

# Note for guidance 2011/6(LA)

Remuneration reports

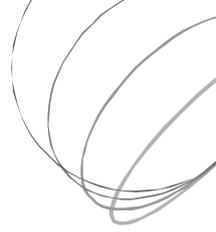
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# Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance and support to external auditors appointed by the Accounts Commission and Auditor General to assist them fulfil their responsibility under their audit appointment to give an opinion on the financial statements.

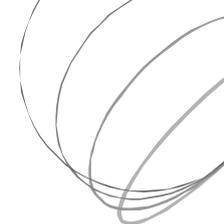
This includes the publication of notes for guidance onto the TSU intranet/extranet. The purpose of notes for guidance is to offer guidance to external auditors, and to provide information which may be of interest or assistance in the performance of their audit work.

Notes for guidance contain information which is of importance to the conduct of audits and frequently recommend that auditors take action in certain regards. It is important that a mechanism is in place for senior audit staff to review notes for guidance promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently of Audit Scotland, and are responsible for their own conclusions and opinions, consistency of opinions in similar circumstances is important and **it is expected therefore that auditors will normally follow all such guidance. Auditors should advise the TSU promptly if they disagree with, and may intend not to follow, any guidance provided on an important issue** (e.g. a matter that required consideration to be given to the qualification of the accounts of a number of audited bodies).

A note for guidance may be e-mailed to audited bodies by Audit Scotland in order that they may be aware of the guidance that has been provided to auditors.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of notes for guidance or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in such notes.



# Introduction

1. Local authorities are required by a recent amendment to *The Local Authority Accounts (Scotland) Regulations 1985* (the Regulations) to publish a remuneration report as part of their annual accounts from 2010/11.
2. The requirements for a remuneration report apply to councils, joint boards and committees, and regional transport partnerships. The Regulations include a schedule setting out the information that a remuneration report should contain. It requires the report to show for each relevant person (see paragraph 6) their
  - remuneration under a number of specified categories (see paragraph 18)
  - pension benefits (see paragraph 29).
3. The report is also required to disclose remuneration by pay band (see paragraph 39) and other narrative disclosures (see paragraph 43).
4. Guidance has been issued by the Scottish Government with *Finance circular 8/2011* which is intended to assist local authorities in implementing this requirement, and provides a number of sample disclosures. It also confirms that disclosure should be on an accruals basis and reflect *IAS 19 Employee benefits*, as set out in the *Code of practice on local authority accounting in the UK* (the Code), ignoring the impact of statutory guidance.
5. Auditors are required to audit part of the remuneration report and give a separate opinion within their report on the financial statements on whether it has been properly prepared in accordance with the Regulations (see paragraph 49). This note for guidance has been prepared by the TSU to provide auditors with guidance in this regard.

## Relevant person

### Introduction

6. Remuneration and pension disclosures are required in respect of relevant persons as defined in the Regulations. A relevant person is defined as
  - a senior councillor (see paragraph 7)
  - a senior employee (see paragraph 11)
  - a senior police officer (see paragraph 15)

- certain individuals connected with a subsidiary of the local authority (see paragraph 16).

## Senior councillor

### 7. Senior councillors are

- the Leader of the Council
- the Civic Head
- councillors designated a Senior Councillor under *The Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007* (the 2007 Regulations - see paragraph 9)
- the Convenor and Vice-Convenor of joint police and fire boards (see paragraph 10) or, where applicable, those with responsibility for the police and fire functions within a council.

### 8. The remuneration of councillors is regulated by the 2007 Regulations. They set out the salary for the Leader of the Council (sometimes referred to as Convenor) and the maximum salary for the Civic Head (sometimes referred to as Provost or Lord Provost).

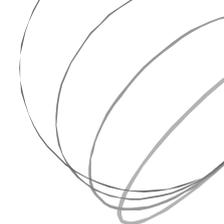
### 9. The 2007 Regulations also set out the maximum number of designated Senior Councillors and limit the amount they may be paid to 75% of the total amount payable to the Leader of the Council. There is also a limit on the annual amount payable to all Senior Councillors.

### 10. The 2007 Regulations also set out the remuneration payable to councillors with the responsibility of a Convenor or a Vice-Convenor of a joint board. The council of which the Convenor or Vice-convenor is a member is required to pay their total remuneration and is then reimbursed for the element of the payment made on behalf of the joint board. The circular requires these arrangements to be disclosed in both the council and joint board remuneration report. The joint board should detail the remuneration they have been charged.

## Senior employee

### 11. Senior employees are defined as any local authority employee who

- has the power to direct or control the major activities of the authority; or
- holds a post in a council or joint board that is politically restricted by reason of section 2(1)(a), (b) or (c) of the *Local Government and Housing Act 1989* (see paragraph 12); or
- has annual remuneration of £150,000 or more (see paragraph 14).



12. The remuneration of any person holding any of the following politically restricted posts requires to be disclosed
  - the head of the authority's paid service i.e. chief executive
  - the statutory chief officers, i.e. Chief Education Officer, the Chief Officer of a fire brigade, the Director of Social Services or Chief Social Work Officer, and the proper financial officer
  - a non-statutory chief officer, meaning an employee who is directly responsible, or reports directly, to the head of paid service, or is required to report directly or is directly accountable to the local authority or any committee or sub-committee. This excludes an employee whose duties are secretarial or clerical.
  
13. The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee for Local Authority Services sets the salaries for the chief executives of Scottish local authorities. The salaries of the corporate directors and heads of service are based on a fixed percentage of the chief executive's salary.
  
14. The categories of payments that comprise remuneration are covered at paragraph 20. When determining whether an employee's annual remuneration is £150,000 or more, annual compensation for loss of employment should be disregarded (see paragraph 24). In addition, a calculation is required for part time employees or any employed for only part of the year. The Regulations require the salary element of the remuneration to be calculated as if that employee worked full time or for the whole year. However, the amount to be disclosed should be the actual amount of their remuneration.

## Senior police officer

15. A senior police officer is a member of a police force who
  - is a chief constable; or
  - is a deputy chief constable or an assistant police constable; or
  - has an annual remuneration of £150,000 or more (see paragraph 14).

## Subsidiaries

16. Relevant persons in respect of the subsidiaries of a local authority are
  - the chief executive (or equivalent)
  - councillors to whom that body paid remuneration in that financial year

- 
- any director or employee of the body whose remuneration was £150,000 or more (see paragraph 14).

## Confidentiality agreements

17. The Regulations contain saving provisions where a local authority has contractually bound itself not to disclose publically an employee's remuneration details. Where such a contractual confidentiality agreement was agreed prior to 7 February 2011 (i.e. the date the remuneration report requirements were added to the Regulations), the Regulations do not require remuneration details for that employee for 2010/11 or previous years. However, the guidance requires a note to be included that explains that the data is not being disclosed due to a contractual agreement in place. The disclosure requirements for that employee will apply from 2011/12.

# Remuneration disclosures

## Introduction

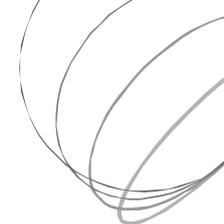
18. Paragraphs 6 to 8 of the Schedule to the Regulations set out the disclosures for the remuneration of relevant persons. Remuneration includes salary, fees and bonuses and other similar payments, excluding pension payments, from a local authority or its subsidiaries. These disclosures form part of the remuneration report that requires to be audited and therefore are covered by the separate opinion (see paragraph 49).

## Format

19. Remuneration should be disclosed beside the post and name of each relevant person. The disclosures are required to be made in a tabular format with individual tables for
  - remuneration from the local authority to senior employees or senior police officers
  - remuneration from the local authority to senior councillors
  - remuneration from subsidiaries to relevant persons.

## Specified categories

20. Remuneration should be shown before tax and other deductions, and with comparatives, under each of the following categories
  - salary, fees or allowances



- bonuses (see paragraph 22)
  - expenses allowance chargeable to income tax (see paragraph 23)
  - compensation for loss of employment (see paragraph 24)
  - non-cash benefits (e.g. car, private health insurance), with a footnote describing the nature of any such benefits and how they were agreed and approved
  - any other payments received, other than pension payments.
21. Where no remuneration was paid for any category to any person, that category may be omitted. However, categories may not be combined.

## Bonuses

22. Bonuses relate to the performance of senior employees in the year in which they become payable. However, if the appraisal process does not allow sufficient time to accrue for individual bonuses relating to 2010/11 performance in that year's financial statements, the circular allows bonuses based on 2009/10 performance (with comparative bonuses based on 2008/09 performance) to be disclosed, with a note explaining this treatment. The bonus disclosure should only include non-consolidated payments, i.e. a payment that does not permanently increase the salary of the individual. Consolidated performance pay in contrast should be disclosed as part of salary rather than bonuses.

## Expenses allowance

23. The only expenses or benefits to be disclosed are those where the local authority does not have a dispensation agreed with HM Revenue and Customs not to report them.

## Compensation for loss of employment

24. Included within compensation for loss of employment should be
- lump sum and annual compensation payments for premature retirement and redundancy payable under *The Local Authority (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998* (the 1998 Regulations)
  - annual allowances under the 1998 Regulations where an employee loses their employment through permanent incapacity as a result of an injury at work
  - lump sum and annual injury award payments under *The Police (Injury Benefit) (Scotland) Regulations 2007*, *The Firefighters' Compensation Scheme (Scotland) Order 2006* and *The Teachers (Compensation for Premature Retirement and Redundancy) (Scotland) Regulations 1996*.



25. The guidance requires the annual compensation amounts to be disclosed separately, with an explanatory note, and not included in the total remuneration amounts.

## Starters and leavers

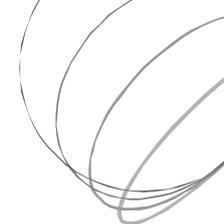
26. The disclosures should include relevant persons who leave during the year
- The actual remuneration should be reported but the circular suggests that a full year equivalent, together with their leaving date, should also be disclosed. Any replacement will also require to be disclosed.
  - If a senior employee changes posts during the year, there should only be one disclosure for that person but it should reflect the change of post.
  - Where an employee is promoted into a senior employee post from a position that does not require disclosure, only the remuneration which relates to their new appointment is to be disclosed, with no prior year comparator information.

## Remuneration from joint boards

27. Where senior employees act for joint boards or other authorities, each case should be considered individually as follows
- If the employee holds the position solely by virtue of their main employment, and is remunerated by their employing authority, any remuneration should be included in their total remuneration.
  - Where the employee has an independent contract with, and is paid by, the other authority, the payment does not form part of their remuneration that requires to be disclosed by the main employing authority.

## Remuneration from subsidiaries

28. Remuneration paid to senior employees or councillors (NB not limited to senior councillors) from a subsidiary should be disclosed in the table for subsidiaries. However, the circular requires that, where a councillor is also a senior councillor, a note to the senior councillor table should identify the additional remuneration paid by the subsidiary.



# Pension disclosures

## Introduction

29. Paragraphs 9 to 12 of the Schedule to the Regulations set out the disclosures for the pension benefits of relevant persons. These disclosures form part of the remuneration report that requires to be audited and therefore are covered by the separate opinion (see paragraph 49).
30. Pension benefits are provided to employees through the local government, teachers, police and fire pension schemes which are defined benefit schemes. The Regulations also permit authorities to pay contributions or other payments to the local government pension scheme in respect of those councillors who elect to become members. Some schemes operated by subsidiaries may be money purchase schemes.

## Format

31. For defined benefit pensions, the remuneration report should disclose the following, beside the post and name of each relevant person, in separate tables for senior employees, senior councillors and subsidiaries
  - the value of the person's accrued pension benefits under the scheme as at 31 March
  - the difference between that value and the equivalent value as at the previous 31 March
  - the amount of any pension contributions by the local authority or subsidiary.
32. For money purchase schemes, only the contributions require to be disclosed.
33. Some councillors may have pension benefits arising from their association with a subsidiary as well as from their authority
  - Where they are a senior councillor, their combined pension benefit should be disclosed in the senior councillor pension table, with a disclosure note advising of the additional pension benefits.
  - Where they are not senior councillors, the element of their pension benefits arising from the subsidiary should be disclosed in the subsidiaries pension table.



## Accrued pension benefits

34. Councillors' pension benefits are based on career average pay. For local government employees, pension benefits are based on the final year's pay and the number of years membership of the scheme. Members may opt to commute part of the pension to a lump sum.
35. The calculation of accrued pension benefit should reflect both the employer and employee/councillor contributions. However, the Regulations require additional voluntary contributions to be excluded. Transfers of benefits from another pension fund should be included in the disclosure. The value of the accrued benefits should be calculated
  - on the basis of the age at which the person will first become entitled to receive a pension without reduction
  - assuming any option to commute pension entitlement into a lump sum will not be exercised
  - without any adjustment for the effects of future inflation.
36. The pension disclosure for joint boards for a Convenor or Vice-convenor is limited to the contribution the board has made. No accrued pension benefit should be disclosed.

## Contributions

37. The disclosures in respect of the pension contributions should be those made by the employer only (i.e. employee contributions should not be included).
38. Contributions should include relevant payments made under *The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008*. Disclosure should be in respect of the total amounts payable, ignoring any agreement under *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* to pay in instalments. This will include payments in respect of any additional costs to the pension fund arising from an authority
  - awarding added years or additional pension
  - waiving a reduction in pension benefits that would otherwise arise from a member taking their pension benefits earlier than the scheme retirement age
  - deciding that a member is entitled to immediate payment of pension without reduction where that member has been dismissed by reason of redundancy or on the grounds of business efficiency, and is at least 55 (or in some circumstances 50)
  - paying pension immediately where a member retires early due to ill health

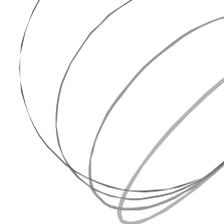
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- determining, on compassionate grounds, that a member who leaves local government employment can receive early payment of their pension without reduction.

## Pay band disclosures

39. Paragraph 4 of the Schedule to the Regulations requires the remuneration report to provide information on the number of employees whose remuneration was £50,000 or more. This disclosure forms part of the remuneration report that requires to be audited and therefore is covered by the separate opinion (see paragraph 49).
40. The information should give the number of employees or police officers whose remuneration fell into each £5,000 band, starting with £50,000, along with comparatives. This disclosure is already required by the Code, but the Regulations provide a statutory basis for the requirement. Future editions of the Code will be amended to reflect the Regulations, but the following should be noted for 2010/11
  - The Code requires bands of £10,000, but the requirement in the Regulations for £5,000 bands takes precedence.
  - The Code requires disclosure in the notes to the financial statements, but the Regulation's requirement to include it in the remuneration report takes precedence. As stated at paragraph 39, it should therefore be covered by the opinion on the remuneration report, rather than the opinion on the financial statements.
41. The disclosure should include senior employees of the local authority but, in contrast with other disclosure requirements, it should not include subsidiaries. Any starters or leavers should be included in the band which matches their actual remuneration for the year, rather than their annual remuneration.
42. The Regulations do not require the identification of groups within the bands (e.g. police or teachers) but authorities may choose to do so. If they do, there is still a requirement to disclose the total number of all employees.

## Other disclosures

43. Remuneration reports are also required by the Schedule to the Regulations to include the following disclosures, which are not part of the remuneration report that requires to be audited
  - Paragraph 2 requires disclosure of details of the authority's remuneration policy for senior employees and senior councillors, and details of any role the authority has in determining the remuneration policy for any subsidiary.



- Paragraph 3 requires authorities to describe the role, and state the membership of, the authority's committee that deals with remuneration arrangements or, where there is no such committee, state how remuneration arrangements are managed.
  - Paragraph 5 requires disclosure of the name of any subsidiary, together with the name of the chief executive (or equivalent), the name of each councillor to which that body paid remuneration, and the post title and name of each director or employee whose annual remuneration was £150,000 or more.
44. In addition, the circular states that local authorities should supplement the information required by the regulations with suitable narrative, and may include additional remuneration information.
45. As stated at paragraph 43, these disclosures do not form part of the remuneration report that requires to be audited and therefore they are not covered by the separate opinion. However, they should be read to identify any material inconsistencies with the audited financial statements (see paragraph 52).
46. From 2011/12, the Code has introduced a requirement for authorities to report summary information in relation to exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs. The circular requires this disclosure to be included in the remuneration report. Authorities will be required to disclose
- the number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter)
  - the total cost of packages agreed in each band
  - an analysis between compulsory redundancies and other departures.

## Presentation and approval

47. The circular states that the remuneration report is a statement in its own right, rather than a note to the accounts, and suggests that it should appear after the annual governance statement (or equivalent statement).
48. The guidance also recommends that the remuneration report should be approved and signed. It suggests that it would be appropriate for the report to be signed by the Chief Executive and a leading council member.



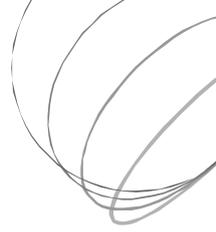
# Auditor action

49. Auditors are required to audit part of the remuneration report and give a separate opinion within their report on the financial statements. Auditors should ensure that authorities clearly identify the part that is covered by the audit opinion. The disclosures covered by the audit opinion for 2010/11 are
- remuneration disclosures required by paragraphs 6 to 8 of the Schedule to the Regulations
  - pension benefit disclosures required by paragraphs 9 to 12
  - pay band disclosures required by paragraph 4.
50. In addition, from 2011/12, the required exit package disclosures will also be covered by the opinion on the remuneration report.
51. Auditors should consider whether the above sections of the remuneration report have been properly prepared in accordance with the Regulations. In particular, auditors should confirm that
- all relevant persons have been included in the appropriate tables
  - remuneration is complete, fairly stated, and properly disclosed in the required categories
  - pension benefits are complete, fairly stated, and properly disclosed
  - information on the number of employees is complete, fairly stated, and properly disclosed
  - information on exit packages is complete, fairly stated, and properly disclosed (from 2011/12).
52. Auditors should also read the disclosures required by paragraphs 2, 3 and 5 of the Schedule to the Regulations, and any other additional narrative disclosures, to identify any material inconsistencies with the audited financial statements.

# Contact point

53. Enquiries concerning the content of this note for guidance should be directed to
- Paul O'Brien [PObrien@audit-scotland.gov.uk](mailto:PObrien@audit-scotland.gov.uk) 0131 625 1795
  - Tim Bridle [TBridle@audit-scotland.gov.uk](mailto:TBridle@audit-scotland.gov.uk) or 0131 625 1793.

Technical Services Unit  
Audit Scotland  
110 George Street  
EDINBURGH  
EH2 4LH



54. Auditors are encouraged to contact the TSU 'helpdesk' with technical enquiries concerning local authorities generally. Enquiries should be made in accordance with the guidelines on the TSU intranet/extranet and should be e-mailed to [technicalqueries-localgovernment@audit-scotland.gov.uk](mailto:technicalqueries-localgovernment@audit-scotland.gov.uk).

**24 May 2011**



# Appendix 1

## Checklist for auditors

	Yes/No/ N/A	Initials/ Date	W/P Ref
1. Have all relevant persons been included in the appropriate tables?			
2. Is remuneration complete, fairly stated, and properly disclosed in the required categories?			
3. Are pension benefits complete, fairly stated, and properly disclosed?			
4. Is information on the number of employees complete, fairly stated, and properly disclosed?			
5. Is information on exit packages complete, fairly stated, and properly disclosed (from 2011/12)?			
6. Are other disclosures free from material inconsistencies with the audited financial statements?			