

Notice of Meeting and Agenda

Monday 10 April 2017 at 10:00am
in the City Chambers, High Street, Edinburgh

1 Order of Business

Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2 Declaration of Interests

Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3 Minute of the Lothian Valuation Joint Board of 6 February 2017

(circulated) – submitted for approval as a correct record

4 External Audit Plan 2016-17 – report by the External Auditor (circulated)

5 Assessor's Report to the Joint Board – report by the Interim Assessor and Electoral Registration Officer (circulated)

Andrew Kerr
Chief Executive and Clerk

Membership

The City of Edinburgh Council (9)

Councillor Norman Work (Convener)
Councillor Nigel Bagshaw
Councillor Karen Doran
Councillor Ricky Henderson
Councillor Karen Keil
Councillor Alex Lunn
Councillor Mark McInnes
Councillor Adam McVey
Councillor Jason Rust

Midlothian Council (2)

Councillor Jim Bryant
Councillor Margot Russell

West Lothian Council (3)

Councillor David Dodds
Councillor Dave King
Councillor Greg McCarra

East Lothian Council (2)

Councillor Jim Gillies
Councillor John McNeil

Notes:

- (1) If you have any questions about the agenda or meeting arrangements, please contact Lesley Birrell | Committee Services | Strategy and Insight | Chief Executive | City of Edinburgh Council | Business Centre 2:1 | Waverley Court | 4 East Market Street | Edinburgh | EH8 8BG | tel 0131 529 4240 | email lesley.birrell@edinburgh.gov.uk
- (2) A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the Main Reception Office, City Chambers, High Street, Edinburgh.
- (3) The agenda, minutes and public reports for this meeting can be viewed online by going to www.edinburgh.gov.uk/meetings. Members and Officers of the City of Edinburgh Council can also view them by going to the Orb home page and clicking on Committee Business.



Please recycle this paper

Lothian Valuation Joint Board

Edinburgh, 6 February 2017

Present:

City of Edinburgh Council – Councillors Work (Convener), Bagshaw, Doran, Ricky Henderson, Keil, Lunn and McVey.

East Lothian Council – Councillor McNeil.

Midlothian Council – Councillors Bryant and Russell.

West Lothian Council – Councillors Dodds and McCarra.

1 Appointments

Members were advised that, on 13 December 2016, West Lothian Council had appointed Councillor David Dodds to serve on the Joint Board in place of Councillor Barry Robertson who had resigned.

Councillor Robertson had also resigned as Vice-Convener of the Joint Board and Members were invited to appoint a replacement.

Decision

- 1) To note the appointment of Councillor David Dodds, West Lothian Council in place of Councillor Barry Robertson who had resigned.
- 2) To appoint Councillor Margot Russell, Midlothian Council as Vice-Convener.

(Reference – report by the Chief Executive and Clerk, submitted)

2 Minute

Decision

To approve the minute of the Lothian Valuation Joint Board of 28 November 2016 as a correct record.

3 Revenue Budget 2017/18

The Board's revenue budget for 2017/18 was presented. The budget would be funded through a flat-cash requisition of £6.118m. Recognising the financial pressures facing constituent councils, it was proposed to give a refund of the equivalent of 3% of requisition (£0.184m) funded from the Board's unallocated Reserve.

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The Board would continue to incur Individual Electoral Registration (IER) costs in 2017/18. The Cabinet Office had stated its commitment to fully fund IER until the end of the current Parliament.

The ongoing financial pressure arising from IER had also been subject to numerous reports to the Board throughout the year.

The Interim Assessor and ERO and the Treasurer recognised the need to move towards a sustainable budget position for 2018/19 and a managed position for 2017/18.

Decision

- 1) To approve the budget for 2017/18 and to authorise the Treasurer to requisition the individual constituent Councils for amounts as follows:

Constituent Council	Requisition 2017/18
City of Edinburgh	£3,741,157
Midlothian	£562,244
East Lothian	£666,862
West Lothian	£1,147,737
Total	£6,118,000

- 2) To approve a refund of unallocated reserve of £183,500 on 1 April 2017 as follows:

Constituent Council	Proposed Refund
City of Edinburgh	£112,300
Midlothian	£16,800
East Lothian	£20,100
West Lothian	£34,300
Total	£183,500

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- 3) To note that the Interim Assessor and ERO would report to the Board on development of the service review during 2017/18.
- 4) To note that the Interim Assessor and ERO would update the Board in due course of any changes to IER with service/financial implications.
- 5) To note the risks identified in section 5 of the report by the Treasurer.
(Reference – report by the Treasurer, submitted)

4 Budget Report 2017/18

The Interim Assessor and ERO provided an overview of the expected costs, income and risk to the Board within the budget provision for the financial year 2017/18.

The Board's Corporate Plan and Service Plan for 2017-2018 were also submitted.

Decision

- 1) To note the report.
- 2) To note that the Interim Assessor would provide a briefing paper to Board Members on the net effect of the revaluation on the threshold of the small business scheme.

(Reference – report by the Interim Assessor and Electoral Registration Officer, submitted)

5 Period 9 Financial Statement 2016/17

The Board's actual and budgeted expenditure for the period to 31 December 2016 was reported together with a year end projection to 31 March 2017.

At this stage, the projected outturn against the core budget indicated a forecast spend of £5.964m resulting in a net underspend of £0.154m.

Decision

To note the projected outturn position for 2016-2017.

(Reference – report by the Treasurer, submitted)

6 Annual Investment Strategy

Decision

To approve the annual investment strategy set out in appendix 1 of the report by the Treasurer.

(Reference – report by the Treasurer, submitted)

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7 Future Meeting Arrangements June 2017 to June 2018

Decision

- 1) To approve the schedule of meetings for the period to June 2017 as follows:

Monday 26 June 2017 (Unaudited Accounts)	10:00am	Edinburgh
Monday 4 September 2017	10:00am	Edinburgh
Monday 13 November 2017	10:00am	Edinburgh
Monday 5 February 2018 (Revenue Budget)	10:00am	Edinburgh
Monday 16 April 2018	10:00am	Edinburgh
Monday 25 June 2018 (Unaudited Accounts)	10:00am	Edinburgh

- 2) To agree that the meeting dates be notified to Chief Executives of all constituent authorities represented on the Board.

(Reference – report by the Chief Executive and Clerk, submitted)



Lothian Valuation Joint Board

External Audit Plan
2016/17

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1

Introduction

Introduction

1. This document summarises the work plan for our 2016/17 external audit of Lothian Valuation Joint Board (the "Board").
2. The core elements of our work include:
 - an audit of the 2016/17 annual accounts and related matters;
 - an assessment of the Board's arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money; and
 - any other work requested by Audit Scotland.

Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out its statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor to the Board for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit team.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. While this plan is addressed to the Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Responsibilities of Scott-Moncrieff

Responsibilities of Scott-Moncrieff

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.
10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

Auditor responsibilities

11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

Exhibit 1: Audit dimensions of wider scope public audit

Audit area	Scope
Financial sustainability	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
Value for money	Value for money is concerned with using resources effectively and continually improving services.

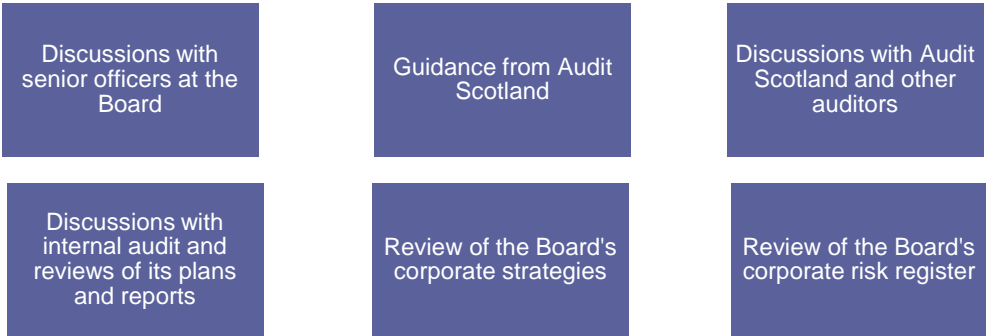
3

Audit strategy

Audit strategy

Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



14. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Board.

Professional standards and guidance

16. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

Partnership working

17. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

18. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Internal audit

19. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. The Board's internal audit service is provided by City of Edinburgh Council's internal audit team. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Board is used efficiently and effectively.



Annual accounts

Annual accounts

Introduction

20. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Board's annual accounts.

Approach to audit of annual accounts

21. Our opinion on the annual accounts will be based on:

Risk-based audit planning

22. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

23. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
24. The nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Board's own policies and procedures.
25. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

26. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
27. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

Independent auditor's report

28. Our opinion on whether the annual accounts give a true and fair view of the financial position and its expenditure and income will be set out in our independent auditor's report which will be included within the annual accounts.

Materiality

29. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
30. Our initial assessment of materiality for the annual accounts is £90,000, being approximately 1.5% of the Board's 2016/17 core/net expenditure budget. The net expenditure of the Board is met by requisitions from the constituent councils and is therefore seen as one of the principal considerations for the users of the annual accounts when assessing financial performance.
31. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£40,500
Medium	55%	£49,500
Low	70%	£63,000

- Uncorrected misstatements with a value in excess of 5% of the overall materiality figure (i.e. over £4,500); and
- Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

32. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;

33. Auditing standards require that we inform the Board of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Board if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



34. In response to this risk we will review the Board's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

2. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



35. Our work on income will include an evaluation of each type of revenue transaction and review the controls in place over revenue accounting. We will consider the Board's key revenue transactions and streams and carry out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied consistently throughout the year.

5

Wider scope audit

Wider scope audit

Introduction

- 36. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we are required to consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money.
- 37. The Code does however recognise that the full application of its requirements may be impractical or inappropriate due to the nature or size of the organisation. As such our planned work should be risk based and proportionate.
- 38. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
 - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
- 39. During the audit planning process we have considered the Board's self-evaluation arrangements as they relate to these four dimensions. From review of this information, along with discussions with the Board, we have concluded that our audit work on the wider scope will be restricted to the two areas noted above; appropriateness of the disclosures in the governance statement and financial sustainability (Exhibit 3).

Exhibit 3 - Wider scope audit

Financial Sustainability	Our audit approach
<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. 	<p>In the 2017/18 Budget Report, the Assessor highlighted the importance of financial sustainability. The report also acknowledged that the requirement for the Board to establish a sustainable fiscal position had been identified by both the Treasurer and recent Audit Scotland reports. There is a commitment, within the report, to investigate and test the current business model in order to ensure it will meet future needs.</p> <p>During our audit we will consider the Board's financial standing. This will involve a review of arrangements in place for short, medium and long term financial planning; taking cognisance of the investigatory work outlined above, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the Board's operations and use of resources.</p>

Governance statement	Our audit approach
<p>The Board is responsible for ensuring appropriate disclosures are made in the Annual Governance Statement. These should cover the period to when the financial statements are authorised for issue and should consider:</p> <ul style="list-style-type: none"> • Any impact from the local government elections in May 2017; • Any other governance issues arising during the year; • The governance framework within which the Board operates and its effectiveness; and • Any other disclosures deemed necessary. 	<p>There is a risk that the appropriate disclosures are not made in the Governance Statement.</p> <p>During our 2016/17 audit we will consider the appropriateness of disclosures made in the Governance Statement.</p>

6

Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	March 2017 (presented to the Board in April 2017)
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts.	September 2017
Annual Report to the Board and the Controller of Audit	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2017

Audit outputs

- 40. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
- 41. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

- 42. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
- 43. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect

the circumstances and local risks within the body.

- 44. For 2016/17 the expected fee for the Board is £6,970¹. We propose setting the fee at this level. The total proposed fee for the Board for 2016/17 is as follows:

	2016/17
Auditor remuneration	£6,080
Pooled costs	£530
Performance audit and best value	£0
Audit support costs	£360
Total fee	£6,970

- 45. We will take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working

¹ The audit fee in 2015/16 was £7,090.

papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

46. The dates for our audit visits have been discussed with the Assessor. A summary timetable is set out below:



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Appendices

Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

Your core audit team



Karen Jones
Director
karen.jones@scott-moncrieff.com

Karen has over 15 years’ experience in auditing the public sector. She has extensive experience in auditing public sector organisations.
 Karen will be your appointed Engagement Lead.



Georgina Philp
Assistant Manager
georgina.philp@scott-moncrieff.com

Georgina has over five years' public sector experience. She has delivered external audit services to a range of public sector organisations, including local government bodies.
 Georgina will manage the onsite audit team and work alongside Karen to deliver the audit engagement.



Rachel Wynne
Auditor
rachel.wynne@scott-moncrieff.com

Rachel has been part of our public sector external audit team since she started with the Scott-Moncrieff.
 Rachel will be responsible for the delivery of the onsite work.

Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Statement of understanding

Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Board and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Board during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Treasurer.

Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is

agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones or Nick Bennett (Engagement Quality Control Lead). If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the Board would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants

ASSESSOR'S APRIL 2017 PROGRESS REPORT TO THE BOARD



10 April 2016

1.0 PURPOSE OF REPORT

This report provides information to the Board as regards recent activities within the Assessors organisation.

An end of year performance report in association with the unaudited accounts shall be provided at the next meeting of the Board.

2.0 ELECTORAL REGISTRATION

2.1 Local Government Election 4th May 2017

Poll cards were delivered to electors for this election on the 15th/16th March. This generated considerable engagement with the office by way of telephone enquiry and via email. The main reason for contact is in respect of the provision of an absent vote. During this contact electors are advised of the anticipated issue dates for absent votes and advised that they should consider making proxy vote applications should these dates not suit their circumstances. For this election the main issue of postal ballot packs by the Returning Officers shall be on the 13th April, followed by a second on the 14th April and a third on the 25th April.

The number of eligible postal voters for the election currently stands at 122,373 which equates to 18.8% of the total eligible electorate.

At the point of publication of the register on 1st December 2016 the electorate holding the required franchise that allows participation in the Local Government election was 651,569. This compares with 634,065 for the same time in 2015.

An exercise of engagement with 16/17 year olds is ongoing with 30 visits to secondary schools throughout Lothian undertaken so far. The current registration level for this group is 86.83% and further encouragement is underway.

We have encouraged registration through attendance at events for BME and young people groups organised by Edinburgh and Lothians Regional Equality Group. In addition we have worked with Housing Associations providing registration information for tenants. This information has been provided in both English and Polish. General advertising in publications and on buses has also been undertaken.

2.2 Absent Vote Personal Identifier Refresh

An exercise required under legislation to contact those electors whose personal identifiers (Signature/Date of Birth), provided at the point of their absent vote application, did not match those on the Postal Vote Statement submitted with their completed ballot paper at the EU Referendum in June 2016 has been completed.

2.3 Canvass 2017

Preparations are underway for the 2017 household canvass involving the increased application of hand held technology during the door to door process, and the amendment to forms that negates in certain circumstances the need for a further issue.

2.4 Individual Electoral Registration

Information regarding additional IER funding for 2017/18 is, at the time of writing, still awaited from the Cabinet Office. However confirmation has been received that a bid for additional funding for 2016/17 has been successful.

3.0 VALUATION ROLL

3.1 2017 Revaluation

Draft values for the 2017 Revaluation were released on the SAA Portal during December 2016. Official notification of finalised values was provided by the issue of Revaluation Notices to all proprietors, tenants and occupiers appearing on the Roll on the 16th March with values effective from the 1st April 2017.

There has been considerable reaction to the impact of this Revaluation from certain property sectors. This has resulted in an unprecedented level of enquiry during January to March from ratepayers and elected members. Every opportunity has been taken to explain the process of Revaluation, to provide information, and enter into detailed valuation discussion where appropriate.

Following the issue of notices, telephone and email enquiries continue to be received from ratepayers and although in low numbers, formal appeals are being received.

Ratepayers have until the 30th September 2017 to lodge appeals with the Assessor.

Following the Board meeting of 6th February 2017 members were provided with statistical information identifying levels of rateable value increase across a broad range of property categories. Attached as an appendix to this report is additional information regarding the role of Assessors and the processes undertaken in preparation of a Revaluation.

The Joint Board's web site has also been enhanced to provide the ratepayer with additional information concerning the 2017 Revaluation.

Moving forward a timetable for dealing and disposing of revaluation appeals is under construction with the intention of commencing the process during late summer and early autumn. Prior to this period every effort shall be made to deal with enquiries received from individual ratepayers.

4.0 SUMMARY OF SERVICE PRIORITIES AND KEY DATES

- Processing of all applications to register, postal vote and proxy applications for the 4th May Local government election
- Provision of all necessary data for poll card and postal vote issues to Returning officers specified printers by the due dates
- Maintenance of a call centre service to the elector in advance of and on the election date and a direct line of communication established for Returning Officers on the day of election
- Provision of candidates registers and Absent Voters lists from 22nd March
- Poll card delivery on 15/16th March
- Last date for registration is midnight on 17th April
- Last date for absent applications to be received is 5.00pm on the 18th April
- Issue dates of postal voting packs by the Returning Officers - First, and main, issue 13th April, Second issue 14th April and Third/Final issue 25th April
- The deadline for ordinary proxy applications is 5.00pm on 25th April. Emergency proxy applications can only be made after 5.00pm on 25th April until 5.00pm on 4th May
- Commence the 2017 Household canvass during August 2017
- Publish the Electoral register on 1st December 2017
- Continue to deal with ratepayers enquiries concerning the 2017 Revaluation
- Commence the creation of a timetable in respect of the disposal of 2017 Revaluation appeals
- The last date for ratepayers to lodge appeals against the 2017 Revaluation is the 30th September 2017.
- Continue with maintenance activities in respect of both the Valuation Roll and Council Tax List

5.0 RECOMMENDATIONS

As there are no financial implications arising nor approvals sought, the Board is asked to note the contents of the report.

1. ROLE OF THE ASSESSOR

There are 14 Assessors in Scotland covering the 32 local authority areas. Assessors are responsible for the valuation of property for non-domestic rating purposes. In carrying out their function they are entirely independent of both local and central government and reach decisions in accordance with applicable statute and case law.

Such independence is essential for the proper performance of his/her statutory duties, ensuring that the balancing of each ratepayer's interest is done solely by reference to factual considerations of value and not subject to political pressures. This is important in order that the allocation of the rating burden should be and can be seen to be a matter in which the rating authority plays no part. It is vital that the valuations carried out by the Assessor are free from political influence and interference.

The correctness of valuations or the methods by which the computation is made are not matters for which the Assessor is answerable to the local authority. Instead a legal remedy is provided to the ratepayer by way of appeal to the Assessor and ultimately the Courts.

The Assessor has a statutory duty to compile and maintain the Valuation Roll.

The Valuation Roll for Lothian is a list of all lands and heritages which are required to be valued by the Assessor for the purposes of non-domestic rating. The Roll provides information on the property description, its address, names of all proprietors, tenants and occupiers who have an interest, the net and rateable value, and the date those values are effective from.

The Valuation Roll forms part of the overall system of local taxation and provides the base information on which business, or non-domestic, rates are levied by each local authority.

The duty to compile and maintain the Valuation Roll was originally given legislative authority in the Lands Valuation (Scotland) Act 1854, with major revision being introduced with the Valuation and Rating (Scotland) Act 1956.

It was the 1956 Act that introduced the system of regular quinquennial revaluations of the entries shown on the Valuation Roll.

2. REVALUATION 2017

Revaluations have taken place regularly every 5 years since 1985. The expected 2015 Revaluation was delayed until 2017.

The purpose of a Revaluation is to ensure that the distribution of the rates burden between ratepayers remains equitable and the key aim of regular revaluations is to ensure that the tax paid should be based on an assessment of property values which are as up to date as possible. Rates are a property tax and property values change over a period of time. Regular revaluations are therefore necessary to give effect to the changes which have occurred in the property sector. Revaluations and the rateable values entered on the Valuation Roll reflect movements in the property market.

Each Revaluation is a fresh start and the assessor is not bound or concerned with levels of value, methods or schemes of valuation used at the time of the last Revaluation. As a result comparison with what has happened before and the level to which a valuation has increased following a Revaluation are not relevant grounds for complaint.

The property market is subject to constant change. There are variations in the demand for different categories of properties, for example between offices compared to factories compared to shops. These variations are not constant between areas nor within areas, and local variation is common. Such variation is influenced by physical changes within localities that cause both improvements and deteriorations.

Revaluations take all these changes into account and adjust the rating burden between ratepayers of different classes of property ensuring that a close link is created between modern property values and the amount of business rates paid by individual ratepayers.

Rateable Value

The Rateable Value calculated by the Assessor is an estimate of annual rental value. It is defined by the Valuation Acts as “the rent at which the lands and heritages might reasonably be expected to let from year to year...if the tenant undertook to pay all rates and bear the costs of the repairs and insurance and other expenses if any, necessary to maintain the lands and heritages in a state to command that rent”

The best evidence to use therefore in order to assess rateable values are the rents passing between landlords and tenants in the property market.

The majority of subjects appearing in the Valuation Roll are in the nature of shops, offices and industrial subjects and the rental market provides adequate information upon which to base assessments.

Assessors, prior to each revaluation, ingathering rental and other information that shall be used during the valuation assessment process.

Where rental evidence is sufficient the Comparative principle approach to valuation shall always be taken. As the Assessor is seeking to establish an annual value that the hypothetical tenant would be willing to pay the analysis of rental evidence shall look to disregard high or low rents and seek to strike an average rent for any particular location of type of subject.

Using this information the Assessor shall create Schemes of Valuation for a wide selection of property types. Invariably a rental rate per square metre is established that reflects the location, quality, facilities and use of the property.

In some cases a property shall be of such character that no rental evidence exists. Examples of these are churches, schools, halls, hospitals etc. In this instance an annual value is set by applying a percentage rate to the cost of construction with an addition for the value of the site. This is known as the Contractors basis of valuation. Cost information is ingathered on a wider national basis and cost rates per square metre are determined for various building types adjusted for such factors as construction, age and condition in order to reflect the actual subject being valued. The percentage applied to the resulting cost figure in order to achieve an annual value is directed by Valuation Order. For the 2017 Revaluation these percentages are 4.6% for the majority of properties valued in this fashion, with 2.9% applied to educational, health care and religious subjects.

In very limited circumstances Assessors may revert to the receipts and expenditure method of valuation. This has very limited application but is used in respect of such subjects as harbours or larger public utilities.

The Revaluation "Tone" Date

It would be impossible to undertake the process of revaluation at the date at which a values become effective. The gathering of information and its analysis followed by the actual calculation of values takes some time.

To accommodate this the values that become effective on the 1st April 2017 shall reflect the market position as at 1st April 2015. This date is known as the "tone date" for the 2017 Revaluation. The physical attributes of a property that shall be reflected in the value shall be those in existence as at the 1st April 2017.

Alterations to Values between Revaluations

The majority of values appearing on the Valuation Roll shall remain static between Revaluations. The act of revaluing is in essence snap shot exercise reflecting the state of the property market at the tone date. The property market, especially during times of economic uncertainty, can fluctuate wildly between Revaluations however this does not give cause to alter rateable values in the intervening periods between Revaluations.

There are limited circumstances that allow a value to be altered between Revaluations. These are where there are physical alterations such as an extension or a part demolition, where a value has been reduced on appeal, where an error has been found in the value which satisfies the definition provided within the Valuation Acts, where a property has been merged with another, or where a property has been split to form two or more properties, also new properties that come into existence shall be added to the Roll and properties that have been demolished shall be removed.

3. IMPACT OF THE 2017 REVALUATION

As in past Revaluations, the 2017 Revaluations has produced movement in the rating burden between property categories but also in some cases witnessed significant increases of individual valuations.

In general terms within the Lothian area there has been an overall reduction in total rateable value of between 2% and 4% for retail and office properties, less than 10% increase in the industrial sector and those valued using the Contractors approach to value, a 40% increase in licensed properties, and a 20% increase for miscellaneous subjects that do not fall into the other categories, for example visitor attractions, utilities, ground, etc.

These percentages only provide a very broad indication of movement within the Roll. Looking more closely at value movement it can be seen that out of 30,549 properties on the current Roll and which have not been subject to any sort of physical change at the point of revaluation, allowing direct comparison to be made, 8,943 shall see values being reduced, while 13,048 shall have values increased by 25%, and 8,558 shall see values increasing beyond 25%. 212 properties shall face an increase in excess of 3 times.

It has to be remembered that a Revaluation is fresh start for the Assessor who is in no way fettered by levels of increase or even the approach to valuation of a particular property category that was used at the past Revaluation.

The levels of value for the main commercial property categories are determined and led by the annual values existing within the property market at the time of the revaluation.

Individual properties or groups of properties can “buck the trend” which a general picture shows.

For example a street of shops in a location that has experienced growth in terms of new housing, or are in an area that has become fashionable may well face increases in rateable value beyond the general trend. The exact extent of which shall be determined by the rental evidence the Assessor has been able to gather and analyse.

The Scottish Government has amended the Small Business Rates Relief Scheme so that properties with rateable values under 15,000 pay no business rates (subject to a qualification concerning multiple ownership). While this matter is one for the collecting authorities it would appear that almost 50% of the entries on the Valuation Roll shall not pay business rates.

Of course the existence of a relief scheme and the impact of a revaluation can have the effect of moving ratepayer from having no rates liability to facing considerable charges as the rateable value moves from falling within the relief scheme to not being covered at all.

4. PUBLIC HOUSES, RESTAURANTS AND CAFÉS

Most of the enquiries received to date have concerned this group of properties.

The valuation of public houses, and restaurants with the facilities to sell alcohol separately from the normal food and drink operation, is based on the application of a percentage to Gross Turnover.

This approach reflects that rents are struck in the open market for these property types are closely related to, and a reflection of, gross turnover.

The rental information gathered by the assessor is analysed against the gross turnover supplied by the operator in order to establish a percentage. This percentage can then be applied to similarly used property.

The gross turnover is in effect used in the same way as the physical area is used in the valuation of shops, offices etc. It is the yardstick that reflects a range of criteria that have impact on value, for example location, size, layout, nature of operation, etc.

Where the gross turnover is deemed unreliable for example it may be regarded as being too high or too low in comparison with other similar operations, then the Assessor can adopt a Hypothetical Achievable Turnover.

In cases where restaurants fall to be considered not on the same terms as public houses, then an analysis of rental information against gross internal area is undertaken to establish an overall rate per square metre. This shall then be applied to restaurants in an area where that level of value is applicable. Location plays an important part in the setting of annual rents between tenants and landlords and in the case of restaurants this is of particular relevance where restaurants are perhaps more sensitive to locational factors. Locations which have seen regeneration and new house building, perhaps aimed at younger groups in society, shall invariably show a growth in the rental market for such subjects.

In respect of Caf  s the picture is very similar. At this revaluation a caf   culture has emerged which has shown itself through the rental market whereby caf   operators are prepared to pay higher rents than surrounding shop properties.

This higher level of value has been identified by the Assessor and applied to caf  s in a manner similar to that outlined above.

Failure to acknowledge that a new market existed would mean that the burden of rates was not being properly reflected in the Valuation Roll, and that the higher rents for these properties was being allowed to inflate the levels of value applied to surrounding shop properties.

5. CURRENT ENGAGEMENT

We are currently engaging with ratepayers who contact the assessor's office and likewise providing information and assistance to elected members at all levels.

The Assessor is prepared to look again at the values that are currently proposed ensuring that the information upon which values have been based is robust and defensible. Where additional information can be provided ratepayers this shall also be taken into account and may influence the review process.

Following a meeting with ratepayers in the Portobello area, further rental came to light which has allowed a reconsideration of a number of the values proposed.

As part of the Revaluation process the Assessor issues many forms to ratepayers seeking information on rents, turnover and costs. The level of return in respect of these forms can have a direct bearing on the accuracy of the values that the Assessor calculates.

In terms of rental information, for this Revaluation, around 60% of forms issued has have been returned. This provides an adequate base on which to proceed. As regards turnover information from licensed properties, only a 40% return has been achieved. Every opportunity must be taken to encourage ratepayers to provide the information requested.

It is also vital that ratepayers engage directly with the Assessor as it is only through that process that value can be thoroughly discussed. Many valuations contain information that is subject to Data Protection principles and is commercially sensitive. It would be inappropriate for valuations to be discussed in open forum.

While it is understandable that ratepayers wish to raise issues concerning the Revaluation with elected members it is only by direct discussion with the Assessor that a level of understanding can be achieved and matters resolved. There is no hesitation on the part of the Assessor to reduce values if it is felt to do so would be the fair and reasonable course of action and is supported by the evidence available.

Ratepayers should be encouraged to contact their local Assessor whenever the opportunity arises.

6. APPEAL PROCESS

Whether discussions have taken place with the Assessor beforehand or not inevitably ratepayers may be of the view that the rateable value for their property is too high.

In such cases the Valuation Acts provide a legal remedy by way of an appeal process.

Ratepayers have until the 30th September to lodge appeal with their local Assessor against the values that come into effect from the 1st April.

This should be done in writing either by way of letter, e-mail or by going on-line at www.saa.gov.uk.

As part of this process Assessor's staff shall contact the ratepayer in order to discuss the valuation. If no solution can be found the appeal shall proceed to be heard before the Valuation Appeal Committee.

This is a legal court comprised of lay volunteers who shall hear the case as presented by the ratepayer and the Assessor and upon which a decision shall be made.

Graeme Strachan
Interim Assessor & Electoral Registration Officer

February 2017