,444	4,997	(24,591)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit	79,162	11,256	(39,710)	50,708

Expenditure & Funding Analysis - Adjustments between Funding and Accounting Basis 2017/18

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Education & Childrens Services	23,056	3,895	(5,157)	21,794
Communities, Housing & Infrastructure	18,907	3,721	(8,135)	14,493
Integrated Joint Board/Social Work	414	1,137	(143)	1,408
Housing Benefits	0	0	0	0
Corporate and Miscellaneous Services	6,783	120	3	6,906
Corporate Governance	2,192	7,919	(688)	9,423
Office of the Chief Executive	0	163	2	165
HRA	55,681	412	(29,509)	26,584
Net Cost of Services	**107,033**	**17,367**	**(43,627)**	**80,773**
Other Income and Expenditure from the Funding Analysis	(46,123)	6,929	(1,075)	(40,269)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit	**60,910**	**24,296**	**(44,702)**	**40,504**

8. Comprehensive Income & Expenditure Statement - Other Operating Expenditure

2016/17 £'000		2017/18 £'000
(2,831)	Gains on the disposal on non current assets	(1,273)
(2,831)	**Total**	**(1,273)**

9. Comprehensive Income & Expenditure Statement - Financing and Investment Income and Expenditure

2016/17 £'000		2017/18 £'000
35,072	Interest payable and similar charges	45,496
8,224	Pensions interest cost and expected return on pensions assets	5,818
(771)	Interest receivable and similar income	(1,450)
(5,900)	Income and Expenditure in relation to investment properties and changes in their fair value	(9,696)
(3,968)	Other Investment income	(2,760)
32,657	**Total**	**37,408**

10. Comprehensive Income & Expenditure Statement - Taxation and Non Specific Grant Income

2016/17 £'000		2017/18 £'000
(104,192)	Council Tax Income	(110,472)
(217,418)	Non domestic rates	(205,547)
(115,384)	Non ring-fenced government grants	(120,013)
(43,398)	Capital grants and contributions	(48,146)
(480,392)	**Total**	**(484,178)**

11. **Comprehensive Income and Expenditure Statement – Material Items of Income and Expense**

There are no material items for 2017/18.

12. **Balance Sheet – Usable Reserves**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

13. **Balance Sheet – Unusable Reserves**

31 March 2017 £'000		**31 March 2018 £'000**
(1,006,602)	Revaluation Reserve	(977,286)
141	Available for Sale Financial Instruments Reserve	721
(670,290)	Capital Adjustment Account	(672,674)
15,882	Financial Instruments Adjustment Account	15,455
249,767	Pensions Reserve	310,251
5,515	Accumulated Absences Account	5,607
(1,405,587)	**Total**	**(1,317,926)**

Revaluation Reserve

The Revaluation Reserve contains the gains/loses made by the Council arising from increases/decreases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- 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					2017/18	
£'000	**£'000**				**£'000**	**£'000**
	(1,015,671)		**Balance at 1 April**			**(1,006,602)**
(38,544)			Upward revaluation of assets		(45,979)	
23,969			Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services		44,446	
	(14,575)		Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services			(1,533)
23,597			Difference between fair value depreciation and historical cost depreciation		24,309	
97			Accumulated gains on assets sold or scrapped		7,086	
	23,694					31,395
	(50)		Amount written off to the Capital Adjustment Account			(546)
	(1,006,602)		**Balance at 31 March**			**(977,286)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains 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:

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

2016/17					2017/18	
£'000	**£'000**				**£'000**	**£'000**
	(263)		**Balance at 1 April**			**141**
0			Upward revaluation of investments		0	
404			Downward revaluation of investments not charged to the Surplus or Deficit on the Provision of Services		580	
	404					580
	141		**Balance at 31 March**			**721**

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 amortisation are charged to the Comprehensive Income and Expenditure Statement (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.

2016/17		2017/18	
£'000		£'000	£'000
(681,994)	**Balance at 1 April**		**(670,290)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
68,339	Charges for depreciation and impairment on non current assets	70,655	
57,359	Revaluation losses on Property, Plant and Equipment	40,182	
31	Amortisation of intangible assets	0	
10,333	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	11,212	
136,062		122,049	
(23,643)	Adjusting amounts written out of the Revaluation Reserve	(30,849)	
112,419	Net written out amount of the cost of non current assets consumed in the year		91,200
	Capital financing applied in the year:		
(11,539)	Use of the Capital Receipts Reserve to finance new capital expenditure	(4,224)	
(43,398)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(48,146)	
(16,600)	Loans Fund principal repayments	(20,561)	
(26,492)	Capital expenditure charged against the General Fund and HRA balances	(22,305)	
(2,478)	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements	(2,611)	
(100,507)			(97,847)
(332)	Deferred Capital Receipt		8,914
124	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(4,651)
(670,290)	**Balance at 31 March**	**0**	**(672,674)**

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment 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.

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 this account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement 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 to be met. 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 2015 will be charged to the General Fund over the next 45 years.

2016/17		2017/18	
£'000		**£'000**	**£'000**
16,308	**Balance at 1 April**		**15,882**
	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements		
(29)	Long Term Borrowing – Stepped Loans	(30)	
(397)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(397)	
(426)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(427)
15,882	**Balance at 31 March**		**15,455**

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 Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension 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.

2016/17		2017/18
£'000		**£'000**
251,118	**Balance at 1 April**	**249,767**
(12,607)	Remeasurements of the net defined benefit liability	36,188
41,849	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	58,421
(30,593)	Employer's pensions contributions and direct payments to pensioners payable in the year	(34,125)
249,767	**Balance at 31 March**	**310,251**

Accumulated Absences Account

The Accumulated Absences 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.

2016/17			2017/18	
£'000			**£'000**	**£'000**
5,615	**Balance at 1 April**			**5,515**
(5,615)	Settlement or cancellation of accrual made at the end of the preceding year		(5,515)	
5,515	Amounts accrued at the end of the current year		5,607	
(100)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements			92
5,515	**Balance at 31 March**			**5,607**

14. **Cash Flow Statement – Operating Activities**

2016/17		2017/18
£'000		£'000
(58,597)	Net surplus or (deficit) on the provision of services ^	(73,003)
(58,597)		**(73,003)**
	Adjustment to surplus or deficit on the provision of services for non-cash movements:	
68,339	Depreciation	70,655
57,429	Impairment, downward revaluations & non sale derecognitions	52,237
30	(Increase)/Decrease in Stock	470
(6,664)	(Increase)/Decrease in Debtors	2,982
723	Increase/(Decrease) in Creditors	(8,331)
11,256	Movement in Pension Liability	24,296
10,332	Carrying amount of non current assets sold	16,795
(3,600)	Contributions to Other Reserves/Provisions	1,563
31	Amortisation of Intangible Assets	0
57	Movement in value of investment properties	(20,883)
137,933		**139,784**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(43,398)	Receipt of Capital Grants and Contributions	(48,146)
(11,148)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(5,731)
0	Bond EIR Adjustment	16,609
(54,546)		**(37,268)**
24,790	**Net cash flows from operating activities**	**29,513**

^ includes the following:

2016/17		2017/18
£'000		£'000
771	Interest receivable	500
(30,737)	Interest payable	(47,244)

15. **Cash Flow Statement – Investing Activities**

2016/17				2017/18
£'000				**£'000**
(217,933)		Purchase of property, plant and equipment, investment property and intangible assets		(219,801)
(110,108)		Purchase/ (Sale) of short term and long term investments		42,523
11,798		Proceeds from the sale of property, plant and equipment, investment property and intangible assets		6,271
(650)		Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals		(540)
43,398		Capital grants and contributions received		48,145
(273,495)		**Net cash flows from investing activities**		**(123,402)**

16. **Cash Flow Statement – Financing Activities**

2016/17				2017/18
£'000				**£'000**
(29)		Other receipts from financing activities		(29)
(2,478)		Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts		(2,611)
(31,998)		Repayment of amounts borrowed		(11,806)
0		Bond Effective Interest Rate Adjustment		(16,609)
435,980		New borrowings		0
401,475		**Net cash flows from financing activities**		**(31,055)**

17. Cash Flow Statement – Cash and Cash Equivalents

31 March 2017				31 March 2018
£'000				**£'000**
38		Cash held by the Authority		47
181,107		Bank current accounts		56,155
181,145		**Total cash and cash equivalents**		**56,202**

18. Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

		2015/16		2016/17		2017/18	
		£'000	£'000	£'000	£'000	£'000	£'000
Building and Maintenance	Turnover	(31,476)		(30,601)		(29,401)	
Provides a range of services, covering all trades, for emergency response, planned maintenance and improvement of buildings. This includes the Council's housing stock as well as operational buildings. Cumulative surplus over the last three financial years: £3.718 million.	Expenditure	29,105		29,945		30,087	
	Interest	(3)		(2)		0	
	Net (Surplus)/Deficit		(2,374)		(658)		686
	Refunds/(Charges)		0		0		0
	Net (Surplus)/Deficit		(2,374)		(658)		686
Provision and Management of Car Parking Facilities	Turnover	(8,444)		(8,040)		(8,397)	
Responsible for the management and operation of off-street and on-street pay and display parking as well as policing the regime for dealing with decriminalised parking offences. Cumulative surplus over the last three operational financial years: £10.427 million.	Expenditure	4,877		4,821		5,075	
	Interest	(104)		(91)		(124)	
	Net (Surplus)/Deficit		(3,671)		(3,310)		(3,446)
Net (Surplus)/Deficit on Trading Operations (excluding Letting of Properties)			**(6,045)**		**(3,968)**		**(2,760)**
Letting of Industrial, Commercial and Other Properties	Turnover	(6,425)		(7,122)		(9,066)	
Provides the management and operation of the Council's portfolio of industrial, commercial and miscellaneous land and property holdings which are in the main available for rent on the open market at commercial rates. Cumulative surplus in the last three financial years: £81.700 million.	Expenditure	1,934		1,763		4,681	
	Exceptional Items	(864)		57		(64,691)	
	Interest	(709)		(598)		(660)	
	Net (Surplus)/Deficit		**(6,064)**		**(5,900)**		**(69,736)**
Net (Surplus)/Deficit on Trading Operations			**(12,109)**		**(9,868)**		**(72,496)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement within the Financing and Investment Income and Expenditure line. The properties held within the Letting of Industrial, Commercial and Other Properties are classed as Investment Properties and thus the results of this operation are included within this category.

	2015/16 £'000	2016/17 £'000	2017/18 £'000
Net (Surplus)/Deficit on trading operations	(12,109)	(9,868)	(12,456)
Investment Properties	(6,064)	(5,900)	(69,736)
Other Trading Operations	(6,045)	(3,968)	(2,760)
Net Surplus credited to Financing and Investment Income and Expenditure (note 8)	**(12,109)**	**(9,868)**	**(72,496)**

19. Agency Services

The Council has an agreement with Scottish Water whereby it collects water and waste water charges in conjunction with collection of Council Tax. The income received from this service in 2017/18 was £760,750 (2016/17, £760,750).

20. **External Audit Costs**

The Council has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims and statutory inspections and any non-audit services provided by the Council's external auditor

	2016/17 £'000	2017/18 £'000
Fees payable with regard to external audit services undertaken in accordance with the Code of Practice *	411	410
Fees payable in respect of other services provided by the appointed auditor over and above the above duties	574	0
Audit of financial statements of subsidiaries (Charitable Trusts) pursuant to legislation	10	9
Total	**995**	**419**
* Of the amount paid to Audit Scotland in 2017/18 £226k relates to auditor remuneration (2016/17, £225k)		

21. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by The Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of the Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2017, the Council's own contributions equate to approximately 2.7%.

In 2017/18, the council paid £10.912 million to the Scottish Government in respect of teachers' pension costs, which represents 17.2% of teachers' pensionable pay. The figure for 2016/17 was £10.890 million representing 17.2% of pensionable pay.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 22. The Council is not liable to the scheme for any other entities' obligations under the plan.

22. Defined Benefit Pension Schemes

The North East Scotland Pension Fund (The Main Fund) and the Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations.

The Main Fund was established under the Superannuation Fund Act 1972. It is a statutory scheme and is contracted out of the Second State Pension. It is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers).

Employees of admitted bodies can join the scheme subject to their individual admission criteria which are outwith the control of Aberdeen City Council.

There are 11 scheduled bodies and these are:

Aberdeen City Council, Aberdeenshire Council, The Moray Council, Scottish Water, Scottish Police Authority, Scottish Fire and Rescue Service, Visit Scotland, North East Scotland College, Moray College, Grampian Valuation Joint Board and Nestrans.

The Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

Under the Local Government Pension Scheme (Administration) (Scotland) Regulations, there is a requirement for the Council to publish a pension fund annual report from 2011. The report covers, amongst other things, a report by the Head of Finance, scheme governance, governance compliance and membership statistics. It also contains important information on investments and market valuations.

The report will be made available on the Pension Fund website under www.nespf.org.uk or on request from the Head of Finance, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Participation in pension schemes

As part of the terms and conditions of employment of its officers, 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 and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Aberdeen City Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement 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 the pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The principal risks to authority of the Local Government Pension Scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post retirement Benefits

Discretionary post retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions relating to post employment benefits

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

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme £'000		Scottish Teachers Superannuation Scheme £'000	
Comprehensive Income and Expenditure Statement	**2016/17**	**2017/18**	**2016/17**	**2017/18**
Cost of Services:				
Service cost comprising:				
• current service cost	32,595	45,846	0	0
• administration expenses	537	554	0	0
• past service costs	135	0	0	0
• loss from settlements / curtailments	358	6,203	0	0
Financing and Investment Income and Expenditure				
• net interest expense	7,255	5,064	969	754
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**40,880**	**57,667**	**969**	**754**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
• return on plan assets (excluding the amount included in the net interest expense)	(178,631)	(20,423)	0	0
• actuarial gains and losses arising on changes in demographic assumptions	(20,666)	45,104	0	(131)
• actuarial gains and losses arising on changes in financial assumptions	223,491	937	4,037	(361)
• other	(39,220)	11,062	(1,618)	0
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**25,854**	**94,347**	**3,388**	**262**
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	(40,880)	57,667	(969)	(754)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	26,455	30,029	0	0
• retirement benefits payable to pensioners	2,402	2,369	1,736	1,727

Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme £'000			Includes: Discretionary Benefits Arrangements £'000		
	2015/16	**2016/17**	**2017/18**	**2015/16**	**2016/17**	**2017/18**
Present value of the defined benefit obligation	(1,225,962)	(1,434,039)	(1,545,476)	(41,382)	(45,082)	(46,241)
Fair value of plan assets	1,004,213	1,215,293	1,264,781	0	0	
Sub total	(221,749)	(218,746)	(280,695)	(41,382)	(45,082)	(46,241)
Scottish Teachers Superannuation Scheme	(29,369)	(31,021)	(29,556)	0	0	0
Net liability arising from defined benefit obligation	**(251,118)**	**(249,767)**	**(310,251)**	**(41,382)**	**(45,082)**	**(46,241)**

The liabilities show the underlying commitments that the Council has in the long term to pay post employment (retirement) benefits. The total liability of £310.251 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. Statutory arrangements for funding the deficit are as follows:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary; and
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £27.4 million. Expected contributions for the Discretionary Benefit Scheme in the year to 31 March 2019 are £4.2 million.

Assets and liabilities in relation to post employment benefits

Reconciliation of fair value of the scheme (plan) assets:

	Total Assets: Local Government Pension Scheme £'000		Includes: Discretionary Benefits Arrangements £'000	
	2016/17	**2017/18**	**2016/17**	**2017/18**
Opening fair value of scheme assets	**1,004,213**	**1,215,293**	**0**	**0**
Interest income	35,110	30,373	0	0
Remeasurement gain/(loss):				
• The return on plan assets, excluding the amount included in the net interest expense	178,631	20,423	0	0
• Other	(537)	(554)	0	0
Contributions from employer	28,857	32,398	2,832	2,325
Contributions from employees into the scheme	8,205	8,553	0	0
Benefits paid	(39,186)	(41,705)	(2,832)	(2,325)
Other			0	0
Closing fair value of scheme assets	**1,215,293**	**1,264,781**	**0**	**0**

	Total Assets: Scottish Teachers Superannuation Scheme (All Unfunded) £'000	
	2016/17	**2017/18**
Opening fair value of scheme assets	**0**	**0**
Contributions from employer	1,736	1,727
Benefits paid	(1,736)	(1,727)
Closing fair value of scheme assets	**0**	**0**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £103.785 million (2016/17, £213.741m).

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation):

	Total Liabilities: Local Government Pension Scheme £'000		Includes: Discretionary Benefits £'000	
	2016/17	**2017/18**	**2016/17**	**2017/18**
Opening balance at 1 April	**(1,225,962)**	**(1,434,039)**	**(41,382)**	**(45,082)**
Current service cost	(32,595)	(45,846)	0	0
Interest cost	(42,365)	(35,437)	(1,398)	(1,099)
Contributions from scheme participants	(8,205)	(8,553)	0	0
Remeasurement (gains) and losses:				
• Actuarial gains/losses arising from changes in demographic assumptions	20,666	(45,104)	598	(849)
• Actuarial gains/losses arising from changes in financial assumptions	(223,491)	(937)	(5,732)	0
• Other	39,220	(11,062)	0	(1,536)
Past service cost	(135)	0	0	0
Losses/(gains) on settlement/curtailment	(358)	(6,203)	0	0
Benefits paid	39,186	41,705	2,832	2,325
Closing balance at 31 March	**(1,434,039)**	**(1,545,476)**	**(45,082)**	**(46,241)**

	Total Liabilities: Scottish Teachers Superannuation Scheme (All Unfunded) £'000	
	2016/17	**2017/18**
Opening balance at 1 April	**(29,369)**	**(31,021)**
Interest cost	(969)	(754)
Remeasurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	0	131
• Actuarial gains/losses arising from changes in financial assumptions	(4,037)	361
• Other	1,618	0
Benefits paid	1,736	1,727
Closing balance at 31 March	**(31,021)**	**(29,556)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2016/17 £'000	%	Fair value of scheme assets 2017/18 £'000	%
Cash and cash equivalents	19,444	1.6%	20,236	1.6%
Equity instruments:				
• UK quoted and unquoted	236,371		246,632	
• Global quoted and unquoted	222,156		240,308	
• Global Frontier Fund	0		0	
• Pooled UK & Global	368,234		345,285	
Sub total equity	826,761	68.0%	832,225	65.8%
Bonds:				
• Corporate	19,445		15,177	
• Government	134,898		94,859	
Sub total bonds	154,343	12.7%	110,036	8.7%
Property:				
• UK Direct	82,640		89,799	
• Property funds - Global	0		0	
• Property funds - UK	2,431		2,530	
Sub total property	85,071	7.0%	92,329	7.3%
Private equity:				
• European	15,799		13,913	
• UK	2,431		3,794	
• Global	42,536		48,062	
Sub total private equity	60,766	5.0%	65,769	5.2%
Other investment funds:				
• Infrastructure	2,431		18,972	
• Diversified Growth Funds	65,626		93,594	
• Other Loan Fund	851		1,265	
• Multi Asset Credit	0		30,355	
Sub total other investment funds	68,908	5.7%	144,186	11.4%
Total assets	**1,215,293**	**100.0%**	**1,264,781**	**100.0%**

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. Both the Local Government Pension Scheme and the Discretionary Benefits liabilities have been assessed by Mercer Ltd, an independent firm of actuaries, estimated for the North East Scotland Pension Fund on the latest full valuation of the scheme as at 31 March 2017.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Scottish Teachers Superannuation Scheme	
	2016/17	**2017/18**	**2016/17**	**2017/18**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.9	22.7	24.6	22.7
Women	24.1	24.9	25.7	24.9
Longevity at 65 for future pensioners:				
Men	23.5	25.6	-	-
Women	26.3	27.9	-	-
Rate of inflation	2.2%	2.2%	2.2%	2.3%
Rate of increase in salaries	3.2%	3.7%	3.2%	3.7%
Rate of increase in pensions	2.2%	2.3%	2.2%	2.3%
Rate for discounting scheme liabilities	2.5%	2.6%	2.5%	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonable possible changes to 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.

Impact on the Defined Benefit Obligation in the Scheme.

	Increase in Net Liability £'000
Longevity (increase by 1 year in life expectancy)	30,157
Rate of inflation (increase by 0.1%)	28,905
Rate of increase in salaries (increase by 0.1%)	4,518
Rate for discounting scheme liabilities (increase by 0.1%)	(28,375)

23. **Events after the Balance Sheet Date**

The unaudited Annual Accounts were authorised for issue by the Head of Finance on 8 May 2018. Events taking place after this date are not reflected in the annual accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the annual accounts and notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

24. **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.

Central Government

Central 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).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in the Remuneration Report. The Council nominates elected members to represent the Council on the Boards of many arms length external organisations. During 2017/18 payments to 25 organisations, amounting to £11.7 million (2016/17, 38 organisations, £46.9 million) were made by means of grant support and for the delivery of services. Approval of these grants and service contracts was undertaken in accordance with Council policies and procedures. Details of all members' interests are disclosed on the Council website at www.aberdeencity.gov.uk

Other Public Bodies

The Council is the administering authority for the North East Scotland Pension Fund and it charged the Pension Fund £1.445 million for this service in 2017/18 (2016/17, £1.274 million).

For 2017/18 the Council paid £34.125 million to the Pension Fund representing its employer contributions in respect of current and former employees (2016/17, £32.221 million).

<u>Entities Controlled or Significantly Influenced by the Council</u>

The Council has substantial interests in other entities and the relevant transactions are as follows –

	2016/17		2017/18		Debtors		Creditors	
	Receipts £'000	**Payments £'000**	**Receipts £'000**	**Payments £'000**	**2016/17 £000**	**2017/18 £000**	**2016/17 £000**	**2017/18 £000**
<u>Joint Boards</u>								
Grampian Valuation Joint Board	0	1,558	0	1,494	0	0	0	0
AECC/Mountwest Ltd	0	1,140	0	0	533	0	0	0
Common Good	1,900	48	1,658	108	0	0	0	0
Trust Funds	297	27	46	31	4,075	4,009	0	0
Aberdeen Sports Village	31	1,195	19	1,027	0	0	0	0
Sport Aberdeen	486	5,936	207	6,093	10	10	(1,840)	(1,590)
Aberdeen Heat & Power	15	3,097	17	3,135	0	0	0	0
NESTRANS	1,139	799	815	1,337	639	499	0	0
SDPA	0	84	0	173	0	0	0	0
Scotland Excel	0	141	0	141	0	0	0	0
Bon Accord Care	30	45	9	88	65	71	(11)	(11)
Bon Accord Support Services	1,651	27,202	1,589	29,283	2,846	4,777	(4,975)	(375)
Aberdeen City Integration Joint Board	117,081	91,258	122,351	90,030	0	0	(4,767)	(3,639)

The majority of these bodies form part of the Council's group accounts which are set out on pages 133 to 151.

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25. **Leases**

Council as Lessee

Finance Leases

The Council has acquired the development at Marischal Square under a Finance Lease. The asset consisting of a hotel, retail and office units are carried as an Investment Property on the Balance Sheet.

The minimum lease payments are made up of the following amounts:

	31 March 2017 £'000	31 March 2018 £'000
Finance lease liabilities:		
• current	0	367
• non current	0	58,425
Finance costs payable in future years	0	113,324
Minimum lease payments	**0**	**172,116**

The Minimum lease payment will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	0	5,000	0	367
Later than one year and not later than five years	0	20,000	0	1,782
Later than five years	0	147,116	0	56,643
	0	**172,116**	**0**	**58,792**

Operating Leases

The Council has entered into a number of land and buildings operating leases. It also leases electric vehicles. The future minimum lease payments due under non-cancellable leases in future years are:

	Land and Buildings				Electric Vehicles		
	31 March 2017 £'000	*	31 March 2018 £'000		31 March 2017 £'000	*	31 March 2018 £'000
Not later than one year	1,358		5,862		32		38
Later than one year and not later than five years	1,890		21,052		43		23
Later than five years	4,768		4,475		0		0
	8,016		**31,389**		**75**		**61**

* 2016/17 figures amended to reflect updated information

The Council has considered contractual arrangements which may contain implied leases. This identified contracts for social care residential services within which it is considered that the Council has the exclusive use of the care homes that it funds. Thus, there is an implied lease in operation within the funding agreement in place. The nature of the lease is operating as the agreements with the service providers are subject to review within the next three years. Given there is the potential to revoke funding within three years and therefore cease implied control of the properties there is no long term commitment.

The future minimum lease payments due under non-cancellable leases in future years is as follows:

	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	373	733
Later than one year and not later than five years	1,118	1,628
	1,491	**2,361**

Council as Lessor

Operating Leases

The Council leases out land and buildings for a variety of purposes. It also leases out hydrogen buses to the two local bus operators. The future minimum lease payments due under non cancellable leases in future years are:

	Land and Buildings			Hydrogen Buses	
	31 March 2017 £'000	31 March 2018 £'000		31 March 2017 £'000	31 March 2018 £'000
Not later than one year	6,844	5,652		80	80
Later than one year and not later than five years	15,824	14,586		112	32
Later than five years	162,747	166,948		0	0
	185,415	**187,186**		**192**	**112**

26. **Investment Properties**

The following items of income and expenditure have been accounted for in the Comprehensive Income and Expenditure Statement:

	31 March 2017 £'000	31 March 2018 £'000
Rental and interest income from investment property	(7,720)	(9,726)
Expenses arising from investment property	1,763	4,681
Revaluation (gains)/losses	57	(64,691)
Net (gain)/loss	**(5,900)**	**(69,736)**

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
Balance at start of the year	**85,937**	**85,335**
Additions		60,040
Disposals	(125)	(1,784)
Net gains/(losses) from fair value adjustments	(47)	4,651
Transfers:		
• (to)/from Property, Plant and Equipment	(430)	350
Balance at end of the year	**85,335**	**148,592**

27. Intangible Assets

The Council accounts for its capitalised software licences as intangible assets. Consideration is also given to whether any internally generated software should be included as intangible assets.

Software licences are given a finite useful life based on assessments of the period that the licence is expected to be of use to the Council. The majority of licences have a useful life of five years with a small number having been assessed as having a ten year useful life. Of the latter, a maximum of two years remains of the ten year useful life assigned.

The carrying amount of intangible assets is amortised on a straight line basis.

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

	2016/17	2017/18
	Software Licences £'000	**Software Licences £'000**
Balance at start of year:		
• Gross carrying amounts	242	157
• Accumulated amortisation	(211)	(157)
Net carrying amount at start of year	31	0
Amortisation for the year	(31)	0
Net carrying amount at end of year	0	0
Comprising:		
• Gross carrying amounts	157	0
• Accumulated amortisation	(157)	0
	0	**0**

28. **Heritage Assets**

I Reconciliation of the Carrying Value of Heritage Assets held

	City Monuments £'000	Maritime & Social History £'000	Numismatics £'000	Science, Technology & Industry £'000	Art Collection £'000	Civic Insignia £'000	Total Assets £'000
Cost or valuation							
At 1 April 2016	608	1,995	17	10	169,162	300	172,092
Additions	0	0	0	0	18	0	18
Revaluations	0	0	0	0	754	0	754
Impairment Losses/ (reversals) recognised in the Revaluation Reserve	0	(108)	0	0	0	0	(108)
At 31 March 2017	**608**	**1,887**	**17**	**10**	**169,934**	**300**	**172,756**
Cost or valuation							
At 1 April 2017	608	1,887	17	10	169,934	300	172,756
Disposals	0	(274)	0	(10)	(1,172)	0	(1,456)
Revaluations	0	6	0	0	26,064	0	26,070
At 31 March 2018	**608**	**1,619**	**17**	**0**	**194,826**	**300**	**197,370**

City Monuments

The Council's collection of City Monuments is reported in the Balance Sheet at insurance valuation which is based on market values. The most recent valuations were performed between 2007 and 2010**.**

Maritime & Social History, Numismatics, Science, Technology & Industry

All three collections are reported in the Balance Sheet at valuation. The curator of each collection determines the valuation based on current values where possible. Due to their nature there are few sales of such items which makes assessing correct valuations subject to estimation uncertainty. For items within the Maritime collection, most were valued between 2002 and 2013. The numismatics collection includes a Mary Queen of Scots coin dated 1555 which was valued in 1992. The Science, Technology & Industry collection includes a Rawlins of London Carriage dated 1817 which was valued in 2001.

Art Collection

The Council’s collection of art consists of applied art and fine art. Due to the size of the collection an external valuer was not used to determine the asset worth. For items within applied art, most were valued between 2002 and 2013 where items in the collection were prompted for revaluation when they were loaned to exhibitions or if a similar item was sold at auction.

Civic Insignia

The Council’s collection of Civic Insignia is reported in the Balance Sheet at insurance valuation which is based on market values. The most recent valuations were undertaken in 2013.

ii Heritage Assets: Further Information on the Museum’s Collections

City Monuments

This collection boasts over 100 monuments from around the Aberdeen City Centre area including the William Wallace Monument by William Grant Stevenson and King Edward VII by Alfred Drury dating back to 1910. Only five monuments have been recognised on the Council’s Balance Sheet due to the difficulty in obtaining accurate valuations which reflect the true monuments’ value.

Maritime & Social History

The collection is maintained to allow locals and visitors of Aberdeen to see real things relating to the lives of the people who built and sailed the ships, fished the seas and defined the harbour from the medieval period to today’s busy oil port. A rich collection of “Captain’s Paintings” from the clipper ship era, ship models from 1689 to the present, whaler’s harpoons, 14th century jugs traded to Aberdeen from Holland, a fine lighthouse lens assembly, the deck house of a steamer and underwater unmanned remotely controlled vehicles are all presented along with hundreds of other fascinating objects from Aberdeen’s long association with the sea.

Numismatics

The main strength of this superb collection is in Scottish coins and banknotes, including no fewer than 16 gold coins, ranging in date from the 13th to the 20th century. In addition to that group are the 14th century coin hoards found in Aberdeen, which are of major European significance. Coins from ancient Greece and Rome are among the City’s collection, which also features coinage and banknotes from most countries of the modern world. Communion tokens from churches in Aberdeen, North East Scotland and beyond as well as trade tokens further enhance this assemblage, while a fine range of medals, both commemorative and military, are also included. In line with the Council’s capitalisation policy only one item from the collection is reported in the Balance Sheet. This is a Mary Queen of Scots coin dated 1555 valued at £6,300.

Science, technology and industry

This collection records the working lives of the people of Aberdeen and how technology has changed communities, work and leisure. This most important local history collection includes items from Aberdeen’s great industries such as granite and local engineering. Tools, machines and photographs give an insight into the work of local craftsmen such as the cooper, joiner and shoemaker. The introduction of gas and new transport systems changed the City and are also represented in the collection, as is the gradual increase in technology in the home and office. This collection seeks to record Aberdeen’s continued growth and development. In line with the Council’s capitalisation policy only one item from the collection was reported in the Balance Sheet. The Rawlins of London Carriage dated 1817 valued at £10,000 has now been transferred to the Grampian Transport Museum.

Fine Art Collection

The collection consists of over 14,000 items including paintings, sculptures and other media which are of local, national and international significance. The major strengths of the collections range from the period c.1850 to present day, with particularly rich holdings of the 19th and 20th century Scottish art, early 20th century English art and a growing collection of challenging international art of the 21st century. Artists' portraits and self-portraits form one important collection area as does the unrivalled holding of work by James McBey. The collection also has particularly significant items in terms of both valued and note, including an excellent oil canvas by Francis Bacon "Pope I – Study after Pope Innocent X by Velasquez" which has been valued by Sotheby's at £70 million on 24 January 2018.

Applied and Decorative Art

The collection comprises over 15,000 items, covering all aspects of applied and decorative art, design and craft and costume and textiles. The collection is particularly strong in the area of ceramics, costume, glass, jewellery, metalwork and textiles, with particular emphasis on Scottish work. An active policy of collecting contemporary British Craft has resulted in one of the most important collections of this type in Scotland. There is a significant group of enamels by the Aberdeen artist James Cromar Watt (1862-1940). The fashion designer Bill Gibb (1943-1988), who was born in Aberdeenshire, is represented by the largest collection of his outfits in the UK along with an archive of over 2,000 fashion sketches, working drawings and notes. In addition, the collection boasts a Lacquer Box valued at £250,000.

Civic Insignia

This small collection of around 10 items consists of insignia relating to civic duties in Aberdeen including items such as badges and chains of office of the Lord and Lady Provost, the Treasurer and the Dean of Guild. Most items boast the Aberdeen City Coat of Arms and date back as early as the 16th century.

Archaeology

These collections reflect the extraordinarily rich archaeological heritage of Aberdeen and the North East of Scotland and the internationally significant excavations which have taken place since the 1970s. The great strength lies in the substantial body of local medieval material, which, owing to special staff expertise in this field, is an important resource for research and interpretation. The collection – which continues to grow as new discoveries are made – also includes many organic objects, such as leather shoes, textile fragments, rope and wooden artefacts, which survived hundreds of years of burial owing to the rare waterlogged soil conditions of Aberdeen. Prehistoric objects from the locality, as well as objects from ancient Greece and Egypt, are also part of the collection. Due to the nature of the items within this collection, it is the Council's opinion that because of their rarity, it is not possible to provide a reliable estimate of the collection's value.

Library & Information Services

Aberdeen City Libraries hold a number of reference collections which could be deemed to be held and maintained principally for their contribution to knowledge and culture. The collection consists of Historic book collections of Local and National significance including:

- Cosmo Mitchell Bequest – a collection of books on the art and execution of dance spanning the late 19th and early 20th centuries;
- Aberdeen in WW2 – a comprehensive photographic record of air-raid damage suffered by Aberdeen during World War Two; and
- James Walker Collection – a collection of books on the theory of music and music scores including some rare examples of early Scottish music.

The Council's Library Service also includes historic directories; the historic local newspaper archive and a photographic archive which is an extensive collection of historical photographs covering buildings, streets and harbour scenes in the City. Due to the immaterial value of these items, this collection has not been disclosed on the Balance Sheet.

Preservation and Management

Each of the collections, with the exception of the Library & Information Service and Civic Insignia is managed by a curator of Aberdeen Art Gallery and Museums in accordance with policies that are approved by the Education, Culture and Sport Committee of the Council. Further information on the management of Heritage Assets is provided in the "Acquisition and Disposal Policy" which has been produced in line with the requirements of the Arts Council in England. Acquisitions are small and primarily made by donation. However, on rare occasions when a particularly important asset is available for purchase, the Council will undertake the purchase provided that it meets the objectives of the Museum and the Council in terms of its collection of Heritage Assets. The policy also sets out that disposals of assets in the collections are the responsibility of the governing body of the museum acting on the advice of professional curatorial staff and will only be disposed of after considering the public interest and implication for the museum's collections. Assets are collated, preserved and managed in accordance with the aforementioned policy. There is a computerised record of all assets held within each collection which contains a brief description of the asset, the artist/author, type of asset and value. Each asset also has a unique identifier for reference purposes.

29. **Property, Plant and Equipment**

Movements in 2016/17:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PPP Assets included in Propert, Plant & Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation									
At 1 April 2016	**957,477**	**947,465**	**60,028**	**237,213**	**24,437**	**22,164**	**71,256**	**2,320,040**	**178,886**
Additions	41,833	21,974	7,370	22,187	1,643	17	126,694	**221,718**	20
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,322	(10,933)	0	0	0	(360)	0	**(7,971)**	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(29,373)	(42,721)	0	0	0	(3,356)	0	**(75,450)**	0
Derecognition – Disposals	(6,733)	(155)	(3,428)	0	0	(39)	0	**(10,355)**	0
Derecognition – Other	0	(2,073)	(1,261)	0	0	(241)	0	**(3,575)**	0
Reclassifications and Transfers	(1,789)	1,312	0	0	0	(1,897)	0	**(2,374)**	0
At 31 March 2017	**964,737**	**914,869**	**62,709**	**259,400**	**26,080**	**16,288**	**197,950**	**2,442,033**	**178,906**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(636)**	**(66,184)**	**(27,135)**	**(86,471)**	**0**	**0**	**0**	**(180,426)**	**(3,081)**
Depreciation charge	(27,922)	(26,212)	(6,236)	(7,968)	0	0	0	**(68,338)**	**(3,081)**
Depreciation written out to the Revaluation Reserve	353	21,949	0	0	0	0	0	**22,302**	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	79	18,012	0	0	0	0	0	**18,091**	0
Derecognition – Disposals	179	16	2,832	0	0	0	0	**3,027**	0
Derecognition – Other	0	354	1,262	0	0	0	0	**1,616**	0
At 31 March 2017	**(27,947)**	**(52,065)**	**(29,277)**	**(94,439)**	**0**	**0**	**0**	**(203,728)**	**(6,162)**
Net Book Value									
At 31 March 2017	**936,790**	**862,804**	**33,432**	**164,961**	**26,080**	**16,288**	**197,950**	**2,238,305**	**172,744**
At 31 March 2016	**956,841**	**881,281**	**32,893**	**150,742**	**24,437**	**22,164**	**71,256**	**2,139,614**	**175,805**

Property, Plant and Equipment

Movements in 2017/18:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PPP Assets included in Propert, Plant & Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation									
At 1 April 2017	**964,737**	**914,869**	**62,709**	**259,400**	**26,080**	**16,288**	**197,950**	**2,442,033**	**178,906**
Additions	42,182	16,815	3,246	16,376	2,155	9	136,749	**217,532**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	348	(33,693)	0	0	0	563	0	**(32,782)**	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,574)	(28,578)	0	0	0	(29)	0	**(55,181)**	0
Derecognition – Disposals	(2,269)	0	(473)	0	0	0	0	**(2,742)**	0
Derecognition – Other	0	(150)	(4,558)	0	0	(96)	(4,401)	**(9,205)**	0
Reclassifications and Transfers	(541)	54,457	0	0	0	(5,037)	(49,770)	**(891)**	0
At 31 March 2018	**977,883**	**923,720**	**60,924**	**275,776**	**28,235**	**11,698**	**280,528**	**2,558,764**	**178,906**
Accumulated Depreciation and Impairment									
At 1 April 2017	**(27,947)**	**(52,065)**	**(29,277)**	**(94,439)**	**0**	**0**	**0**	**(203,728)**	**(6,162)**
Depreciation charge	(29,034)	(24,492)	(8,446)	(8,684)	0	0	0	**(70,656)**	**(3,082)**
Depreciation written out to the Revaluation Reserve	8	6,737	0	0	0	0	0	**6,745**	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	0	14,998	0	0	0	0	0	**14,998**	0
Derecognition – Disposals	120	0	379	0	0	0	0	**499**	0
Derecognition – Other	0	144	4,558	0	0	0	0	**4,702**	0
At 31 March 2018	**(56,853)**	**(54,678)**	**(32,786)**	**(103,123)**	**0**	**0**	**0**	**(247,440)**	**(9,244)**
Net Book Value									
At 31 March 2018	**921,030**	**869,042**	**28,138**	**172,653**	**28,235**	**11,698**	**280,528**	**2,311,324**	**169,662**
At 31 March 2017	**936,790**	**862,804**	**33,432**	**164,961**	**26,080**	**16,288**	**197,950**	**2,238,305**	**172,744**

Depreciation – Useful Lives

The following useful lives have been used in the calculation of depreciation:

- Council Dwellings – up to 25 years
- Other Land and Buildings – up to 75 years
- Vehicles, Plant and Equipment – up to 20 years
- Infrastructure – up to 50 years

Capital Commitments

As at 31 March 2018, the Council has a number of ongoing and new contracts for the construction or enhancement of Property, Plant and Equipment budgeted to cost £310.775 million next year. Similar commitments as at 31 March 2017 were £289.030 million. The major projects are:

- Housing – New build housing - £8.553 million
- Housing – Structural repairs to multi storey flats - £3.29 million
- Non Housing – New Aberdeen Exhibition & Conference Centre - £118.624 million
- Non Housing – Aberdeen Western Peripheral Route - £20.041 million
- Non Housing – Planned renewal & replacement of roads infrastructure - £5.148 million

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by Debbie Wyllie, BSc MRICS and Neil Strachan, BLE MRICS who are Royal Institution of Chartered Surveyors (RICS) Registered Valuers. 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 RICS.

The significant assumptions applied in estimating the fair values are:

- Buildings constructed under PPP arrangements have been valued as if they were assets wholly owned by the Council without any deferment.
- Council Dwellings are valued using the Beacon Method which involves full inspection of a sample of properties (Beacons). Full inspection of properties other than Beacon properties is not considered necessary due to the similarity of the property types covered by the Beacons.

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Carried at historical cost	54,406	(78,789)	68,484	191,110	21,359	18,576	16,161	291,307
Valued at fair value as at:								
31 March 2018	0	271,716	0	0	0	11,397	0	283,113
31 March 2017	9,562	205,166	0	0	0	9,852	0	224,580
31 March 2016	966,184	26,120	0	0	0	980	0	993,284
31 March 2015	0	224,020	0	0	0	0	0	224,020
31 March 2014	0	186,933	0	0	0	0	0	186,933
31 March 2013	1,484	394,425	0	0	0	6,073	0	401,982
31 March 2012	6,218	271,190	0	0	0	4,440	0	281,848
31 March 2011	766,904	43,840	0	0	0	0	0	810,744
31 March 2010	0	135,062	0	0	0	9,385	0	144,447
Total cost or valuation	**1,804,758**	**1,679,683**	**68,484**	**191,110**	**21,359**	**60,703**	**16,161**	**3,842,258**

* The historical cost of the assets revalued in the five years stated cannot be accurately confirmed due to disposals and transfers between asset categories taking place since assets have been revalued.

30. **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 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.

	HRA	**General Fund**	**Total**	**HRA**	**General Fund**	**Total**
	2016/17	**2016/17**	**2016/17**	**2017/18**	**2017/18**	**2017/18**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Opening Capital Financing Requirement	**234,682**	**498,815**	**733,497**	**229,807**	**621,114**	**850,921**
Capital investment						
Property, Plant and Equipment	41,832	179,885	221,717	42,182	175,350	217,532
Heritage Assets	0	18	18	0	0	0
Music Hall Loan	0	0	0	0	770	770
Loan for National Housing Trust Initiative	0	(3,804)	(3,804)	0	0	0
Sources of finance						
Capital receipts	(11,079)	(480)	(11,559)	(4,555)	(129)	(4,684)
Government grants and other contributions	(6,735)	(36,663)	(43,398)	(11,079)	(37,067)	(48,146)
Sums set aside from revenue:						
• Direct revenue contributions	20	0	20	461	0	461
• Capital for Current Revenue (CFCR)	(22,912)	(3,580)	(26,492)	(22,496)	191	(22,305)
• Loans fund principal	(6,001)	(10,599)	(16,600)	(7,034)	(13,527)	(20,561)
• PPP liability repayments	0	(2,478)	(2,478)	0	(2,611)	(2,611)
Closing Capital Financing Requirement	**229,807**	**621,114**	**850,921**	**227,286**	**744,091**	**971,377**
Explanation of movements in year						
Increase/(Decrease) in underlying need to borrow	(4,574)	123,953	119,379	(1,639)	124,705	123,066
Assets acquired under PFI/PPP contracts	0	(2,478)	(2,478)	0	(2,611)	(2,611)
Increase/(decrease) in Capital Financing Requirement	**(4,574)**	**121,475**	**116,901**	**(1,639)**	**122,094**	**120,455**

31. **Public Private Partnerships (PPP) and Similar Contracts**

3R's (Reorganise, Renovate, Rebuild) Schools PPP Scheme

The Council has entered into a 30 year PPP contract for the construction or renovation, maintenance and operation of ten schools. The schools came into operation between May 2009 and April 2011. The Council has rights under the contract to specify the hours and availability of the schools. The contract specifies 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 renovate the schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council has rights to terminate the contract in various circumstances with the consequences of such a termination depending on the reasons for termination.

Property Plant and Equipment

The assets used to provide services 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 Property, Plant and Equipment balance in note 29.

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 PPP contract at 31 March 2018 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2018/19	4,784	3,222	6,973	14,979
Payable within two to five years	25,223	11,357	26,034	62,614
Payable within six to ten years	38,746	16,793	29,892	85,431
Payable within eleven to fifteen years	42,427	24,383	26,008	92,818
Payable within sixteen to twenty years	44,977	35,447	20,114	100,538
Payable within twenty one to twenty five years	9,351	9,771	3,779	22,901
Payable within twenty six to thirty years	0	0	0	0
Total	**165,508**	**100,973**	**112,800**	**379,281**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor 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 to the contractor for capital expenditure incurred is as follows:

	2016/17 £'000	2017/18 £'000
Balance outstanding at start of year	**106,062**	**103,584**
Payments during year	(2,478)	(2,611)
Balance outstanding at end of year	**103,584**	**100,973**

32. **Assets Held for Sale**

	2016/17 £'000	2017/18 £'000
Balance outstanding at start of year	**3,979**	**5,382**
Assets newly classified as held for sale:		
Property, Plant and Equipment	2,805	541
Revaluation gains and (losses)	(480)	1,500
Assets sold	(922)	(1,225)
Balance outstanding at end of year	**5,382**	**6,198**

33. **Inventories**

	Consumable Stores & Maintenance Materials		Client Services Work In Progress		Property Acquired or Constructed for Sale		Total	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Balance outstanding at start of year	**1,627**	**1,601**	**16**	**16**	**31**	**28**	**1,674**	**1,645**
Purchases	13,777	10,624	24,824	24,700	50	0	38,651	35,324
Recognised as an expense in the year	(13,803)	(11,088)	(24,824)	(24,704)	(53)	(3)	(38,680)	(35,795)
Balance outstanding at end of year	**1,601**	**1,137**	**16**	**12**	**28**	**25**	**1,645**	**1,174**

34. **Short Term Debtors**

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	14,043	11,540
Other local authorities	2,639	2,846
NHS bodies	5,338	1,518
Public corporations and trading funds	317	2,362
Other entities and individuals	111,313	113,683
Gross Total	**133,650**	**131,949**
Deduct: Provision for Impairment	(54,973)	(54,657)
Net Total	**78,677**	**77,292**

35. **Short Term Creditors**

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	(8,747)	(15,258)
Other local authorities	(675)	(1,211)
NHS bodies	(4,900)	(4,985)
Public corporations and trading funds	(5,051)	(724)
Other entities and individuals	(70,991)	(56,067)
Total	**(90,364)**	**(78,245)**

36. **Provisions**

	Note 1	Note 2	Note 3	Note 4	
2017/18	**Compensation Payments - Voluntary Severance/Early Retirement and Equal Pay £'000**	**Property - Asset Management £'000**	**Housing Benefit Subsidy £'000**	**Other £'000**	**Total £'000**
Balance at 1 April 2017	**(200)**	**(679)**	**(100)**	**(3,933)**	**(4,912)**
Additional provisions made in 2017/18	(10,143)	0	(100)	0	(10,243)
Amounts used in 2017/18	7,326	0	0	1,292	8,618
Unused amounts reversed in 2017/18	0	0	100	0	100
Balance at 31 March 2018	**(3,017)**	**(679)**	**(100)**	**(2,641)**	**(6,437)**
Represented by:					
Current provisions	(3,017)	0	(100)	(2,641)	**(5,758)**
Long term provisions	0	(679)	0	0	**(679)**

Notes on Provisions –

1. **Compensation Payments - Equal Pay and Severance - £3.017 million**

This is a provision for arrears of equal pay (£0.2 million) under Single Status legislation for the period from June 2006, subsequent to compromise settlements already paid. The primary groups of staff involved are employed in the Cleaning, Catering, Education and Social Work services. This provision may have an extended life due to uncertainty in relation to Employment Tribunal outcomes which may also alter the amounts due.

There was also a provision of £13.9 million created under the terms of the Scottish Government statutory guidance (per Local Government in Scotland Act 2003) for the new Voluntary Severance /Early Retirement scheme, £7.3 million of this provision was used in 2017/18 with the remaining Payments of £6.6 million to be made in 2018/19 in respect of the statutory element of severance costs.

2. Property-Asset Management - £0.679 million

Provisions are held for a number of properties leased by the Council against the cost of dilapidations that need to be made good upon the conclusion of existing lease periods. The timing of these provisions being utilised varies with the property, with all current leases terminating between 2017 and 2020. The provision is based upon an annual assessment carried out by the Council's quantity surveyors. While the timing of the outflows is reasonably certain, the final value of the works required is subject to variation. A further amount is held to reimburse a third party for costs incurred by them on demolishing a council owned building.

3. Housing Benefit Subsidy - £0.100 million

This Provision is for potential claw back by the Department of Works and Pensions (DWP) for overpayments on the Housing Benefit Subsidy Grant. Liability will depend on the outcome of the audit scrutiny, testing and a final determination by DWP. The figure is based on a worst case scenario by the Corporate Debt/Income Manager. The full liability could be called upon in 2018/19.

4. **Other**

- **Legal Cases - £1.217 million**

This provision relates to outstanding claims against the Council. These are in relation to environmental services and other potential compensation payments.

- **Holiday Pay - £0.826 million**

This is a provision for arrears of Holiday Pay due based on the decision in the case of Lock v British Gas Trading Ltd which reviewed the basis of calculation for holiday pay. The full liability could be paid out in 2018/19.

- **Council Tax Discount on Second Homes and Long Term Empty Properties - £0.469 million**

This provision relates to amounts committed towards affordable housing projects, which are expected to be released in 2018/19.

- **HRA - £0.025 million**

This provision relates to a potential ICO penalty notice and voluntary disclosure required for VAT.

- **HMRC liability - £0.104 million**

This provision relates to a potential liability from HMRC regading VAT payments due to be agreed and settled.

37. **Contingent Assets and Liabilities**

Contingent Assets

A contingent asset arises where an event takes place which gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. At 31 March 2018, the Council had material contingent assets as undernoted:

- **Marischal Square Development**

In November 2017, the Marischal Square development was completed. The Council has a contingent asset in relation to key money and development profit, which are held in escrow and payable to the Council upon the occurrence of uncertain future events, not wholly within its control.

Contingent Liabilities

At 31 March 2018 the Council had material contingent liabilities as undernoted:

- **Aberdeen Science Centre (formerly Satrosphere)**

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £127,653 in support of an overdraft facility and card transactions until 31 March 2019.

- **Transition Extreme Sports Ltd**

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a maximum overdraft facility of £250,000 until 2019.

- **Waste Disposal**

The Council has a long term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run for 25 years.

The Council is currently part of a three-authority project in partnership with Aberdeenshire and Moray Councils to procure an energy from waste facility which will deal with all residual waste from the three authorities. The contract is expected to commence in 2019 with the facility coming on line late 2021, and will run for 20 years.

- **Landfill Allowance Scheme (LAS)**

The Scottish Government had previously introduced a scheme under which Local Authorities were to be penalised for exceeding landfill tonnage targets. The Landfill Allowance Scheme in Scotland is currently suspended and it is expected that the Waste (Scotland) Regulations 2012 will take over the requirement for the control of landfilling biodegradable municipal waste. However, until such a repeal is formalised there remains a potential liability on the Council.

- **External Organisations - Guarantor in relation to North East Scotland Pension Fund (NESPF)**

As the administering authority, the Council may admit a body to the Pension Fund as an 'admitted body' provided (i) the organisation can confirm they have sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest; and (ii) the Scheme employer is prepared to act as guarantor in the event the admitted body should cease to exist. If this situation was to occur and staff made redundant the staff over 50 years old would become entitled to immediate payment of their pension benefits. The Council has agreed a number of such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen International Youth Festival, Aberdeen Heat and Power, Bon Accord Support Services and Bon Accord Care Ltd. The potential values guaranteed are subject to a range of actuarial assumptions.

- **Sport Aberdeen**

The Council agreed to provide a bank guarantee to Sport Aberdeen to a maximum of £5 million over a 5 year period for investment in Council leisure facilities, as approved at the 7 June 2016 Finance, Policy and Resources Committee. There is currently a guarantee being drawn up for an RCF facility for £1.4 million for Sport Aberdeen.

- **SEEMIS Group LLP**

The Council has agreed to fund any additional pension liability payments arising from its membership of the SEEMIS organisation (the provider of our schools' Management Information System). To date there has been no call on the guarantee.

- **Scottish Child Abuse Enquiry**

The Scottish Child Abuse Enquiry is a national enquiry which was set up on 1 October 2015. The Council recognises a potential liability in respect of claims from this enquiry, but is not aware of any specific claims at this time.

- **Section 75 agreements**

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. The Supreme Court's recent judgement in relation to the Strategic Transport Fund (STF), which was funded through developer obligations, has significant implications for the Council, as there are several large scale projects in development which had expected to rely on STF funding. Delivery of these projects is now at risk unless an alternative funding solution can be identified.

- **Music School Tutors**

The Council and HMRC have on-going discussions regarding the employment status of the music school tutors. This may mean the Council has to pay back-dated tax and national insurance for them, and may also have to pay a penalty.

- **Multi Storey Blocks**

In response to the Grenfell Tower incident potential changes to fire safety within multi storey blocks may be required. The extent of such changes is unknown at this time.

38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

		2016/17 £'000		2017/18 £'000
Credited to Taxation and Non Specific Grant Income				
Total Revenue Funding Grant		332,802		325,560
Total		**332,802**		**325,560**
Credited to Services				
Department of Work and Pensions				
	Housing Benefit Grant	56,561		55,491
	Housing Benefit Admin Grant	762		702
	Discretionary Housing Payment	341		159
	Other	105	*	25
Grampian Health Board				
	Resource Transfer	19,124		773
	Integrated Care Funding	5,809		31,949
	Other	0		162
Other Local Authorities				
	Western Peripheral Route Works	7,042		2,964
	Other	88		72
Scottish Government				
	S27 Community Justice Grant	4,430		4,563
	Home Insulation	1,073		674
	Education Maintenance	321		313
	Attainment Challenge	215		482
	Other	1,461	*	1,067
Department for Culture, Medial and Sport				
	Accelerate Aberdeen	50		0
European Funding				
	Hydrogen Bus Project	640		528
	Civitas	12	*	267
	Other	87	*	152
Home Office				
	Syrian Refugee Resettlement Programme	219	*	313
	Other	44	*	37
Creative Scotland				0
	Youth Music Initiative	170	*	383
	Other	168	*	68
Sport Scotland		458		419
Scottish Legal Aid Board		135		123
Heritage Lottery Fund		187		247
Transport Scotland		264		15
Other		267		576
Total		**100,033**		**102,524**

* 2016/17 figures have been updated to show the Civitas Grant and Youth Music Initiative grant separately. These were previously part of 'other'. The Youth Employment Grant has been moved from Department of Works and Pensions to Scottish Government.

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 giver. The balances at the year end are as follows:

		2016/17 £'000	2017/18 £'000
Revenue Grants - Receipts in Advance			
Social Care & Wellbeing (Telecare,Kinship Care,Luggage)		11	6
Communities		0	3
Bequest / Europe Direct for Libraries		50	0
Creative Scotland – Various Projects		231	24
Education Scotland		15	1
Scottish Government		78	0
Home Office Refugee Funding		79	513
Community Safety Hub Funding		9	0
Local Air Quality		0	2
Amped Funding		0	7
Place Partnership		0	11
Creative Learning Network		0	11
Total		**473**	**578**
Capital Grants - Receipts in Advance			
Gypsy Traveller Grant		103	103
Public Wireless Programme Grant		7	0
Scottish Government Flood Grant		407	403
Scottish Government JIVE Funding		0	3,388
Early Learning & Childcare Capital Payment		0	1,035
Fibre Network		0	936
Regeneration Capital Grant Fund		0	1,977
Aberdeen Inspired Funding for Cars for Union Street		0	13
Total		**517**	**7,855**

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39. **Financial Instruments**

Categories of Financial Instruments

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

Financial Instruments Balances	Long term		Current	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Investments				
Loans and receivables	0	0	141,227	98,705
Available for sale financial assets	18,656	18,076	0	0
Total investments	**18,656**	**18,076**	**141,227**	**98,705**
Debtors				
Loans and receivables	7,311	8,222	78,677	77,292
Financial assets carried at contract amount	0	0	0	0
Total debtors	**7,311**	**8,222**	**78,677**	**77,292**
Borrowings				
Financial liabilities at amortised cost	(900,871)	(890,982)	(81,351)	(79,435)
Total borrowings	**(900,871)**	**(890,982)**	**(81,351)**	**(79,435)**
Other Long term Liabilities				
PPP liabilities	(100,973)	(97,752)	(2,611)	(3,222)
Total other long term liabilities	**(100,973)**	**(97,752)**	**(2,611)**	**(3,222)**
Creditors				
Financial liabilities carried at contract amount	(108)	(108)	(90,364)	(78,245)
Total creditors	**(108)**	**(108)**	**(90,364)**	**(78,245)**

Notes:

The Council undertook a £370 million Bond Issuance in 2016, receiving a premium of £44 million. This is reflected in the table above within “Borrowings, Financial Liabilities at Amortised Cost”

Lenders Option/Borrowers Option (LOBO’s) of £53.9m have been included in long term borrowing but have a call date in the next 12 months

Income, Expense, Gains and Losses

Financial Instruments Gains/(Losses)	2016/17			2017/18		
	Financial Liabilities	Financial Assets	Total	Financial Liabilities	Financial Assets	Total
	Measured at amortised cost £'000	Loans and receivables £'000	£'000	Measured at amortised cost £'000	Loans and receivables £'000	£'000
Interest expense	(35,072)	0	**(35,072)**	(45,496)	0	**(45,496)**
Total expense in Surplus or (Deficit) on the Provision of Services	**(35,072)**	**0**	**(35,072)**	**(45,496)**	**0**	**(45,496)**
Interest income	0	771	**771**	0	1,450	**1,450**
Total income in Surplus or (Deficit) on the Provision of Services	**0**	**771**	**771**	**0**	**1,450**	**1,450**
Net gain/(loss) for the year	**(35,072)**	**771**	**(34,301)**	**(45,496)**	**1,450**	**(44,046)**

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term 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 2.55% to 11.00% for loans from the PWLB and 3.98% to 5.00% for other loans receivable and payable, based both on both a new loan rate basis and a fair value basis 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.

Fair Value of Liabilities	31 March 2017					31 March 2018				
	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value (Premature Repayment) £'000	Fair Value (New Loan Rates) £'000	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value (Premature Repayment) £'000	Fair Value (New Loan Rates) £'000
PWLB – maturity	(398,880)	(6,771)	(405,651)	(724,959)	(598,474)	(388,880)	(6,624)	(395,504)	(708,183)	(584,312)
LOBOs	(93,893)	(698)	(94,592)	(183,473)	(148,361)	(93,893)	(698)	(94,592)	(183,043)	(145,121)
Bond Issuance	(372,174)	0	(372,174)	(284,243)	(244,619)	(370,000)	0	(370,000)	(435,615)	(435,615)
Bond EIR	0	0	0	0	0	(16,609)		(16,609)	(16,609)	(16,609)
Bond Premium	(43,835)	0	(43,835)	(42,113)	(42,113)	(42,356)	0	(42,356)	(42,356)	(42,356)
Transfer Interest to Short Term in line with Code requirements	0	7,469	7,469	0	0	0	7,322	7,322	0	0
Transfer borrowing repayable with 12 months to Short Term in line with Code requirements	0	0	10,000	0	0	0	0	23,447	0	0
Financial Instrument Adjustments	0	0	(2,088)	0	0	0	0	(2,690)	0	0
Total Long Term Borrowing	**(908,782)**	**0**	**(900,871)**	**(1,234,788)**	**(1,033,567)**	**(911,738)**	**0**	**(890,982)**	**(1,385,806)**	**(1,224,013)**
Short term borrowing	(63,836)	(46)	(63,883)	(63,883)	(63,883)	(48,638)	(28)	(48,666)	(48,681)	(48,681)
Transfer Interest from Long Term in line with Code requirements	0	(7,469)	(7,469)	0	0	0	(7,322)	(7,322)	0	0
Transfer borrowing repayable with 12 months from Long Term in line with Code requirements	0	0	(10,000)	0	0	0	0	(23,447)	0	0
Total Short Term Borrowing	**(63,836)**	**(7,515)**	**(81,352)**	**(63,883)**	**(63,883)**	**(48,638)**	**(7,350)**	**(79,435)**	**(48,681)**	**(48,681)**

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates. From 2015/16, the Fair Value of borrowings is shown at both Premature Repayment rates and New Loan rates. In prior years, the Fair Value of borrowings had been shown only on a New Loans rates basis.

Fair Value of Assets	31 March 2017				31 March 2018			
	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value £'000	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value £'000
Deposits with banks/building societies	309,374	207	309,581	309,638	136,224	177	136,401	136,401

The above deposits are shown within Cash and Cash Equivalents and Short Term Investments in the Balance Sheet.

40. Nature and Extent of Risks Arising from Financial Instruments

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

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in its annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by the Council's Treasury Advisers. The Annual Investment Strategy also imposes a maximum sum of £50 million to be invested with a financial institution located within the highest category for a maximum duration of 12 months.

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 £136.2m 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.

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

Credit Risk A					
Estimated maximum exposure at 31 March 2017 £'000		Amount 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
		A	B	C	(A x C)
0	Deposits with banks and building societies	136,401	0	0	0
1,217	Customers	26,623	8.95%	8.95%	2,383
1,217					**2,383**

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non performance by any of its counterparties in relation to deposits and bonds. The Council does not generally allow credit for customers, however £26.6m is past its due date for payment. The past due amount can be analysed by age as follows:

Credit Risk B	31 March 2017 £'000	31 March 2018 £'000
Less than three months	11,390	7,454
Three to six months	1,398	3,360
Six months to one year	1,685	3,312
More than one year	14,515	12,497
	28,988	**26,623**

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that not more than 20% of loans are due to mature within any financial year and 50% within any rolling five year period through a combination of prudent planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

	31 March 2017 £'000	31 March 2018 £'000
Less than one year	84,313	82,109
Between one and two years	23,447	16,860
Between two and five years	25,000	47,550
Between five and ten years	1,000	52,803
More than ten years	805,501	712,113
	939,261	**911,435**

In the “More than 10 years” category in the table above there are £53.9 million of LOBOs which have a call date in the next 12 months. All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

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

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

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

£370 million of the Council’s borrowings are in the form of a bond which is index-linked to RPI. The amount of principal and interest to be paid is therefore dependent on changes in RPI. For example, a 1% increase in the rate of RPI compared to the prevailing rate would result in an annual increase of £0.4 million in amounts repayable.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council’s cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	539
Increase in interest receivable on variable rate investments	(856)
Impact on Surplus or Deficit on the Provision of Services	**(317)**
Share of overall impact debited to the HRA	**(76)**
Decrease in fair value of fixed rate borrowings liabilities due to a 1% rise in discount rates (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**187,817**
Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	225

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

Foreign exchange risk

The Council operates a Bank Account denominated in Euros but has no exposure to loss arising from movements in exchange rates.

Loans Fund

The Loans Fund is the central financing agency of the Council. It is an accounting arrangement which simplifies on the one hand expenditure on various capital projects and, on the other hand, the borrowing of money to finance such projects. Effectively the Council's services borrow from the Loans Fund to finance their capital expenditure and the Loans Fund in turn borrows from the Government through the Public Works Loan Board or from the London Money Market. At the end of each financial year the capital expenditure incurred by services is added to their prior year's expenditure to reflect the total debt owed by each service to the Loans Fund.

Each year the service's accounts repay a proportion of the sums previously borrowed, based on the life of the asset, along with a share of the interest paid on loans and expenses of managing the Loans Fund. All interest and management expenses are initially paid by the Loans Fund and then recharged to service accounts at an average rate which is sufficient to recover each year's expenditure in full. For 2017/18, the average interest rates were 4.94% for capital (2016/17, 3.46%), 0.29% for revenue advances (2016/17, 0.27%) and 0.02% for expenses (2016/17, 0.02%) on raising loans.

The management of all money and capital market transactions in connection with cash and funding resources for the Council has been carried out in accordance with the Council's Treasury Policy Statement as recommended by the CIPFA Code of Practice for Treasury Management in Local Authorities.

Amounts Borrowed from the Loans Fund

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
General Fund	408,526	402,839	397,654	396,557	397,314	413,355	538,587	667,392
Trading Operations	23,257	22,678	24,282	23,083	21,283	20,486	19,207	15,107
Housing Revenue Account	185,923	193,225	196,880	196,665	196,675	193,692	189,118	187,479
Total	**617,706**	**618,742**	**618,816**	**616,305**	**615,272**	**627,533**	**746,913**	**869,978**

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Loans Fund
Revenue Account

2016/17 £'000		2017/18 £'000
	Expenditure	
24,257	Interest paid to External Bodies	41,181
516	Interest paid to Other Council Accounts	475
134	General Expenses	167
24,907		**41,823**
	Income	
	Interest & Expenses charged to Aberdeen City Council	
(16,649)	General Fund	(30,379)
(6,911)	Housing Revenue Account	(9,537)
(693)	Trading Operations	(957)
(654)	From Temporary Investments	(950)
(24,907)		**(41,823)**

Loans Fund
Balance Sheet as at 31 March

2017 £'000		2018 £'000
	Assets	
	Advances to:	
746,913	Aberdeen City Council for Capital Expenditure	869,978
2	Other Bodies	2
13,613	Rescheduled Premiums	13,216
760,528		883,196
	Current Assets	
309,350	Temporary Investments	136,200
230	Sundry Debtors	205
(624)	Bank	1,184
1,069,484		1,020,785
	Less: Current Liabilities	
111,930	Temporary Advances from Council Services	76,548
7,515	Sundry Creditors	7,335
119,445		83,883
950,039	**Net Assets**	**936,902**
	Financed by:	
(398,880)	Public Works Loan Board	(388,880)
(93,893)	Market Loans	(93,893)
(369,529)	Negotiable Bonds	(370,000)
(42,114)	Bond Premium	(42,356)
0	Bond EIR	(16,609)
(2)	Stock Issue & Gas Annuities	(2)
(45,621)	Temporary Loans	(25,162)
(950,039)		**(936,902)**

Steven Whyte, FCPFA
Director of Resources

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Housing Revenue Account

This represents the statutory requirement to account for local authority housing provision as defined in the Housing (Scotland) Act 1987.

Housing Revenue Account Income and Expenditure Statement

2016/17		2017/18	
£'000		£'000	£'000
	Income		
(81,866)	Dwelling Rents	(80,819)	
(3,605)	Non dwelling Rents	(3,427)	
(2,094)	Other Income	(2,107)	
(87,565)			**(86,353)**
	Expenditure		
632	Staff Costs	981	
632			**981**
	Premises Costs:		
26,955	Repairs and Maintenance	25,316	
3,079	Maintenance of amenity areas	3,056	
2,811	Bad debts written off/provisions	1,653	
1,226	Loss of rent vacant periods	1,416	
2,389	Other costs	1,986	
36,460			**33,427**
	Administration Costs:		
8,162	Management and Administration	7,658	
1,004	Other costs	461	
9,166			**8,119**
	Supplies and Services:		
3,678	Communal Lighting and Heating, etc.	3,608	
160	Information Technology	162	
165	Other Costs	149	
4,003			**3,919**

2016/17		2017/18	
£'000		**£'000**	**£'000**
	Agencies:		
215	Contributions	215	
102	Supporting People Contribution	0	
662	Tenant's Participation/Helplines	583	
979			**798**
	Capital Charges:		
27,922	Depreciation	29,106	
32,373	Impairment of Non Current Assets	30,903	
60,295			**60,009**
111,535	**Gross Expenditure**		**107,253**
23,970	**Net Cost of HRA Services per Council's Comprehensive Income and Expenditure Statement**		20,900
157	Corporate and Democratic Core	137	
			137
24,127	**Net Cost of HRA Services**		**21,037**
(3,584)	(Gain) / Loss on Sale of HRA Non Current Assets	(1,040)	
6,912	Interest payable and similar charges	9,538	
(80)	Interest and investment income	(79)	
286	Pensions interest and return on assets	195	
(6,736)	Non Specific Grant Income/Contributions (Affordable Housing Contribution for Council Tax)	(11,079)	
20,925	**(Surplus)/deficit for the year on HRA Services**		**18,572**

Movement on the Housing Revenue Account Statement

2016/17 £'000		Notes	2017/18 £'000
(10,808)	Balance on the HRA at start of Year		(11,308)
20,925	(Surplus) or Deficit for the Year on HRA Income and Expenditure Statement		18,572
(21,425)	Adjustments between Accounting Basis and Funding Basis Under Statute	1	(19,072)
(500)	Net (Increase) or Decrease Before Transfers to or (from) Reserves		(500)
0	Transfers to or (from) Reserves	2	0
(500)	(Increase) or Decrease in Year on the HRA		(500)
(11,308)	**Balance on the HRA at end of Year**		**(11,808)**

Housing Revenue Account Disclosures

1. Adjustments between Accounting Basis and Funding Basis under Statute

2016/17 £'000		2017/18 £'000
3,584	Gain or (loss) on sale of HRA non-current assets	1,040
22,913	Capital expenditure funded by the HRA	22,496
	Transfer to/from the Capital Adjustment Account:	
(60,295)	Depreciation and Impairment	(60,094)
6,736	Capital Grants and Contributions	11,079
6,001	Repayment of Debt	7,034
(376)	HRA share of contributions to or from the Pensions Reserve	(608)
12	Adjustment involving the Accumulated Absences Account	(21)
0	Other Adjustments	2
(21,425)		**(19,072)**

2. Transfers (to) or from Reserves

2016/17 £'000		2017/18 £'000
0	Transfer to/(from) the General Fund	0
0	**Total**	**0**

3. Housing Stock

The Council's housing stock at 31 March 2018 was 22,365 (22,272 at 31 March 2017) in the following categories:

2016/17 Number		2017/18 Number
	Type of Property	
2,049	Sheltered Property	1,994
4,280	Cottage	4,203
8,666	Flat	8,416
2,139	Four in Block	2,087
548	Maisonette	548
2,167	Multi Storey Flat	2,134
122	Split Level Flat	122
431	Multi Storey Maisonette	428
1,264	Amenity	1,330
379	Homeless	374
22,045	**Sub Total**	**21,636**
227	Properties off the charge	729
22,272	**HRA Total**	**22,365**
	Other Assets	
1	Hostel	1
241	Garages Sites	241
2,042	Lock Up Garages	2,037
911	Parking Spaces	911
17	Travelling Peoples Sites	17
3,212		**3,207**

4. Rent Arrears

2016/17 £'000			2017/18 £'000
3,257		Current Tenant Arrears	4,070
1,280		Former Tenant Arrears	1,788
4,537		**Total Rent Arrears**	**5,858**

5. Impairment of Debtors

In 2017/18 an impairment of £4,937,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £1,080,000 from the provision in 2016/17.

National Non Domestic Rates

National Non Domestic Rates (NNDR) income is collected by local authorities and remitted to the Scottish Government, where it is pooled nationally, and re-distributed back to local authorities along with the Revenue Support Grant.

Occupiers of non-domestic property continue to pay rates based on the valuation of the property as compiled by the Grampian Valuation Joint Board. The non domestic rate (NDR) poundage for 2017/18, which is set annually by the Scottish Ministers, is 46.6 pence. There is also a small supplement on the poundage rate of 2.6 pence for subjects with a rateable value greater than £51,000 to cover the additional costs of the Small Business Bonus Scheme. In 2016/17, the NDR poundage rate was set at 48.4 pence and the supplement was 2.6 pence. The table below details the actual levels of NNDR billed by Aberdeen City Council, and the amount that the Council is entitled to receive under the National Pooling arrangement.

2016/17			**2017/18**	
£'000			**£'000**	**£'000**
(243,859)		**Gross Rates Levied and Contributions in Lieu**		**(289,671)**
		Deduct:		
28,961		Reliefs, remissions, etc.	42,918	
		Payment of Interest		
3,058		Write off of uncollectable debts and allowances for impairment	3,264	46,182
(211,840)		**Net Non Domestic Rate Income**		**(243,489)**
2,315		Adjustment to previous years' National Non Domestic Rates		1,357
(209,525)		**Contribution to Non Domestic Rate Pool**		**(242,133)**
(215,586)		**Distribution from Non Domestic Rate Pool**		**(205,547)**
		Add:		
663		Adjustment for Statutory Additions and others		(399)
0	*	BRIS Income Retained	0	
663				0
		Less:		
342		Charity Relief adjustment		399
(214,581)		**Income credited to the Comprehensive Income and Expenditure Statement ***		**(205,547)**

* The figure for 2017/18 assumes that no excess will be retained by the Council for exceeding the Business Rates Incentivisation Scheme (BRIS) target in 2017/18.

Category	Number of Subjects	Rateable Value at 1 April 2018 £'000
Advertising	132	499
Care Facilities	116	5,899
Communications (non Formula)	35	3,314
Cultural	12	913
Education and Training	162	34,609
Garages and Petrol Stations	209	5,252
Health Medical	126	15,999
Hotels etc	346	24,247
Industrial Subjects including Factories Warehouses & Stores	1,982	146,431
Leisure, Entertainment, Caravans & Holiday Sites	303	14,903
Offices including Banks	2,717	195,082
Other	856	10,978
Petrochemical	2	792
Public Houses	159	8,169
Public Service Subjects	195	20,114
Quarries, Mines etc.	9	128
Religious	134	2,699
Shops	2,196	105,032
Sporting Subjects	83	482
Undertaking	13	2,034
Total Non Domestic Rates Subjects	**9,787**	**597,576**

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Council Tax

Local authorities raise taxes from its residents through the Council Tax which is a property tax linked to property values. Each dwelling in Aberdeen City is placed into one of eight valuation bands (A to H), as determined by Grampian Valuation Joint Board. The Council 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 that appear on the valuation list are liable for the tax, but in some circumstances, for example single occupancy, discounts can apply, and some dwellings, for instance students' residences and certain unoccupied dwellings, are exempt.

In 2017/18, for Band D properties, the Council's Council Tax was frozen at £1,230.39. The full range of bandings is set out after the Council Tax Income Account.

Council Tax Income Account

2016/17 £'000			**2017/18 £'000**
(138,129)		Gross Assessments	(147,022)
(1,034)		Net band adjustments	(982)
(139,163)		**Council Tax Collectable**	**(148,004)**
		Deduct:	
11,058		Exemptions	12,350
62		Disabled Relief	83
12,514		Discounts	13,150
3,142		Provision for non collection	3,246
9,340		Council Tax Reduction	9,592
260		Other	87
(102,787)			**(109,495)**
		Add:	
(1,159)		Statutory Additions	(1,188)
(238)		Prior Year Adjustments	219
(7)		Write Ons	(7)
(104,191)		**Net Council Tax income for the Year**	**(110,471)**
0		Arrears of Community Charge (Poll Tax) recovered during the year	0
(104,191)		**Net Council Tax income transferred to General Fund**	**(110,471)**

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The calculation of the Council Tax Base 2017/18:

	Number of Dwellings	Number of Exemptions	Disabled Relief	Discounts 25%	Discounts 50%	Total Dwellings	Ratio to Band D	Band D Equivalents
Band A (subject to disabled relief)			7			7	200/360	4
Band A	23,134	(3,855)	23	(3,129)	(450)	15,723	240/360	10,483
Band B	28,229	(2,657)	9	(3,300)	(444)	21,837	280/360	16,984
Band C	19,022	(1,593)	(11)	(1,703)	(305)	15,410	320/360	13,699
Band D	15,607	(2,242)	10	(1,333)	(344)	11,698	360/360	11,699
Band E	14,512	(696)	(1)	(1,088)	(232)	12,495	473/360	16,417
Band F	8,541	(233)	(3)	(507)	(106)	7,692	585/360	12,501
Band G	7,593	(136)	(32)	(312)	(85)	7,028	705/360	13,765
Band H	998	(23)	(2)	(26)	(17)	930	882/360	2,279
							Total	97,831
						Band D Equivalent Council Tax Reduction		(7,589)
						Contributions in Lieu		12
					Provision for Bad Debts (2.4%)			(2,348)
						Council Tax Base		87,906

All dwellings fall within a valuation band between A to H which is determined by Grampian Valuation Joint Board. The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. This value is then increased or decreased depending on the band. Based on the Council Tax base available to Aberdeen City Council, the band D charge for 2017/18 was £1,230.39 (2016/17, £1,230.39)

Property Value (£)	Band	Proportion of Band D	Council Tax Level (£)
27,000 or under	A	240/360	820.26
27,001 – 35,000	B	280/360	956.97
35,001 – 45,000	C	320/360	1,093.68
45,001 – 58,000	D	360/360	1,230.39
58,001 – 80,000	E	473/360	1,616.60
80,001 – 106,000	F	585/360	1,999.38
106,001 – 212,000	G	705/360	2,409.51
Over 212,000	H	882/360	3,014.46

Common Good

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

Movement in Reserves Statement

	Common Good Fund £'000	Reserves Fund £'000	Total Common Good £'000
Balance at 1 April 2016	**(112,424)**	**(68)**	**(112,492)**
Movement in Reserves during 2016/17			
(Surplus) or Deficit on provision of services	1,317	0	1,317
Total Comprehensive Expenditure and Income	**1,317**	**0**	**1,317**
Balance at 31 March 2017 carried forward	**(111,107)**	**(68)**	**(111,175)**
Movement in Reserves during 2017/18			
(Surplus) or Deficit on provision of services	(3,209)	0	(3,209)
Total Comprehensive Expenditure and Income	**(3,209)**	**0**	**(3,209)**
Balance at 31 March 2018	**(114,316)**	**(68)**	**(114,384)**

Comprehensive Income and Expenditure Statement

2016/17		2017/18		
Net (Income) Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net (Income) Expenditure £'000
10	Official Catering	0	0	0
68	Administration Costs	80	0	80
1,397	Donations, Grants, Contributions etc.	1,245	0	1,245
185	Civic Hospitality	142	0	142
102	Funding of International Budget	27	0	27
113	Christmas Illuminations & Festivities	104	0	104
197	Civic Administration Unit	168	0	168
78	Other Projects	82	0	82
386	Miscellaneous Expenditure	216	0	216
9	Greenfern Master plan	0	0	0
0	Specific Projects	433	0	433
127	Duthie Park HLF	121	0	121
2,672	**Cost Of Services**	**2,618**	**0**	**2,618**
	Other Operating Expenditure:			
(4,382)	Gains/losses on the disposal of non current assets			(5,342)
	Financing and Investment Income and Expenditure:			
(2,960)	Investment property income & expenditure			(3,277)
(192)	Interest receivable and other investment income			(219)
(4,862)	**(Surplus) or Deficit on Provision of Services**			**(6,220)**
6,179	(Surplus) or Deficit on revaluation of investment property			3,011
1,317	**Total Comprehensive Income and Expenditure**			**(3,209)**

Balance Sheet

31 March 2017 £'000		31 March 2018 £'000
89,046	Investment Property	86,034
89,046	**Long Term Assets**	**86,034**
21,918	Investments in Aberdeen City Council Loans Fund	27,798
61	Investment Property Held for Sale	61
472	Short Term Debtors	843
22,451	**Current Assets**	**28,702**
(322)	Short Term Creditors	(352)
(322)	**Current Liabilities**	**(352)**
111,175	**Net Assets**	**114,384**
(111,107)	Common Good Fund	(114,316)
(68)	Reserve Fund	(68)
(111,175)	**Total Reserves**	**(114,384)**

Steven Whyte, FCPFA
Director of Resources

29 June 2018

The property portfolio was valued internally by Debbie Wyllie, BSc MRICS and Neil Strachan, BLE MRICS who are RICS Registered Valuers, in accordance with the Statement of Assets Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors (RICS).

Trust Funds and Endowments

The Council is responsible for the administration of various Trusts. They have been created by bequest or by public subscription and are utilised for a variety of purposes in line with the trusts purposes identified in their governing documents. The money earned from the investments of the trusts is used for the maintenance of graves and monuments, the administration of the Guildry and its awards, school prizes and the advancement of art and the purchase of works of art. As well as administering the trusts, the Council is also the appointed trustee for all the trusts with the exception of Marguerite McBey Trust which has two Councillors on the Board of Trustees.

This section gives summary details of the income and disbursements relating t o these trusts, together with a summary of the balances of the trusts at 31 March 2018 and details of how the balances were invested at that date. A detailed breakdown of the separate individual trust accounts can be obtained from the Head of Finance.

Included in these funds are 8 Trusts which are registered as Scottish charities under the Charities and Trustee Investment (Scotland) Act 2005. A separate audited Annual Report and Accounts for the Council's registered Charitable Trusts is submitted to OSCR within statutory deadlines.

In addition to these Trusts there are a number of independent Trusts which are separately supported and administered by the council e.g. the Aberdeen International Youth Festival Trust and theLord Provost's Charitable Trust. Accounting information for these organisations is not included in this document.

Trust Funds have been incorporated into the Group accounts on the basis that they are entirely controlled by the Council, which appoints 100% of the trustees. However, it is acknowledged that the funds belong to the Trusts and that they may be used solely for the purposes specified in the Trust articles. The assets are not the property of the Council. The Common Good Fund has investments in the Lands of Skene Trust (30%) and the Lands of Torry Trust (51%).

Trusts reorganisation work is ongoing.. The Bridge of Dee was wound up by the transfer of it's remaining assets to the Bridge of Don Fund, which will be used for the same charitable purpose, the advancement of heritage in Aberdeen. Work is also underway on the creation of a new constitution for the Guildry.

Movement in Funds

Charity	Balance as at 31 March 2017 £'000	Transfer between Funds £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2018 £'000
EEIF	(183)	0	14	(3)	10	(162)
Guildry	(2,702)	0	0	(12)	27	(2,687)
Bridge of Don	(1,251)	(34)	0	(5)	38	(1,252)
Bridge of Dee	(34)	34	0	0	0	0
Alexander MacDonald Bequest	(32)	0	0	(0)	1	(31)
Aberdeen Art Gallery Trust	(26)	0	0	(0)	0	(26)
Lands of Skene	(1,157)	0	0	(47)	47	(1,157)
Lands of Torry	(853)	0	(589)	(137)	137	(1,442)
McBey Trust	(498)	0	0	(4)	6	(496)
Total - Charitable Trusts	**(6,736)**	**0**	**(575)**	**(208)**	**266**	**(7,253)**

Non Charity	Balance as at 31 March 2017 £'000	Transfer between Funds £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2018 £'000
Educational Trusts	(841)	0	(567)	(67)	67	(1,408)
Endowment Funds						
- Educational	(841)	0	65	(15)	6	(785)
- Social Work	(354)	0	29	(6)	0	(331)
Arts & Heritage	(74)	0	0	(1)	1	(74)
Graveyards	(22)	0	0	(0)	1	(21)
Monuments	(7)	0	0	(0)	0	(7)
John Rickart	(55)	0	0	(0)	1	(54)
Lands of Elsick	(0)	0	0	0	0	0
McBey Trust	(71)	0	0	(1)	1	(71)
Glover House Ltd	(1)	0	0	(26)	27	0
Aberdeen Japan Trust	(517)	0	0	0	8	(509)
Total - Non Charitable Trusts	**(2,783)**	**0**	**(473)**	**(116)**	**112**	**(3,260)**
Total	**(9,519)**	**0**	**(1,048)**	**(324)**	**378**	**(10,513)**

Investment of Funds

Charitable Trusts 2016/17 £'000	Non Charitable Trusts 2016/17 £'000	Total 2016/17 £'000		Charitable Trusts 2017/18 £'000	Non Charitable Trusts 2017/18 £'000	Total 2017/18 £'000
3,366	517	3,883	Land & Buildings	4,522	509	5,031
128	928	1,056	Equities - Listed	105	844	949
8	36	44	Gilt Edged Securities	8	35	43
0	233	233	Bank	0	238	238
2,836	1,136	3,972	Council Loans Fund	2,354	1,704	4,058
400	0	400	Other Investments	400	0	400
50	0	50	Debtors	50	0	50
(52)	(67)	(119)	Creditors	(186)	(70)	(256)
6,736	**2,783**	**9,519**		**7,253**	**3,260**	**10,513**
0	(1)	(1)	Share Capital	0	0	0
(4,590)	(2,104)	(6,694)	Unrestricted Funds	(4,530)	(2,669)	(7,199)
(135)	(675)	(810)	Endowment Funds	(123)	(591)	(714)
(2,011)	(1)	(2,012)	Designated Funds - Common Good Fund	(2,600)	0	(2,600)
0	(2)	(2)	Designated Funds - Grampian Health Board	0	0	0
(6,736)	**(2,783)**	**(9,519)**		**(7,253)**	**(3,260)**	**(10,513)**

Steven Whyte, FCPFA
Director of Resources

29 June 2018

The property portfolio was valued internally by Debbie Wyllie, BSc MRICS and Neil Strachan, BLE MRICS who are RICS Registered Valuers, in accordance with the Statement of Assets Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors (RICS).

Group Accounts

The Council has an interest in a number of companies and joint ventures and where material their financial results are consolidated into the Group Accounts.

Group Movement in Reserves Statement

	Total Usable Reserves (Page 53) £'000	Total Unusable Reserves (Note 12) £'000	Total Council Reserves £'000	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £'000	Total Reserves £'000
Balance at 31 March 2016	**(99,863)**	**(1,424,884)**	**(1,524,747)**	**(111,325)**	**(1,636,072)**
Movement in Reserves during 2016/17					0
(Surplus) or deficit on provision of services *	58,597	0	58,597	(6,280)	52,317
Other Comprehensive Income and Expenditure *	97	(26,923)	(26,826)	9,985	(16,841)
Total Comprehensive Income and Expenditure	**58,694**	**(26,923)**	**31,771**	**3,705**	**35,476**
Adjustments between accounting basis & funding basis under regulations	(46,075)	46,075	0	(8)	(8)
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	**12,619**	**19,152**	**31,771**	**3,697**	**35,468**
Transfers to/from Earmarked Reserves & Statutory Reserves	(146)	146	0	0	0
Increase/Decrease in Year	**12,473**	**19,298**	**31,771**	**3,697**	**35,468**
Balance at 31 March 2017 carried forward	**(87,391)**	**(1,405,587)**	**(1,492,976)**	**(107,628)**	**(1,600,604)**
Movement in Reserves during 2017/18					
(Surplus) or deficit on provision of services	73,003	0	73,003	(1,408)	71,595
Other Comprehensive Income and Expenditure	0	39,900	39,900	(4,721)	35,179
Total Comprehensive Income and Expenditure	**73,003**	**39,900**	**112,903**	**(6,129)**	**106,774**
Adjustments between accounting basis & funding basis under regulations	(43,510)	43,510	0		0
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	**29,493**	**83,410**	**112,903**	**(6,129)**	**106,774**
Transfers to/from Earmarked Reserves & Statutory Reserves	(8,067)	4,251	(3,816)	0	(3,816)
Increase/Decrease in Year	**21,426**	**87,661**	**109,087**	**(6,129)**	**102,958**
Balance at 31 March 2018	**(65,965)**	**(1,317,926)**	**(1,383,891)**	**(113,757)**	**(1,497,648)**

Group CIES

2016/17				2017/18		
Gross Expenditure £'000	**Gross Income £'000**	**Net Expenditure £'000**		**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
			Continued Operation			
244,961	(14,873)	230,088	Education and Childrens Services	253,501	(16,887)	236,614
178,683	(75,913)	102,770	Communities,Housing and Infrastructure	160,350	(61,594)	98,757
218,366	(128,697)	89,669	Integrated Joint Board/Social Work	221,786	(134,737)	87,049
58,044	(57,408)	636	Housing Benefits	57,389	(55,784)	1,605
40,961	(4,447)	36,514	Corporate and Miscellaneous	62,206	(13,902)	48,304
37,814	(11,396)	26,418	Corporate Governance	45,686	(11,707)	33,979
6,059	(2,443)	3,616	Office of the Chief Executive	5,151	(1,709)	3,442
120,813	(96,686)	24,127	HRA	103,055	(86,430)	16,624
905,701	**(391,863)**	**513,838**	**Cost of Services**	**909,124**	**(382,750)**	**526,374**
0	(7,214)	(7,214)	Other Operating Expenditure	0	(6,615)	(6,615)
76,082	(46,534)	29,548	Financing and Investment Income and Expenditure	89,618	(55,394)	34,223
0	(480,392)	(480,392)	Taxation and Non Specific Grant Income	0	(484,178)	(484,178)
981,783	**(926,003)**	**55,780**	**(Surplus) or Deficit on Provision of Services**	**998,741**	**(928,937)**	**69,804**
		(4,683)	Share of (surplus) or deficit on the provision of services of Associates and JV			1,791
		51,097	**Group (Surplus)/Deficit**			**71,595**
		(8,123)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			1,021
		405	(Surplus)/deficit on revaluation of available for sale financial assets			580
		(9,616)	Actuarial (gains)/losses on pension assets/liabilities			30,172
		540	Share of other Comprehensive Income and Expenditure of Associates and Joint Ventures			(1,325)
		(49)	Other (gains)/losses			4,731
		(16,842)	Other Comprehensive Income and Expenditure			35,179
		34,255	**Comprehensive Income and Expenditure from Continued Operation**			**106,774**
		1,220	**Comprehensive Income and Expenditure From Discontinued Operation**			0
		35,475	**Total Comprehensive Income and Expenditure**			**106,774**

Group Balance Sheet

31 March 2017 £000		31 March 2018 £000
2,239,668	Property ,Plant and Equipment(note xi)	2,312,593
176,390	Investment Property(note xii)	237,203
0	Intangible Assets	0
33,469	Long Term Investments and/or Investments in Associates and Joint Ventures	37,750
172,756	Heritage Assets	197,370
7,311	Long Term Debtors	8,222
2,629,594	Long Term Assets From Continued Operation	**2,793,138**
0	LT Assests Associated with Discontinued Operation	
2,629,594	**Long Term Assets**	**2,793,138**
141,227	Shorth Term Investments	98,705
2,016	Inventories	1,594
74,093	Short Term Debtors	74,281
185,081	Cash and Cash Equivalents	62,245
5,804	Assets held for Sale	6,620
408,221	ST Assets From Continued Operation	**243,445**
	ST Assets Associated with Discontinued Operation	0
408,221	**Current Assets**	**243,445**
(61,697)	Short Term Borrowing	(68,238)
(91,296)	Short Term Creditors	(77,997)
(4,234)	Provisions	(5,758)
(2,612)	PPP Short Term Liabilities	(3,222)
(597)	Capital Grants Receipts in Advance	(579)
(473)	Revenue Grants Receip in Advance	(7,928)
(5,515)	Other Short Term Liabilities	(5,607)
(166,424)	ST Liabilities From Continued Operation	(169,329)
	ST Liabilities Associated with Discontinued Operation.	0
(166,424)	**Current Liabilities**	**(169,329)**

Group Balance Sheet

31 March 2017 £'000		31 March 2018 £'000
(108)	Long Term Creditors	(108)
(679)	Provisions	(679)
(900,872)	Long Term Borrowing	(886,975)
(2,262)	Liabilities in Associates and Joint Ventures	(1,673)
(100,973)	PPP Long Term Liabilities	(97,751)
0	Other Long Term Liabilities	(58,791)
(265,893)	Pension Liabilities	(323,630)
(1,270,787)	**Long Term Liabilities**	**(1,369,607)**
1,600,604	**Net Assets**	**1,497,648**
(87,390)	Usable Reserves	(65,965)
(1,405,586)	Unusable Reserves	(1,317,926)
33,362	Group - Usable Reserves	(162)
(140,990)	Group - Unusable Reserves	(113,595)
(1,600,604)	**Total Reserves**	**(1,497,648)**

Steven Whyte, FCPFA
Director of Resources

29 June 2018

Group Cash Flow

31 March 2017 £'000			31 March 2018 £'000
(51,097)	*	Net surplus or (deficit) on the provision of services	(71,595)
131,863		Adjust net surplus or deficit on the provision of services for non cash movements	140,499
(54,546)		Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(37,268)
26,220		Net cash flows from Operating Activities (Note vii)	**31,636**
(274,516)		Net cash flows from Investing Activities (note viii)	(123,417)
401,475		Net Cash flows from Financing Activities (note ix)	(31,056)
153,179		Net increase or decrease in cash and cash equivalents	**(122,837)**
31,903		Cash and cash equivalents at the beginning of the reporting period	185,082
185,081		**Cash and cash equivalents at the end of the reporting period (note x)**	**62,245**

Notes to the Group Accounts

Note i Group Accounting Policies & Nature of Consolidation

The group accounting policies are those specified for the single entity annual accounts. Where materially different, accounting policies of group members have been aligned to those of the single entity. The accounting policies of all group members are materially the same as those of the single entity, except in the following cases:

- The difference in the recognition of land and buildings by Aberdeen Sports Village (ASV). Aberdeen City Council revalues its assets at the point they become operational, while the Sports Village continues to hold them at historic cost, net of depreciation, until they are revalued as part of a 5 year cycle of revaluations, following which the accounting policy will become aligned. As at 31 March 2018, and due to the nature and age of the buildings it is anticipated that there would be no material impact of undertaking a revaluation as at the point of the assets becoming operational.

- Aberdeen Exhibition and Conference Centre Ltd,and Aberdeen Sports Village Ltd are not required to prepare their annual accounts on an IFRS basis and on the grounds of materiality no consolidation adjustments have been made to the group accounts.

The Group Accounts have been prepared on the basis of a full consolidation of financial transactions and balances of the Council and its subsidiaries. This means the transactions and balances of the Council and the subsidiaries have been consolidated on a line by line basis. Associates have been incorporated using the equity method where the Council's investment in the associates is adjusted each year by the Council's share of the associate's results and other gains and losses. Joint Ventures have been incorporated using the gross equity method.

The accounting periods for all entities are from 1 April 2017 to 31 March 2018, with the exception of ASV Ltd, whose accounting year end is 31 July, in line with that of its other shareholder, The University of Aberdeen. ASV Ltd has been incorporated on the basis of amalgamating data from the annual accounts produced at 31 March 2017, 31 July 2017 and 31 March 2018. This means that a 12 month period of activity is incorporated into the Group Accounts.

The values stated in the Group Accounts have been adjusted for the elimination of intergroup transactions and balances including debtors and creditors.

Note ii Disclosure of Interest in Other Entities

The Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interests in all types of entity to incorporate into Group Accounts. A full set of group accounts, in addition to the Council's accounts, has been prepared which incorporates material balances from identified subsidiaries, associates and joint ventures.

Aberdeen City Council has an interest in a number of Subsidiaries, Associate companies and a Joint Venture. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

The business combination for the Group Accounts includes Subsidiaries – Aberdeen Exhibition and Conference Centre Limited (AECC) 100%, Common Good 100%, Trust Funds 100%, Sport Aberdeen 100%, Bon Accord Care and Bon Accord Support Services 100%. Included as an Associate is Grampian Valuation Joint Board 39%. The Joint Venture with the University of Aberdeen is in Aberdeen Sports Village Limited 50%.

Subsidiaries

Common Good

The voting rights held by Aberdeen City Council are 100%.

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land, buildings, industrial estates, and farms with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

Trust Funds

The Council is responsible for the administration of various trusts, the proportion of voting rights held by Aberdeen City Council being 100%. They have been created by bequest or evolved through history or by public subscription and are utilised for a variety of benefits such as education and social work, charitable purposes, religious instruction, medical institutions, the upkeep of public works and also the administration of the Guildry. The money earned from the investments of the Trusts is used to provide grants, prizes and dux medals for school children and requisites for clients in Social Work homes. As well as administering the trusts, the Council is also the appointed trustee for all the trusts.

In addition to these trusts there are a number of independent trusts which are separately supported and administered by the Council e.g. the Chris Anderson Trust and various Festival trusts.

Sport Aberdeen

Sport Aberdeen Limited is a charity and constitutes a limited company limited by guarantee. The principal activity of the company is the provision of recreation leisure facilities and services on behalf of Aberdeen City Council in accordance with key priorities. Although Aberdeen City Council does not own the entity, under chapter 9 of the Code the Council have determined that control representing power to govern exists through agreements in place and that Sport Aberdeen Limited appears to be operating as a structured entity of the Council as defined by IFRS 12.

In the event that Sport Aberdeen incurs any reasonable and properly incurred losses or liabilities, damage claims, demand, costs, expenses, penalties, legal and other professional fees, the council will indemnify Sport Aberdeen on demand for these losses.

Aberdeen City Council as the Scheme employer of the North East Scotland Pension Fund in which Sport Aberdeen is an Admission Body guarantees to discharge on demand the guaranteed obligations by making immediate payment to the fund.

Bon Accord Care and Bon Accord Support Services

Bon Accord Care Limited and Bon Accord Support Services Limited are private companies limited by shares which are 100% held by Aberdeen City Council. Bon Accord Care provides regulated (by the Care Inspectorate) care services to Bon Accord Support Services which in turn delivers both regulated and unregulated adult social care services to the Council.

Joint Ventures

Aberdeen City Council holds a 50% share in Aberdeen Sports Village Limited (ASV), a company limited by guarantee and registered as a charity. This is a joint venture company owned equally by the Council and The University of Aberdeen. The relationship is treated as a joint venture and accounted for using the gross equity method, such that 50% of the company's gross assets and liabilities are incorporated within the Group Balance Sheet of the Council and 50% of its net income is reported in the Council's Group Income and Expenditure Accounts. ASV currently has Net Assets of £36.2 million in 2017/18 (2016/17, £37.3 million).

ASV Ltd was incorporated on 17 July 2007 and its objectives are to provide sports and recreational facilities, including elite sports facilities for the use of both students and staff of the University of Aberdeen and the general public, and the advancement of public participation in sport.

The Aberdeen City Integration Joint Board (IJB) was established by order of Scottish Ministers on 6 February 2016, becoming fully operational from 1 April 2016. The IJB is responsible for the strategic planning, resourcing and operational delivery of all integrated health and social care within the Aberdeen City area. This has been delegated by the partners; Aberdeen City Council and NHS Grampian. During financial year 2017/18, the partners contributed £303 million in funding to the IJB (£311 million 2016/17).

Associates

Aberdeen City Council incorporates the following Associate in its group annual accounts;

Grampian Valuation Joint Board 39%

There is no share capital issued by the Joint Boards, and therefore the consolidation proportion was based on the level of contribution Aberdeen City Council provided to the Board.

The Grampian Valuation Joint Board was created following Local Government Re-organisation on 1 April 1996, under the Local Government (Scotland) Act 1994 and covers the local government areas of Aberdeenshire, Aberdeen City and Moray.

Distribution of Reserves

With the exception of Aberdeen Sports Village, there is no significant statutory, contractual or exchange control restrictions on the ability of an associate to distribute its reserves. Aberdeen Sports Village's reserves are mainly funded from Sportscotland and are restricted to the provision of sport in the area. As a charity unrestricted reserves may be transferred to some other charitable body or bodies whose objectives are similar to the objectives of Aberdeen Sports Village.

Note iii Financial Impact of Consolidation

The effect of inclusion of the subsidiary, associate and joint venture entities on the Group Balance Sheet is to increase both Reserves and Net Assets by £114 million (2016/17, increase of £111.3 million).

Note iv Group Entities

The financial performance of each of the group entities included within the Group Accounts was as follows:

For the financial year 2016/17	ACC Control %	Commitment to meet accumulated deficits %	Net Assets / (liabilities) £'000	Surplus / (deficit) for the year £'000	The accounts can be acquired from
Subsidiaries					
Aberdeen Exhibition and Conference Centre	100	100	(1,639)	(1,220)	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	111,175	(1,317)	Head of Finance, Aberdeen City Council
Trust Funds	100	100	7,507	(701)	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(4,242)	(3,938)	Broadfold House, Broadford Road, Bridge of Don, Aberdeen AB23 8EE
Bon Accord Care Limited	100	100	(9,521)	(556)	Inspire Building, Beach Boulevard, Aberdeen AB24 5HP
Bon Accord Support Services Limited	100	100	(597)	(116)	Inspire Building, Beach Boulevard, Aberdeen AB24 5HP
Joint Ventures					
Aberdeen Sports Village Limited	50	50	37,312	(820)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Integrated Joint Board	50	50	10,418	10,418	50 Frederick Street, Aberdeen AB24 5HY
Associates					
Grampian Valuation Joint Board	39	39	5,799	(2,733)	The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin IV20 1BX

For the financial year 2017/18	ACC Control %	Commitment to meet accumulated deficits %	Net Assets / (liabilities) £'000	Surplus / (deficit) for the year £'000	The accounts can be acquired from
Subsidiaries					
Aberdeen Exhibition and Conference Centre	100	100	361	0	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	114,384	6,220	Head of Finance, Aberdeen City Council
Trust Funds	100	100	7,917	(53)	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(1,108)	(456)	Broadford House, Broadford Road, Bridge of Don, Aberdeen, AB23 8EE
Bon Accord Care Limited	100	100	(9,528)	(2,621)	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Bon Accord Support Services Limited	100	100	(742)	109	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Joint Ventures					
Aberdeen Sports Village Limited	50	50	36,151	(1,024)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Intregrated Joint Board	50	50	8,307	(2,110)	50 Frederick Street, Aberdeen, AB24 5HY
Associates					
Grampian Valuation Joint Board	39	39	(4,289)	(575)	The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin IV20 1BX

Note v Non-Material Interest in Other Entities

On the grounds of materiality, Aberdeen Heat and Power Limited (AH&P Ltd), the North East Transport Partnership (NESTRANS), Grampian Venture Capital Fund Ltd, Strategic Development Planning Authority and Scotland Excel have been excluded from the foregoing Group Accounts.

AH&P Ltd is a company limited by guarantee and has no share capital. Aberdeen City Council is the sole guarantor. Control of the Company rests with the Board of Directors which is independent from Aberdeen City Council. The Council is entitled to appoint 2 out of 10 directors i.e. 20% of the Board. In the event that AH&P Ltd ceases to exist the ownership of the assets would transfer to the Council. For the year ended 31 March 2018, AH&P Ltd made a profit of £771,299 (2016/17, £330,755 profit) and the net assets of the company were £3,128,409 (2016/17, £2,357,110). Turnover was £3,767,282 (2016/17, £3,636,090). The accounts for 2017/18 are subject to audit. Copies of AH&P Ltd.'s accounts may be obtained from Brodies Secretarial Services Limited, 15 Atholl Crescent, Edinburgh, EH3 8HA.

NESTRANS was created under the Transport (Scotland) Act 2005 by the Scottish Government. Its aim is 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 Aberdeenshire. There are 12 members on the Board. Aberdeen City Council, Aberdeenshire Council and the Scottish Government have 4 members each. The Councils fund the Partnership on an equal basis. For 2016/17, Aberdeen City Council contributed £135,000 (2015/16, £47,000) towards the core costs of the organisation. The current legislative position of NESTRANS prevents it from retaining a surplus and reserves. The impact in consolidation using the equity method is therefore nil. The audited accounts for 2016/17 show a deficit of £38,400 (2015/16, £3,500 surplus) for the year, before taking into account amounts required by statute and non statutory proper practices to be debited or credited to the general fund balance.

Grampian Venture Capital Fund Ltd is a private company limited by shares with a share capital of £455,000. Aberdeen City Council holds 29.9% of the voting rights. The two other main shareholders are Aberdeenshire Council with 35.4% and Moray Council with 20.4%. As at 31 March 2017 net assets amounted to £304,457 (2015/16, £310,155) with a loss for the year of £5,698 (2015/16, £660 loss). The accounts for 2017/18 are being prepared. It is anticipated that there will be no significant changes as at March 2018. Grampian Venture Capital Fund was established in 1988 as Moray Venture Capital Fund Limited to provide development and venture capital to promote industry in the Moray area and subsequently extended across Grampian Region in late 1994.

The Strategic Development Planning Authority is a partnership between Aberdeen City and Aberdeenshire Councils. The SDPA was designated by Scottish Ministers on 25 June 2008 and is one of 4 cities–region planning authorities. The current legislative position of SDPA prevents it from retaining a surplus and reserves. In 2017/18, Aberdeen City Council contributed £19,4000 (2016/17, £84,134) towards the costs of the organisations. This consists of £84000 towards the costs of the organaisation asn £110,000 for legal costs associated with SDPA appeal towards strategic Transport Fund.

Scotland Excel is the Centre of Procurement Expertise for the Local Government sector in Scotland. Established in 2008, their remit is to work collaboratively with members and suppliers to raise procurement standards, secure best value for customers and to improve the efficiency and effectiveness of public sector procurement in Scotland. Scotland Excel is funded by member requisitions. For 2017/18, Aberdeen City Council contributed £140,607 (2016/17, £140,607) towards the cost of these services. This represents Aberdeen City Council's share at 4%.

Note vi Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2016/17 £'000		2017/18 £'000
35,077	Interest payable and similar charges	45,778
8,224	Pensions interest cost and expected return on pensions assets	5,818
(974)	Interest receivable and similar income	(4,916)
(8,883)	Income and expenditure in relation to investment properties and changes in their fair value	(69,736)
(3,897)	Other investment income	(2,760)
29,547	**Total**	**(25,816)**

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Note vii Cash Flow Statement – Group Operating Activities

2016/17 £'000			2017/18 £'000
(51,097)	*	Net surplus or (deficit) on the provision of services	(71,595)
(51,097)	*		**(71,595)**
		Adjustment to surplus or deficit on the provision of services for non-cash movements:	
68,391		Depreciation	70,765
57,429		Impairment, downward revaluations & non sale derecognitions	52,237
10		(Increase)/Decrease in Stock	421
(5,061)		(Increase)/Decrease in Debtors	2,163
0		Increase/(Decrease) in impairment provision for bad debts	0
599		Increase/(Decrease) in Creditors	(8,440)
11,256		Payments to Pension fund	24,296
10,332		Carrying amount of non current assets sold	16,795
0		Carrying amount of written off assets	0
(3,600)		Contributions to Other Reserves / Provisions	1,563
57		Movement in value of investment properties	(20,883)
0		Assets held for sale movement	0
31		Amortisation of intangible assets	0
(7,582)		Other non-cash movements, including reversal of surplus or deficit on provision of services by associates and joint ventures	1,580
131,863			**140,499**
		Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(43,398)		Receipt of Capital Grants and Contributions	(48,146)
(11,148)		Proceeds from the sale of PP&E, investment property and intangible assets	(5,731)
		Bond EIR adjustment	16,609
(54,546)			**(37,268)**

*2016/17 Net Deficit restated as a result of AECC being classified as a discontinued operation.

Note viii Cash Flow Statement – Group Investing Activities

2016/17 £'000		2017/18 £'000
(218,954)	Purchase of property, plant and equipment, investment property and intangible assets	(219,816)
(110,108)	Purchase of short term and long term investments	42,523
	Other payments for investing activities	
11,798	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,271
(650)	Contribution from the Capital Receipts Reserve towards the administrative costs on non current asset disposals	(540)
0	Proceeds from short term and long term investments	0
43,398	Capital grants and contributions received	48,146
0	Other receipts from investing activities	
(274,516)	**Net cash flows from investing activities**	**(123,417)**

Note ix Cash Flow Statement – Group Financing Activities

2016/17 £'000		2017/18 £'000
0	Cash receipts of short term and long term borrowing	0
0	Other receipts from financing activities	(29)
403,982	Repayments of short term and long term borrowing	(11,806)
	Bond EIR Adjustment	(16,609)
(2,478)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(2,611)
(29)	Other payments for financing activities	0
401,475	**Net cash flows from Financing activities**	**(31,055)**

Note x Cash Flow Statement – Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2017 £'000		31 March 2018 £'000
38	Cash held by officers	47
185,043	Bank current accounts	62,198
185,081	**Total cash and cash equivalents**	**62,245**

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Note xi Group Property, Plant and Equipment

Movements on Balances

Comparative Movements in 2016/17:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Aqssets under Construction	Total Property, Plant & Equipment	PP Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2016	**957,478**	**947,715**	**60,414**	**237,213**	**24,437**	**22,163**	**71,256**	**2,320,676**	**178,886**
Additions	41,833	22,967	7,398	22,187	1,643	17	126,694	**222,739**	20
Revaluations	3,322	(10,933)	0	0	0	(3,715)	0	**(11,326)**	0
Derecognition / Disposals	(36,106)	(44,949)	(4,706)	0	0	(2,177)	0	**(87,938)**	0
Transfers	(1,789)	1,312	0	0	0	0	0	**(477)**	0
At 31 March 2017	**964,738**	**916,112**	**63,106**	**259,400**	**26,080**	**16,288**	**197,950**	**2,443,674**	**178,906**
Accumulated Depreciation and Impairment									
At 1 April 2016	**(636)**	**(66,218)**	**(27,342)**	**(86,471)**	**0**	**1**	**0**	**(180,667)**	**(3,081)**
Depreciation Charge	**(27,922)**	(26,229)	(6,271)	(7,969)	0	0	0	**(68,391)**	(3,081)
Depreciation & Impairment written out	432	39,961	0	0	0	0	0	**40,393**	0
Derecognition / Disposals	179	370	4,110	0	0	0	0	**4,659**	0
Transfers	0	0	0	0	0	0	0	**0**	0
At 31 March 2017	**(27,947)**	**(52,116)**	**(29,503)**	**(94,440)**	**0**	**1**	**0**	**(204,006)**	**(6,162)**
Net Book Value									
At 31 March 2017	**936,791**	**863,996**	**33,603**	**164,960**	**26,080**	**16,289**	**197,950**	**2,239,668**	**172,744**
At 31 March 2016	**956,842**	**881,497**	**33,072**	**150,742**	**24,437**	**22,164**	**71,256**	**2,140,009**	**175,805**

Movements in 2017/18:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Aqssets under Construction	Total Property, Plant & Equipment	PP Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2017	**964,737**	**916,111**	**63,106**	**259,401**	**26,080**	**16,287**	**197,950**	**2,443,672**	**178,906**
Additions	42,182	16,830	3,246	16,376	2,155	9	136,749	**217,547**	0
Revaluations	(26,226)	(62,270)	0	0	0	533	0	**(87,963)**	0
Derecognition / Disposals	(2,269)	(151)	(5,049)	0	0	(96)	(4,401)	**(11,966)**	0
Transfers	(541)	54,457	0	0	0	(5,036)	(49,771)	**(891)**	0
At 31 March 2018	**977,883**	**924,977**	**61,303**	**275,777**	**28,235**	**11,697**	**280,529**	**2,560,399**	**178,906**
Accumulated Depreciation and Impairment									
At 1 April 2017	**(27,945)**	**(52,114)**	**(29,502)**	**(94,440)**	**0**	**0**	**0**	**(204,003)**	**(6,162)**
Depreciation Charge	**(29,034)**	(24,549)	(8,500)	(8,685)	0	0	0	**(70,768)**	(3,082)
Depreciation & Impairment written out	8	21,736	0	0	0	0	0	**21,744**	0
Derecognition / Disposals	120	144	4,955	0	0	0	0	**5,219**	0
Transfers	0	0	0	0	0	0	0	**0**	0
At 31 March 2018	**(56,852)**	**(54,784)**	**(33,047)**	**(103,125)**	**0**	**0**	**0**	**(247,808)**	**(9,244)**
Net Book Value									
At 31 March 2018	**921,030**	**870,193**	**28,256**	**172,652**	**28,235**	**11,697**	**280,529**	**2,312,593**	**169,662**
At 31 March 2017	**936,792**	**863,997**	**33,604**	**164,961**	**26,080**	**16,287**	**197,950**	**2,239,670**	**172,744**

Note xii Investment Properties

The following items of income and expense have been accounted for in the Group Comprehensive Income and Expenditure Statement:

	2016/17 £'000	2017/18 £'000
Rental and interest income from investment property	(10,908)	(13,236)
Expenses arising from investment property	1,823	4,754
Revaluation (gains)/losses	202	(65,847)
Net (gain)/loss	**(8,883)**	**(74,329)**

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

	2016/17 £'000	2017/18 £'000
Balance at start of the year	183,896	176,390
Additions:		
• Purchases		
• Construction		60,040
• Subsequent expenditure		
Disposals	(124)	(1,783)
Net gains/losses from fair value adjustments	(6,950)	2,206
Transfers:		
• to/from Inventories	(430)	350
• to/from Property, Plant and Equipment		
Other changes		
Balance at end of the year	**176,390**	**237,203**

Note xiii Loans and Trading Balances with subsidiaries as at 31 March 2017 and 2018 are as follows:

	Loans		Debtors		Creditors	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
AECC	0	0	533	0	0	0
Bon Accord Care Ltd	0	0	65	71	(11)	(11)
Bon Accord Support Services Ltd	0	0	2,846	4,771	(4,975)	(375)
Sport Aberdeen	(1,720)	(1,590)	0	0	0	0
Common Good	(13,806)	(13,810)	0	0	0	0
Trust Funds	(4,075)	(4,009)	0	0	0	0
	(19,601)	**(19,409)**	**3,444**	**4,842**	**(4,986)**	**(386)**

Note xiv Operating Expenditure and Income of the Subsidiaries

The operating expenditure and income of the subsidiaries have been included within Corporate Governance, Education & Childrens Services, Communities, Housing & Infrastructure, Integrated Joint Board/Social Work and Corporate & Miscellaneous.

Note xv Share of Operating (surplus)/deficit, Total assets and liabilities of Joint Ventures and Associates

Analysis of operating results and balance sheet of Joint Ventures and Associates

2016/17				
Associates	**Share of Operating (surplus)/deficit £'000**	**Share of Total Assets £'000**	**Share of Total Liabilities £'000**	**Share of Net Assets /Liabilities £'000**
Grampian Valuation Joint Board	115	536	(2,798)	(2,262)
Associates Total	**115**	**536**	**(2,798)**	**(2,262)**
Joint Venture				
Aberdeen Sports Village Limited	410	24,430	(5,774)	18,656
Integration Joint Board	(5,209)	(5,209)	0	(5,209)
Joint Ventures Total	**(4,799)**	**19,221**	**(5,774)**	**13,447**
2017/18				
Associates	**Share of Operating (surplus)/deficit £'000**	**Total Assets £'000**	**Total Liabilities £'000**	**Net Assets /Liabilities £'000**
Grampian Valuation Joint Board	224	429	(2,102)	(1,673)
Associates Total	**224**	**429**	**(2,102)**	**(1,673)**
Joint Venture				
Aberdeen Sports Village Limited	512	23,718	(5,642)	18,076
Integration Joint Board	1,055	4,153	0	4,153
Joint Ventures Total	**1,567**	**27,871**	**(5,642)**	**22,229**

Note xvi

Pension Costs

Aberdeen City Council (ACC) participates in the Local Government Pension Scheme and Teachers' Scheme administered by the Scottish Government. Aberdeen City Council acts as an administering authority for the Local Government Pension Scheme. Both schemes are defined benefit schemes based on final pensionable salary.

Subsidiaries

Sport Aberdeen Limited (SA) participates, as an admitted body, in the North East Scotland Pension Fund, a Local Government Pension Scheme which provides benefits based on final pensionable pay.

The difference between the actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in the CIES. The pension surplus for the year is £3,589,000 (2016/17, £3,779,000 deficit).

Bon Accord Care (BAC) and Bon Accord Support Services (BASS) participate as admitted bodies, in the North East Scotland Pension Fund, a Local Government Pension Scheme which provides benefits based on final pensionable pay.

The difference between the actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in the CIES. In 2017/18 BASS made a pension loss of £187,000 while BAC realised a surplus of £2,614,000.

Joint Ventures

Aberdeen Sports Village Limited (ASV Ltd) participates, as an admitted body, in the Aberdeen City Council Pension Fund, which is part of the Local Government Pension Scheme. It is a defined benefit scheme however it is closed to new members, and therefore only covers individuals who transferred to the company when it became operational.

Assets and liabilities of the Fund are not separately identified between the various employers participating as part of the triennial actuarial valuations. As a result ASV Ltd is unable to identify its relevant share of the underlying assets and liabilities in the Fund. It is therefore accounted for as a defined contribution scheme and payments made to the Pension Fund in the year are included in the Income and Expenditure Account. The pension costs for the year 201617 was £74,000(2015/16, £78,136).

Associates

Grampian Valuation Joint Board participates in the Local Government Pension Scheme administered by Aberdeen City Council.

Share of Associates Pension Interest Costs and Expected Return on Pension Assets

	2016/17 £'000	**2017/18 £'000**
Grampian Valuation Joint Board	50	63
Total	**50**	**63**

Note xvii Net Pension Liabilities

ACC share of pension liabilities of the Joint Boards are shown as below. These have been accounted for under IAS 19 ‘Post Employment Benefits’.

	2016/17 £'000	**2017/18 £'000**
ACC	(393,662)	(310,252)
Share of Associates		
Grampian Valuation Joint Board	(2,584)	(1,962)
Total	**(396,246)**	**(312,214)**

Independent auditor's report to the members of Aberdeen City 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, we 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

We certify that we have audited the financial statements in the annual accounts of Aberdeen City 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, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, and any other disclosures presented as financial statements 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 our opinion the accompanying financial statements:

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

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment including previous renewals and reappointments of the firm is two years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Risk and Scrutiny Committee.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us 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 Director of Resources 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.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of significance, in arriving at our opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

All of these key audit matters relate to the Group and parent Council.

	The risk	Our response
Revaluation of property, plant and equipment (£612 million; 2016-17: £284 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 51 to 54 (accounting policy) and pages 88 and 94 to 95 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	**Subjective valuation:** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 "other land and buildings" and investment property have be subject to revaluation. There is significant judgment involved in determining the appropriate basis of valuation for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation, such as the condition of the asset. Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.	**Our procedures included:** **Control design:** — Assessing the approach that the Council has adopted to consider the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer's credentials:** — In relation to those assets which have been revalued during the year, assessing the valuer's qualifications, objectivity and independence to carry out such valuations.

	The risk	**Our response**
	The Council also holds £209 million of investment property which is subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations.	**Assessing methodology choice and benchmarking assumptions:** — Utilising our internal specialist to challenge the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. **Our sector expertise:** — We critically assessed, in the light of our knowledge of the Group's assets and changes in market conditions, the assumptions used compared to our own expectations **Our results** We found the resulting valuation of property, plant and equipment and investment property to be acceptable (2016-17 result: acceptable)

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

	The risk	Our response
Retirement benefit obligation (£1,545 million; 2016-17: £1,434 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 42 to 44 (accounting policy) and pages 78 to 85 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	***Subjective valuation*** Small changes in the assumptions and estimates relating to discount rate, inflation rate, mortality/life expectancy and rate of increase in pensionable salaries which are used to value the pension obligation (before deducting scheme assets) would have a significant effect on the net pension liability. Employees of the Council participate in a local government defined benefit pension scheme; North East Scotland pension fund.	**Our audit approach included:** **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results:** We found the valuation of the retirement benefit obligation to be acceptable (2016-17 result: acceptable).

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

	The risk	**Our response**
Capital expenditure (£218 million; 2016-17: £222 million) *Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 and 98 (accounting policy) and pages 96 to 97 (financial disclosures)* *Risk of material misstatement vs 2017* ◄►	***Accounting application*** The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. The Council is utilising some innovative methods of delivery of capital projects. Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a significant risk of misstatement in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.	**Our procedures included:** **Control design:** — Testing the design and operating effectiveness of controls over the capital projects. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. **Control re-performance:** — Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. **Tests of detail:** — Use of substantive sampling methods to corroborate the amount and evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Review and corroboration of manual journals. **Our results:** We found the Group's treatment of capital expenditure to be acceptable (2016-17 result: acceptable).

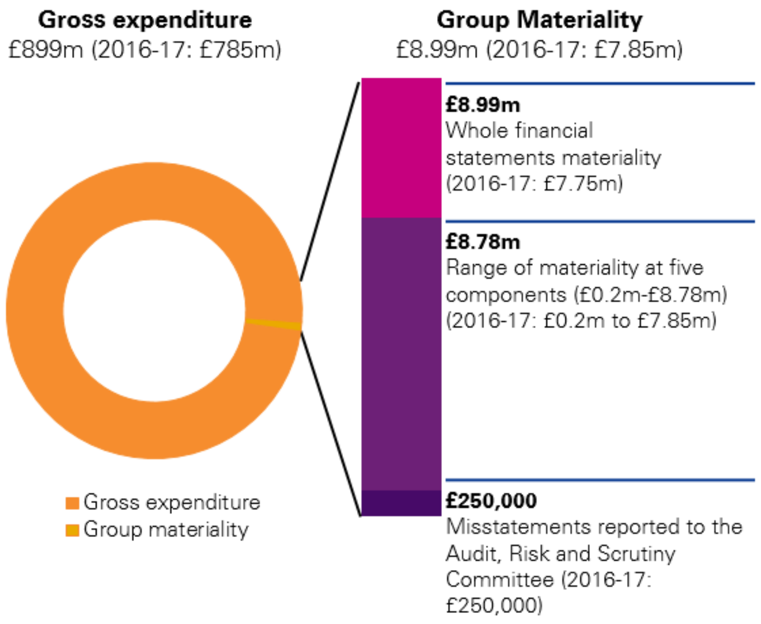
Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £8.99 million (2016-17: £7.85 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%). We consider gross expenditure to be more stable than a surplus- or deficit-related benchmark.

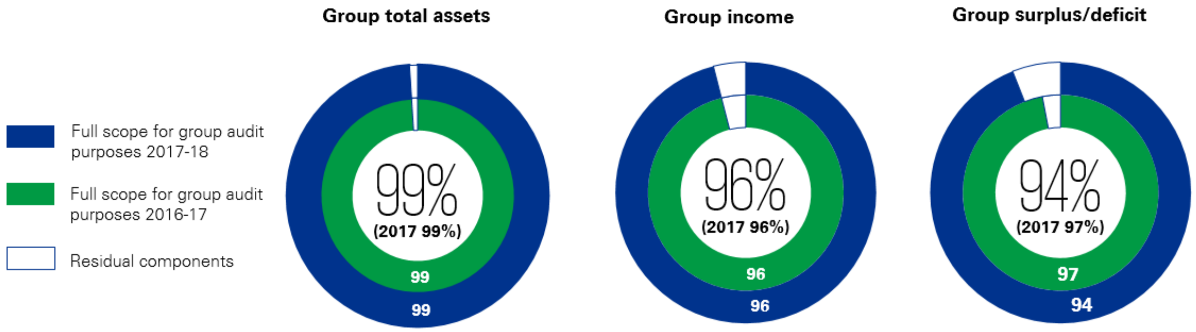
Materiality for the parent Council's financial statements as a whole was set at £8.78 million (2016-17: £7.75 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%).

We agreed to report to the Audit, Risk and Scrutiny Committee any corrected and uncorrected identified misstatements exceeding £250,000 (2016-17:£250,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Of the group's five (2016-17: five) reporting components, we subjected four (2016-17: four) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated below.



The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities which ranged from £7.50 million to £8.78 million, having regard to the mix of size and risk profile of the Group across the components. The work on two of the five components (2016-17: two of the five components) was performed by component auditors and the rest, including the audit of the Council, was performed by the Group team.

The Group team held discussions with these component auditors. During these discussions, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Responsibilities of the Director of Resources and Audit, Risk and Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Resources 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 Director of Resources 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 Director of Resources 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, Risk and Scrutiny Committee is responsible for overseeing the financial reporting process.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Auditor's responsibilities for the audit of the financial statements

Our 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 our 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 our auditor's report.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations and certain aspects of local government legislation recognising the statutory nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Other information in the annual accounts

The Director of Resources 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 our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we 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 our audit of the financial statements, our 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 our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are 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 we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

In our 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).

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission Continued

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Andrew Shaw, for and on behalf of KPMG LLP

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Glossary of Terms

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

Capital Expenditure: *This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing over a period of years, or utilising income from the sale of existing assets.*

CIPFA: *The Chartered Institute of Public Finance and Accountancy.*

COSLA: *Convention of Scottish Local Authorities*

LASAAC: *The Local Authority (Scotland) Accounts Advisory Committee.*

SeRCOP: CIPFA's *Service Reporting Code of Practice 2015/16.*

PWLB: *Public Works Loans Board, a Government agency that provides loans to the Council.*

IFRS: *International Financial Reporting Standards*.

IAS: *International Accounting Standard.*

OSCR: *Office of the Scottish Charity Regulator*

Charitable Trusts

Annual Report and Financial Statements

For the year ended
31 March 2018

Registered Numbers:

Guildry - SC011857
Bridge of Don Fund - SC018551
Alexander MacDonald's Bequest - SC018568
Aberdeen Art Gallery Trusts - SC018575
Lands of Skene – SC018533
Lands of Torry – SC021299
Education Endowment Investment Funds (EEIF) – SC025063

Aberdeen City Council Charitable Trusts
Trustees Annual Report 2017/18

Aberdeen City Council acts as the sole trustee for the charities in this report.

Aberdeen City Council administers the Charitable Trusts and separately accounts for them. They do not form part of the Council's single entity balance sheet. However, they are included in the Annual Accounts of the Council and its group.

Reference and administration details

At the end of the year the Council acts as the sole trustee for 8 trusts which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR). The charity names, charity numbers, purposes of the charities, and where available details of governing document for the charities covered by this report are given in Appendix 1 of this document.

Principal Address

Aberdeen City Council,
Marischal College,
Broad Street,
Aberdeen
AB10 1AB

External Auditor

KPMG LLP,
Saltire Court,
20 Castle Street,
Edinburgh
EH1 2EG

Secretary
Fraser Bell
Chief Officer - Governance,
Aberdeen City Council

Treasurer
Steven Whyte, FCPFA
Director of Resources,
Aberdeen City Council.

Trustees

As per guidance provided by OSCR, "Trustees" of the Charitable Trusts are those who have "general control and management" of the charity. Decisions regarding the general control and management of the Charitable Trusts are made by the full Council. For the purposes of this report it is our interpretation of the aforementioned that all elected members are Charity Trustees.

The Trustees are the Councillors of Aberdeen City Council, and are as follows:-

Lord Provost Barney Crockett (Chairperson)
Councillor Yvonne Allan
Councillor Christian Allard - appointed 4th May 2017
Councillor Alison Alphonse - appointed 4th May 2017
Councillor Philip Bell - appointed 4th May 2017
Councillor Marie Boulton
Councillor David Cameron
Councillor John Cook - appointed 4th May 2017
Councillor Neil Copland
Councillor Bill Cormie
Councillor Steve Delaney
Councillor Alan Donnelly
Councillor Jackie Dunbar
Councillor Lesley Dunbar
Councillor Sarah Duncan - appointed 4th May 2017
Councillor Stephen Flynn
Councillor Gordon Graham
Councillor Ross Grant
Councillor Martin Greig
Councillor Dell Henrickson - appointed 4th May 2017
Councillor Ryan Houghton - appointed 4th May 2017
Councillor Brett Hunt - appointed 4th May 2017
Councillor Michael Hutchison
Councillor Claire Imrie - appointed 4th May 2017
Councillor Freddie John - appointed 4th May 2017
Councillor Jenny Laing
Councillor Douglas Lumsden - appointed 4th May 201
CouncillorTom Mason - appointed 4th May 2017
Councillor M Taqueer Malik
Councillor Sandra MacDonald - appointed 4th May 20
Councillor Neil MacGregor
Councillor Avril MacKenzie- appointed 4th May 2017
Councillor Catriona MacKenzie - appointed 4th May 2
Councillor Alexander McLellan - appointed 4th May 20
Councillor Ciaran McRae - appointed 4th May 2017
Councillor Alex Nicoll
Councillor Jim Noble
Councillor John Reynolds
Councillor Gill Samarai
Councillor Philip Sellar - appointed 4th May 2017
Councillor Jennifer Stewart
Councillor Sandy Stuart
Councillor Gordon Townson
Councillor John Wheeler - appointed 4th May 2017
Councillor Ian Yuill

All Trustees have served for the whole of the financial year to 31 March 2018 unless otherwise stated.

All the Trustees are normally elected or re-elected at local government elections. By-elections are held when elected members vacate their positions, to elect new members, who automatically become Trustees. New members are supplied with training as part of their induction process.

Following the local government elections on 4 May 2017 the following councillors resigned as trustees:

Lord Provost George Adam (Chairperson)
Councillor Scott Carle
Councillor Neil Cooney
Councillor John Corall
Councillor Graham Dickson
Councillor Andrew Finlayson
Councillor Len Ironside CBE
Councillor Muriel Jaffrey
Councillor Jim Kiddie
Councillor Graeme Lawrence
Councillor Aileen Malone
Councillor Ramsay Milne
Councillor Jean Morrison MBE
Coucnillor Nathan Morrison
Councillor Angela Taylor
Councillor Ross Thomson
Councillor Willie Young

Structure, governance and management

The Charitable Trusts are constituted in a variety of ways. The type of governing document is shown at Appendix 1, where they are available. Information regarding some of the trusts is not available owing to their antiquity and the fact that they have been administered by a number of government bodies since coming into public control.

The positions of Secretary and Treasurer are filled by professionally qualified officers of Aberdeen City Council.

Risk

The trustees have overall responsibility for the Charitable Trusts system of internal control, including financial reporting and compliance with laws and regulations. The trustees acknowledge that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Objectives and activities

Information on the purpose and nature of the trusts is given below.

<u>Bridge of Don Fund</u>

The fund, more properly known as the Brig O' Balgownie Trust Fund, was set up in 1605 and its original purpose was for the "repair and upholding of the Brig O' Balgownie". Modern charity legislation does not include bridge maintenance as a charitable purpose and OSCR have deemed that the purpose of this trust is the advancement of heritage.

In August 2016 the trust adopted a new constitution. In August 2017 the trust agreed to provide a grant of £36,000 to digitise 1200 pages of a volume of medieval town records.

The Bridge of Don Fund has a 30% interest in the Lands of Skene with the remainder of its funds being invested in the Aberdeen City Council Loans Fund.

<u>Bridge of Dee Fund</u>

This fund was established in the 16th Century for the support, maintenance, reparation and when it is necessary the re-building of the new stone bridge over the River Dee. As with the Bridge of Don Fund, above, OSCR have deemed that the charitable purpose of this trust should be the advancement of heritage.

An application to reorganise the Bridge of Dee Trust was approved by OSCR in May 2017 and the assets of this trust were transferred to the Bridge of Don Trust in October 2017 to be used for the advancement of heritage.

Alexander MacDonald's Bequest

This fund was established in 1882 for the purchase of works of art for the Aberdeen Art Gallery and Museum collection following the death of Mr. MacDonald.

Trust funds are invested in the Aberdeen City Council Loans Fund.

Aberdeen Art Gallery Trusts

This trust was reorganised in March 2014 by the adoption of a new trust deed and funds are used for the advancement of the arts by providing for the purchase of works of art for the collection of Aberdeen Art Gallery & Museum.

Trust funds are invested in the Aberdeen City Council Loans Fund.

Guildry

The Guildry was formed 800 years ago, giving merchants of Aberdeen considerable powers within the town of Aberdeen. Over time that power has diminished, and the membership is no longer restricted to merchants. Today the Guildry exists for the promotion of the City of Aberdeen. The governance of the Guildry was last updated by a Court of Session decision in 1996 which recognised the financial assistance scheme to Burgesses and their family members and a new scheme of educational bursaries. Educational bursaries have not been awarded for a number of years and the Dean of the Guild has been working with Aberdeen University, Robert Gordon University and the North East Scotland College to identify potential candidates for bursaries.

The Guildry is currently working on drafting a revised constitution to enable participation in a wider range of charitable activities.

Trust assets are a 40% share in the Lands of Skene and investments in the Aberdeen City Council Loans Fund.

Lands of Skene

The Lands of Skene goes back to 1710 when the east half of the Lands of Skene was purchased on behalf of certain accounts. This was followed in 1712 by the purchase of the west half. Two feuing schemes were carried out in 1789 and 1816 and the land now remaining is known as the Lands of Easter Carnie.

In recent years, a number of properties have been sold off and funds have been invested in the Aberdeen City Loans Fund.

The free revenue from the Lands of Skene is split between the following:
Guildry Funds – 40%
Bridge of Don Trust – 30%
Common Good Fund – 30%

This is believed to represent the share of investment in the original purchase of the lands.

Lands of Torry

The Lands of Torry goes back to at least 1704 when they were purchased on behalf of certain accounts:
Duncan Liddel's Mortification – Professor of Mathematics – 25%
Duncan Liddel's Mortification – Library of College – 2%
James Cargill's Mortification – Bursary Fund – 10%
Patrick Copland's Mortification – Professor of Divinity – 12%
Common Good Fund – 51%.

The annual surplus from this fund is now split between the following:
Common Good Fund – 51%
University of Aberdeen Bursary Fund – 49%.

Education Endowment Investment Funds (EEIF)

The EEIF comprises over 60 smaller trusts, bequests and legacies split over 3 general areas.

- Education – primarily concerned with prizes or awards at schools
- Social Work – largely to provide comforts at residential homes
- John Murdoch Henderson Bequest – to be used for the purchase of music of intrinsically Scottish interest for the Central Library, Aberdeen.

In general, the charities activities are limited to the accrual of income from investments for use as appropriate given the purposes of the charity.

While reviewing records as part of the Council's reorganisation of charitable trusts, OSCR advised that only a small number of trusts previously reported as part of the EEIF were registered as charities. Only accounts in relation to these registered charities are contained in this document. A review will take place of all trusts that were previously reported as part of the EEIF to consider a reorganisation in consultation with OSCR.

The charitable trust now comprises of the trusts listed in appendix 2, sixteen of these trusts relate to prizes or awards at school while the other trust is for the purchase of music.

The John Murdoch Henderson Trust adopted a new constitution in 2015 which allows for the purchase of a wider range of music. This trust has funded the subscription to on-line music services for Aberdeen City Library Service users. This trust will be wound up once its funds have been expended.

Financial Review

The Trusts' total income increased from £188k in 2016/17 to £197k in 2017/18. The main change relates to Lands of Torry, which has started leasing a previously unleased area of land to Aberdeen Harbour Board.

Total Expenditure reduced from £370k in 2016/17 to £252k in 2017/18. The main change in expenditure on charitable activities has been the agreement to pay a grant from Bridge of Don Trust towards the renovation of the Thomas Glover House of £150k in 2016/17, but no such grant was paid in 2017/18.

The value of Investments has increased from £3.502 million in 2016/17 to £4.634 million in 2017/18 as a result of a large increase in the value of investment properties held by Lands of Torry of £1.156 million offset by a decrease of £14k in the investments held by EEIF and the sale of £10k investments by EEIF.

Investments in the City of Aberdeen Loans Fund have decreased from £3.312 million in 2016/17 to £3.249 million in 2017/18.

This has resulted in an increase in Net Assets from £7.058 million in 2016/17 to £8.145 million in 2017/18.

The following financial statements for all the Charitable Trusts have been prepared using the connected charities provision. They show the income and expenditure for the individual charities along with the surplus or deficit for the year. None of the individual charities are carrying forward a deficit on their reserves.

Where Governance Costs are allocated to charities these are in proportion to the value of the sums invested with the Council and are based on time spent by officers of Aberdeen City Council providing financial and other support to the organisations.

The investment policy of the Trust is to invest any surplus monies in the Aberdeen City Council Loans Fund.

The charities have no fundraising activities, as such, their annual income is earned through rentals on land and buildings, interest on cash balances, or through investment income by holding assets from securities to holdings in investment trusts. Consequently, the trusts' annual income will reflect the current record low interest rates and the limitations on increasing rents on farm properties governed by agricultural tenancies.

The value of land increased because an extra valuation was added during the year, relating to the lease of land by Lands of Torry to Aberdeen Harbour Board.

Reserves Policy

The Charitable Trusts have no explicit reserves policy, but as a general principle the "capital" of the funds is held effectively as a permanent endowment with only the annual income available for disbursement in the year.

The exceptions to this rule are for charities with little funds and a governing document that specifically states that the capital can be expended. An example of this would be the John Murdoch Henderson Bequest, which as noted above adopted a new constitution to enable the expenditure of the entire capital.

Aberdeen City Council Charitable Trusts hold unrestricted reserves totalling £8.02 million which are made up of unrestricted funds of £4.032 million and designated funds of £3.988 million. There are no restricted funds. Designated funds are those funds which relate to Aberdeen City Council non-charitable trusts which have invested in the Lands of Skene and Torry and at present no plans exist to spend this money.

Achievements and performance

A number of trusts have limited activity pending re-organisation, namely the EEIF and Guildry. The main charitable expenditure is the transfer of funds to the Aberdeen City Common Good Fund which finances a variety of activities for the benefit of the population of Aberdeen and funding for the Aberdeen University Bursary Fund. Further details are shown in the accounts within note 3.

Future plans

The Guildry has been working with the University of Aberdeen, Robert Gordon University and North East Scotland College to find candidates for its bursary scheme. A new constitution for the Guildry is being drafted and it is hoped to have this ready for trustee approval in the Autumn.

The EEIF is currently being reviewed as a number of school prizes relate to schools that no longer exist.

The limited funds held by the Alexander MacDonald Bequest will be used to fund the purchase of a work of art which will be unveiled at the re-opening of the Aberdeen Art Gallery and Museum following its refurbishment. The future of this trust and the Aberdeen Art Gallery Trusts will be reviewed at that time as both trusts have minimal funds.

Aberdeen City Council is currently drafting an investment strategy which will cover trusts under their management.

STATEMENT OF THE TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Trustees are responsible for preparing the Trustees' report and accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Law applicable to charities in Scotland requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the Trust's financial activities during the year and of its financial position at the end of the year. In preparing financial statements, giving a true and fair view, the Trustees are required to:

- select suitable accounting policies and apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in operation.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and which enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charity Accounts (Scotland) Regulations 2006 and the provisions of the Trust Deed. The Trustees are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention or detection of fraud and other irregularities.

Signed on behalf of the trustees on 29 June 2018.

……………………………………………
Douglas Lumsden

Appendix 1

Charity Name, Number and Purpose

Charity Name	Charity Number	Purpose	Governing Document
Guildry	SC011857	Support the Guildry activities including financial assistance scheme and educational bursaries	Court of Session Decision 1996
Bridge of Don Fund	SC018551	The advancement of Heritage	Constitution dated August 2016
Alexander MacDonald's Bequest	SC018568	Purchase of Works of Art for Aberdeen Art Gallery	Trust Deed 11 December 1882
Aberdeen Art Gallery Trusts	SC018575	Purchase of Works of Art for Aberdeen Art Gallery	Trust Deed March 2014
Bridge of Dee Fund	SC021297	The advancement of Heritage	Unavailable
Lands of Skene	SC018533		Unavailable
Lands of Torry	SC021299	The advancement of Education	Unavailable
Education Endowment Investment Funds	SC025063	The advancement of Education and the advancement of the Arts, Heritage, Culture and Science	Unavailable except for John Murdoch Henderson Trust Deed of May 2015.

APPENDIX 2

EEIF Charitable Trusts

D M Andrew Bequest	For prizes in Classics at Aberdeen Grammar School
Miss Elizabeth H Bain Bequest	For music tuition and for instruments to pupils in city schools
Mrs Athol Benzie Prize Fund	For best all round pupil in fifth year at Aberdeen Academy
Edith and David R Bishop Prize Fund	For prizes to pupils at Aberdeen Grammar School selected by the rector
Mrs Mina Brooks Memorial Prize	For prizes for children's theatre
Miss Lucy Cruickshank Prize Fund	For prize to best pupil or pupils in French or German at High School for Girls
Jessie Durno Prize Fund	For prize in Mathematics at Aberdeen Academy
Mary Durno Prize Fund	For prize in English at Aberdeen Academy
Margaret Duthie Memorial Prize Fund	For pupil showing the greatest endeavour at Dyce School
Miss Margaret C Harper Prize Fund	For best pupil in German at Aberdeen Academy
Miss Bessie Heriot Prize Fund	For prize to best girl at Kaimhill Secondary School
John M Robertson Memorial Prize Fund	For prize to best pupil in commercial subjects at Aberdeen Grammar School
Kenneth MacIntosh Bequest	For paying or supplementing the expenses of pupils at Aberdeen Grammar School who might otherwise not be able to afford the cost of school trips
Dr Charles McLeod Trust	For purchase of books on Physical Science or Astronomy at Aberdeen Grammar School
William Meston Bursary Fund	For bursary to pupil of merit at Culter School taking a secondary course
Dr George MacKenzie Prize Fund	For prize to best pupil in German in Aberdeen Academy
John M Henderson Bequest	To purchase music of intrinsically Scottish interest for the Central Library, Aberdeen

Aberdeen City Council Charitable Trusts
Statement of Financial Activities
For the year ended 31 March 2018

	Note	Unrestricted Funds 2017/18 £'000	Restricted Funds 2017/18 £'000	Endowment Funds 2017/18 £'000	**Total Funds 2017/18 £'000**	**Total Funds 2016/17 £'000**
Income and endowments from:						
Incoming resources from generated funds						
Donations & Legacies		1	-	-	**1**	**1**
Investments	2	196	-	-	**196**	**187**
Total		197	-	-	**197**	**188**
Expenditure on:						
Charitable Activities	3,4	252	-	-	**252**	**370**
Total		252	-	-	**252**	**370**
Net income/expenditure		(55)	-	-	**(55)**	**(182)**
Other recognised gains/(losses):						
Gains/(losses) on investment assets		1,156	-	(14)	**1,142**	**(870)**
Net movement in funds		1,101	-	(14)	**1,087**	**(1,052)**
Reconciliation of funds						
Total funds brought forward		6,923	-	135	**7,058**	**8,110**
Total funds carried forward		**8,024**	**-**	**121**	**8,145**	**7,058**

Aberdeen City Council Charitable Trusts
Balance Sheet as at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments	5	**4,634**	**3,502**
Total fixed assets		**4,634**	**3,502**
Current assets			
Stocks and work-in-progress		2	0
Debtors	6	48	50
Investments - City of Aberdeen Loans Fund	7	3,249	3,312
Short term investments - Guildry Account		400	400
Total current assets		**3,699**	**3,762**
Liabilities			
Creditors: Amounts falling due within one year	8	(188)	(206)
		(188)	**(206)**
Net current assets		**3,511**	**3,556**
Net assets		**8,145**	**7,058**
The funds of the charity			
Endowment funds		125	135
Restricted income funds		-	-
		125	**135**
Unrestricted income funds:			
Designated Funds:			
Common Good Fund		2,600	2,011
Dr Duncan Liddel's Mortification - Professor of Mathematics		713	422
Dr Duncan Liddel's Mortification - Library of College		36	21
James Cargill Mortification - Bursary Fund		290	172
Patrick Copland's Mortification - Professor of Divinity		349	206
Unrestricted funds		4,032	4,091
Total unrestricted funds		**8,020**	**6,923**
Total charity funds	9	**8,145**	**7,058**

These accounts have been prepared in accordance with the Financial Reporting Standard 102.

The financial statements were approved and authorised for issue by the trustees on 29 June 2018.

……………………………………………
Douglas Lumsden

Aberdeen City Council Charitable Trusts
Statement of Cash Flows
For the year ended 31 March 2018

	Note	Total Funds £'000	Prior Year Funds £'000
Net cash used in operating activities	12	**(270)**	**(213)**
Cash Flows from investing activities			
Dividends, interest and rents from investments		197	188
Proceeds from sale of investments		10	0
Net cash provided by investing activities		**207**	**188**
Change in cash and cash equivalents in the year		**(63)**	**(25)**
Cash and cash equivalents brought forward		3,712	3,737
Cash and cash equivalents carried forward	13	**3,649**	**3,712**

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

1 - Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention, and include the results of the Trusts' operations, all of which are continuing.

The accounts have been prepared in accordance with applicable accounting standards and comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard 102 published September 2016.

In line with Regulation 7 of the 2006 Regulations, these financial statements have been prepared on the basis that the Trust funds for which Aberdeen City Council acts as sole Trustee are connected charities. As such, the accounts for the statements contain all relevant information that the individual accounts would have contained if they had been prepared on an individual basis.

Going concern

The accounts have been prepared under the going concern concept on the basis that Trustees have considered it and are satisfied that the going concern concept is appropriate.

The John Murdoch Henderson Trust, part of the EEIF, had funds of £31k at 31 March 2018 and plans to expend remaining trust funds on subscriptions to on-line music services. When funds have been expended the trust will be wound up.

An application to reorganise the Bridge of Dee Trust by the transfer of all trust funds to the Bridge of Don Trust was agreed by OSCR in May 2017. The Bridge of Dee Trust was wound up during 2017/18.

Recognition of revenue and expenditure

All income and expenditure due to be paid or received in respect of the year ended 31 March 2018 has been provided for within these accounts. Where revenue 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.

1 - Accounting policies (continued)

Incoming resources

Incoming resources are included in the Statement of Financial Activities when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy. All incoming resources are in relation to unrestricted funds.

Income from investments is included in the Statement of Financial Activities in the year in which it relates. Interest on invested funds is included when it is paid or when it is notified as being due.

Rent from properties is recognised as it is due.

Resources expended

Liabilities are recognised when the charity has an obligation to make payment to a third party.

Resources expended are included in the Statement of Financial Activities on an accruals basis inclusive of any irrecoverable VAT.

Expenditure is directly attributed to the relevant category in the Statement of Financial Activities where practical. Other expenditure is allocated on a pro-rata basis based on the size of the fund.

Governance costs include those costs incurred in the governance of the charity and its assets and are primarily associated with constitutional and statutory requirements.

Funds

Unrestricted funds include incoming resources receivable or generated for the objectives of the charity without specified purpose and are available as general funds. These funds can be used in accordance with the charitable objects at the discretion of the trustees.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the Trustees Annual Report.

1 - Accounting policies (continued)

Funds (continued)

Endowment funds represent those Assets which must be held permanently by the charity. Income arising on the endowment funds can be used in accordance with the objectives of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. These funds are to be used in accordance with the specific restrictions imposed by donors.

Taxation

The Trusts are recognised by HM Revenue and Customs as charities and because of the tax reliefs available, income is not liable to taxation.

Investments

Investments are stated at market value at the balance sheet date. The Statement of Financial Activities includes the net gains and losses arising on revaluation and disposals throughout the year.

Trustee Remuneration and Staff Costs

The Trusts have no employees. None of the Trustees received any remuneration for their services, nor were they reimbursed for any expenses during the year.

Interest & Management Charges

Interest & Management Charges are not treated as Debtors/Creditors but are treated as adjustments within the balances held by the Aberdeen City Council Loans Fund.

Interest is applied to the charity accounts gross of income tax based on an annual interest rate received from banks on funds invested by Aberdeen City Council on behalf of the charities during the year.

Management charges are 1% of the loans fund held at the start of the year where the balance is over £500.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

1 - Accounting policies (continued)

Stock Policy

Stock consists of goods purchased for distribution to new members on their entry to the Guildry. Stocks are valued at the lower of cost or net realisable value.

		2018 £'000	2017 £'000
2	INVESTMENT INCOME		
	Interest receivable	29	31
	Rent from Investment Properties	167	156
	Share of lands free revenue	-	-
		196	**187**
3	CHARITABLE ACTIVITIES		
	Donations and expenditures	50	179
	Payments to Beneficiaries:		
	Common Good Fund	74	67
	Dr Duncan Liddel's Mortification - Professor of Mathematics	34	32
	Dr Duncan Liddel's Mortification - Library of College	2	2
	James Cargill Mortification - Bursary Fund	14	13
	Patrick Copland's Mortification - Professor of Divinity	17	15
	Property costs	8	8
		199	**316**
4	GOVERNANCE COSTS		
	Accounting and administration	44	44
	Audit Fee	9	10
		53	**54**

		2018 £'000	2017 £'000
5	TANGIBLE FIXED ASSETS		
	Market Value at 1 April	3,502	4,370
	Net investment gains	1,142	(868)
	Disposals	(10)	-
	Market Value at 31 March	**4,634**	**3,502**
	Investments at market value Comprised:		
	Investment Properties	4,522	3,366
	Gilts	7	8
	Equities	105	128
		4,634	3,502

The property portfolio was valued internally by Deborah Wylie, Bsc MRICS and Neil Strachan, BLE MRICS who are Registered Valuers in accordance with the Statement of Assets Valuation Practice and guidance notes of the Royal Institute of Chartered Surveyors (RICS).

Lands of Skene is a charity which owns an area of land known as the Lands of Skene. The Guildry Fund, Common Good Fund and Bridge of Don Fund each invested financially in the Lands of Skene and as a result are entitled to recognise a share of the total assets less current liabilities of this charity, being calculated in proportion to the initial amount invested by each, as an investment on their respective Balance Sheets.

		2018 £'000	2017 £'000
6	DEBTORS		
	Prepayments & accrued income	48	50
7	INVESTMENTS HELD AS CURRENT ASSETS		
	City of Aberdeen Loan Funds	3,249	3,312

The trustees have invested the free reserves of each of the charities in the City of Aberdeen loan funds in order to earn interest for the benefit of each charity. The loan funds is a cash investment and is stated at market value at the Balance Sheet date.

		2018 £'000	2017 £'000
8	CREDITORS: Amounts falling due within one year		
	Accruals and deferred income	185	194
	Short Term Loan - Aberdeen City Council	3	12
		188	**206**

9	ANALYSIS OF NET ASSETS IN FUNDS	**Tangible fixed assets £'000**	**Current assets (liabilities) £'000**	**Total £'000**	**Total £'000**
	Unrestricted funds	4,634	3,511	8,145	7,058

10 CONTROLLING INTEREST

Each charity is under the control of its trustees.

		2018 £'000	2017 £'000
11	RELATED PARTY TRANSACTIONS		
	Aberdeen City Council provides the accounting services for the trust for which a management fee is charged.	35	37
	The trust also has funds deposited with Aberdeen City Loans Fund as detailed in note 7.		
12	RECONCILIATION OF NET MOVEMENT IN FUNDS TO NET CASH FLOW FROM OPERATING ACTIVITIES		
	Net income/(expenditure) for the reporting period (as per the statement of financial activities)	1,088	(1,052)
	Adjustments for:		
	(Gains)/losses on investments	(1,143)	870
	Dividends, interest and rents from investments	(197)	(188)
	Decrease/(increase) in stocks	(2)	-
	Decrease/(increase) in debtors	2	-
	Increase/(decrease) in creditors	(18)	157
	Net cash provided by (used in) operating activities	(270)	(213)
13	ANALYSIS OF CASH AND CASH EQUIVALENTS		
	Investments - City of Aberdeen Loans Fund	3,249	3,312
	Short term investments - Guildry Account	400	400
		3,649	3,712

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

14 ANALYSIS OF CHARITABLE TRUSTS

		Individual Trust Balances					
	Charity Number	Balance as at 1 April 2017 £'000	Transfer between Funds £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2018 £'000
EEIF	SC025063	(183)	-	13	(3)	11	(162)
Guildry	SC011857	(2,700)	-	-	(13)	28	(2,685)
Bridge of Don	SC018551	(1,251)	(34)	-	(5)	38	(1,252)
Bridge of Dee	SC021297	(34)	34	-	-	-	-
Alexander MacDonald Bequest	SC018568	(32)	-	-	(0)	1	(31)
Aberdeen Art Gallery Trust	SC018575	(27)	-	-	(0)	0	(27)
Lands of Skene	SC018533	(3,859)	-	-	(47)	47	(3,859)
Lands of Torry	SC021299	(1,674)	-	(1,156)	(137)	137	(2,830)
Total		**(9,760)**	**-**	**(1,143)**	**(205)**	**262**	**(10,846)**

The above table shows the balances of the individual trust fund before the removal of intra trust transactions as both the Guildry (40%) and the Bridge of Don Trust (30%) are invested in Lands of Skene. The table below shows the individual balances after the removal of these transactions.

		Individual Trust Balances after adjusting for intra trust transactions					
	Charity Number	Balance as at 1 April 2017 £'000	Transfer between Funds £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2018 £'000
EEIF	SC025063	(183)	-	13	(3)	11	(162)
Guildry	SC011857	(1,038)	-	-	(8)	28	(1,018)
Bridge of Don	SC018551	(4)	(34)	-	(1)	38	(1)
Bridge of Dee	SC021297	(34)	34	-	-	-	-
Alexander MacDonald Bequest	SC018568	(32)	-	-	(0)	1	(31)
Aberdeen Art Gallery Trust	SC018575	(27)	-	-	(0)	0	(27)
Lands of Skene	SC018533	(4,067)	-	-	(47)	38	(4,076)
Lands of Torry	SC021299	(1,674)	-	(1,156)	(137)	137	(2,830)
Total		**(7,059)**	**-**	**(1,143)**	**(196)**	**253**	**(8,145)**

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2018

15 ANALYSIS OF CHARITABLE TRUSTS BALANCE SHEETS

Charity Name	Charity Number	Individual Trust Balances										
		Gilts	Equities	Investments	Heritable Property	Stock	Investment Aberdeen City Council Loans Fund	Cash at Bank	Debtors	Creditors	Provision	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EEIF	SC025063	7	105	-	-	-	50	-	-	-	-	162
Guildry	SC011857	-	-	1,544	-	2	742	400	0	(3)	-	2,685
Bridge of Don	SC018551	-	-	1,157	-	-	263	-	-	-	(168)	1,252
Bridge of Dee	SC021297	-	-	-	-	-	-	-	-	-	-	-
Alexander McDonald Bequest	SC018568	-	-	-	-	-	31	-	-	-	-	31
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	27	-	-	-	-	27
Lands of Skene	SC018533	-	-	-	1,717	-	2,136	-	7	(1)	-	3,859
Lands of Torry	SC021299	-	-	-	2,805	-	-	-	41	(16)	-	2,830
Total		**7**	**105**	**2,701**	**4,522**	**2**	**3,249**	**400**	**48**	**(20)**	**(168)**	**10,846**

The above table shows the balances of the individual trust fund before the removal of intra trust transactions as both the Guildry (40%) and the Bridge of Don Trust (30%) are invested in Lands of Skene. The table below shows the individual balances after the removal of these transactions.

Charity Name	Charity Number	Individual Trust Balances after adjusting for intra trust transactions										
		Gilts	Equities	Investments	Heritable Property	Stock	Investment Aberdeen City Council Loans Fund	Cash at Bank	Debtors	Creditors	Provision	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EEIF	SC025063	7	105	-	-	-	50	-	-	-	-	162
Guildry	SC011857	-	-	-	-	2	619	400	0	(3)	-	1,018
Bridge of Don	SC018551	-	-	-	-	-	169	-	-	0	(168)	1
Bridge of Dee	SC021297	-	-	-	-	-	-	-	-	-	-	-
Alexander McDonald Bequest	SC018568	-	-	-	-	-	31	-	-	-	-	31
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	27	-	-	-	-	27
Lands of Skene	SC018533	-	-	-	1,717	-	2,353	-	7	(1)	-	4,076
Lands of Torry	SC021299	-	-	-	2,805	-	-	-	41	(16)	-	2,830
		7	**105**	**-**	**4,522**	**2**	**3,249**	**400**	**48**	**(20)**	**(168)**	**8,145**

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