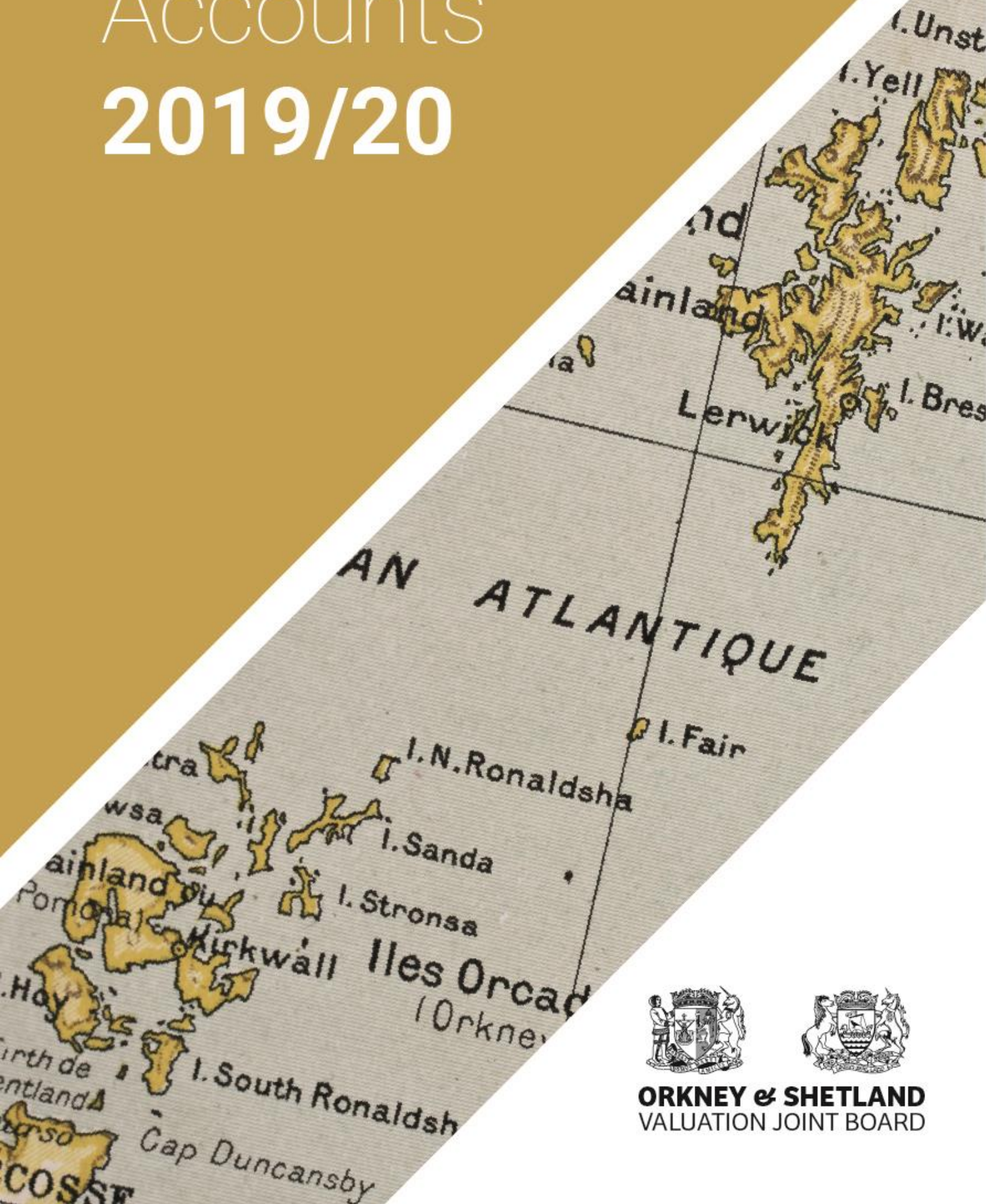


Annual Accounts 2019/20



ORKNEY & SHETLAND
VALUATION JOINT BOARD

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Management Commentary

The purpose of the Management Commentary is to help all users of the accounts to assess how the Orkney & Shetland Valuation Joint Board ("the Board") has performed during 2019/20 and understand the year-end financial position as at 31 March 2020. In addition, it provides a narrative on the financial outlook for the Board during financial year 2020/21 and beyond.

Introduction

The Valuation Joint Board (VJB) exists for the discharge of statutory functions relating to the preparation, publication and maintenance of both the Valuation Roll and Council Tax List (Valuation List). The Assessor also provides the electoral registration function on behalf of both island areas.

All three documents (Valuation Roll, Valuation List and Electoral Register) are available for public inspection at the Assessor's offices, at the public libraries and offices of the two constituent authorities. As many of the public offices are closed or access may be limited due to COVID-19 a searchable online facility for the Valuation Roll and Council Tax List are available here: <https://www.saa.gov.uk/orkneyandshetland/>

Amendments to the Electoral Register can be processed online at: <http://gov.uk/register-to-vote>

There are 14 Assessors in Scotland, of which four are appointed directly by a single Council and the remaining 10 are appointed by Valuation Joint Boards comprising elected members from two or more Councils. Where a VJB exists, as in Orkney and Shetland the duties, powers and responsibilities of the constituent Councils as Valuation Authorities are delegated to the Board. An Assessor is responsible for the valuation of both domestic and non-domestic properties within one or more Council areas. Each board appoints an independent Assessor to ensure that valuations are free from political influence or interference. This is essential to the performance of the Assessor's statutory duties, which can involve situations where the interests of the local authority and the ratepayer may conflict.

Composition of the Board

The Board is a separate public body from the two constituent authorities, being Orkney Islands Council and Shetland Islands Council and draws its membership from them, each nominating five

Councillors to serve on the Board. Board members are as follows:

Members:

Orkney Islands Council
Andrew Drever (Convener)
Stephen Clackson**
David Dawson
Steven Heddle (until 13 May 2019)
Harvey Johnston
John Ross Scott (from 14 May 2019)**
Shetland Islands Council
Theo Smith (Vice-Convener)
Alistair Cooper
Allison Duncan
John Fraser
George Smith

Substitute Members:

Orkney Islands Council
Barbara Foulkes
Steven Heddle (from 14 May 2019)
John Ross Scott (until 13 May 2019)
Shetland Islands Council
Malcolm Bell*
Stephen Leask
Emma Macdonald
Robbie McGregor
Ryan Thomson

* Resigned from the Board on 29 April 2020.

** Resigned from the Board on 20 August 2020.

Copies of the minutes of meetings and audited accounts of the Board can found on the Board's website: www.orkney-shetland-vjb.co.uk.

Chief Officials

Assessor & Electoral Registration Officer:
Dennis M Stevenson MRICS IRRV

The following appointed office bearers of the Board are employed on a substantive basis by Shetland Islands Council:

Treasurer:
Jamie Manson CPFA* – Executive Manager - Finance

Clerk:
Jan Riise** - Executive Manager – Governance and Law

* Resigned from post on 1 May 2020.

** Resigned from post on 30 April 2020

Both office bearer posts are currently vacant. Since the Treasurer’s resignation, finance services have continued to be provided by Shetland Islands Council to ensure continuity and to allow the Board to meet its financial reporting obligations. Jamie Manson was appointed as Acting Proper Officer for Finance to the Board, on a temporary basis to facilitate the completion of the 2019/20 annual accounts until a substantive Treasurer is appointed by the Board.

Background

The functions of the Assessor are different from those of most other Local Government Officers, whose duties are to carry out the policies of local authorities, as determined by elected Councillors. The Assessor is required to balance the interests of individual ratepayers against those of others in terms of valuation levels.

The independence of the Assessor is necessary to ensure that decisions are made on considerations of value, without political pressure. The actions of the Assessor are subject to scrutiny however, through an appeals process.

Further detail can be found here:
<http://www.saa.gov.uk/the-assessor.html>

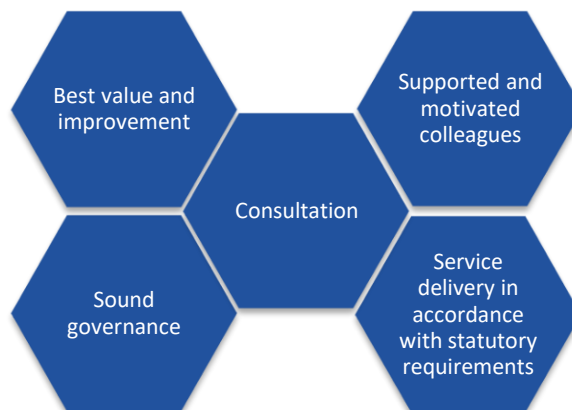
Strategy

Corporate Plan

The Board has a three-year corporate plan covering financial years 2019 to 2022. It sets out the Board’s vision as follows:

“to provide a range of valuation and electoral services to the stakeholders of the Valuation Joint Board in accordance with statute and at levels of excellence which meet or exceed their expectations”

Five core strategic objectives have been identified in the corporate plan, as follows:



The Board’s senior management team monitors the plan. Any review or update to the plan is reported to the Board through the 6-monthly Best Value progress report.

The five core strategic objectives are always at the forefront of planned activities, which has been tested as the Board conducted business during the COVID-19 pandemic. While recognising the duty to secure the Best Value and Consultation objectives, the focus has been on maintaining a core service within statutory requirements, sound governance and supporting employees throughout the period of remote working.

The corporate plan can be found at:
<http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html>

Performance Information

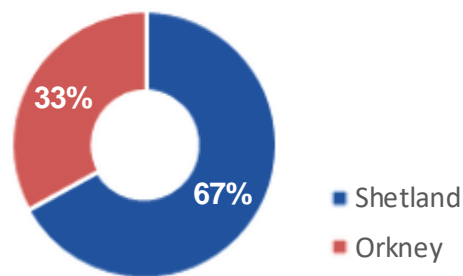
2019/20 was another active year for the Board and its employees involving the continuing citation and negotiation of non-domestic 2017 rating revaluation appeals, which have to be settled by 31 December 2020, in addition to ongoing valuation duties. While there were no planned electoral events in 2019/20, along with the electoral annual canvass, unplanned electoral events included European Election on 23 May 2019, Shetland Scottish Parliamentary By-Election on 29 August 2019, Shetland Local Government By-Election on 7 November 2019 and a General Election on 12 December 2019.

Individual Electoral Registration (IER) continues to be a demand on resources. Funding from the Cabinet Office was received in 2019/20, however with the introduction of Canvass reform in 2020 no further IER Cabinet Office funding is expected.

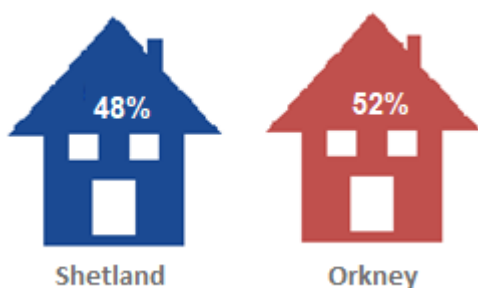
Work on the rolling programme to update and revalue subjects contained in the asset register on behalf of Orkney Islands Council continues to be an extra service provided by the Board. While this service is funded, the impact on the statutory functions of the Board are continually monitored. There has been no adverse impact on existing resources in provision of this valuation service.

As at 31 March 2020, the Board had:

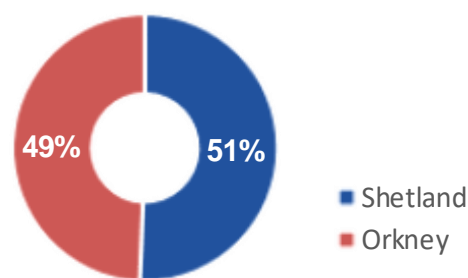
RATEABLE VALUE: £91,416,420



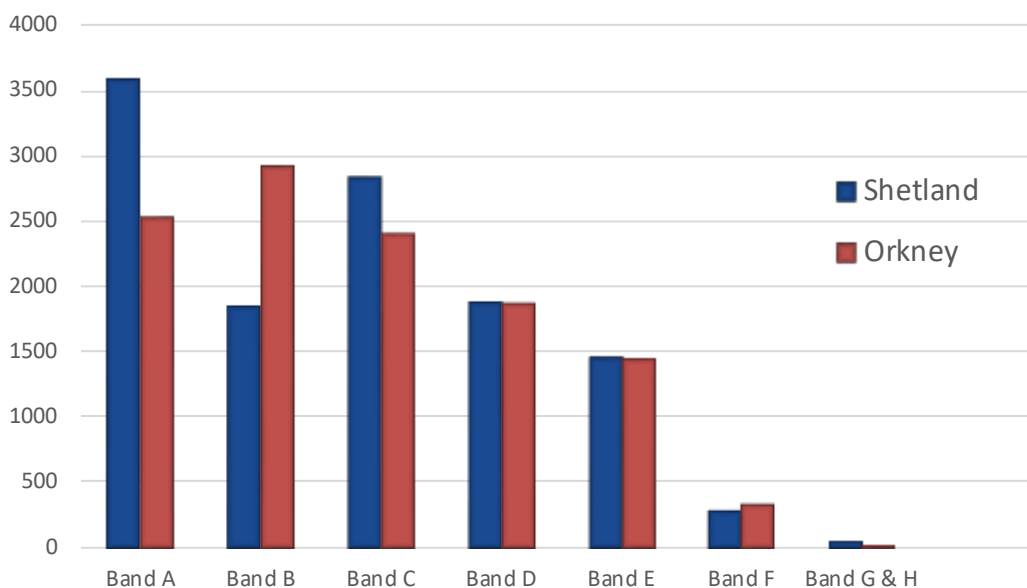
ENTRIES IN VALUATION ROLL: 5,005



ELECTORS: 35,472



COUNCIL TAX PROPERTIES: 23,504



Key Performance Indicators

The Board has adopted an agreed range of local non-financial Key Performance Indicators (KPIs) with reference to those published by other VJB's. Performance targets are set annually by the Assessor with consideration of previous achievements, pressures on resources and anticipated workload.

The non-financial KPIs are:

Council Tax List	2019/20		2018/19
	Target %	Actual %	Actual %
% entered in List within 3 months of occupation	87.00	97.66	97.45
% entered in List within 6 months of occupation	96.00	99.07	98.92
% entered in List more than 6 months after occupation	<4.00	0.93	1.08
Valuation Roll	2019/20		2018/19
	Target %	Actual %	Actual %
% entered in Roll within 3 months of effective date	75.00	68.91	80.40
% entered in Roll within 6 months of effective date	90.00	81.16	91.50
% entered in Roll more than 6 months after effective date	<10.00	18.84	8.5
Total Reduction on appeal	<1.00	1.04	0.40

The non-financial targets have remained the same as for 2018/19.

The long-term vacant Depute Assessor's post has had an effect on the Valuation Roll non-financial KPIs, along with a resource focus on settling the outstanding 2017 Revaluation non-domestic rating appeals.

The comparison of the actual outturn to budgeted net expenditure is a measure of the effectiveness of financial management. Quarterly revenue monitoring

reports inform this key financial indicator of the Board's performance over the financial year and of the affordability of its ongoing commitments.

Financial Management	2019/20	2018/19
Actual net expenditure as a percentage of budgeted net expenditure.	96%	95%

Further information on performance can be found here:

<http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html>

Risks and Uncertainties

The maintenance of a risk register ensures the Board's functions operate effectively under all assessable and identifiable risks. The risk register assesses the likelihood and impact of identifiable risks and provides actions to mitigate or minimise them. A traffic light system is used to show the overall risk rating - green being low risk, amber medium and red high.

Progress against actions are regularly monitored and the latest report was presented to the Board on 21 November 2019. The risk register identified a total of 47 risks and of these no risks are red, seven are amber and the remainder are green.

The Board's risks and uncertainties can be summarised as:

- Staffing - particularly in relation to the continued failure to recruit a Depute Assessor to support the valuation functions of the Board;
- Staffing – an inability to appoint sufficient staff to deliver the electoral registration functions of the Board;
- Failure to maintain an up to date Electoral register, through late or non-delivery of household enquiry forms and/or invitations to register; and
- The UK's withdrawal from the European Union has created uncertainty to the legislative intentions of government, particularly in relation to reform of Council Tax, Non-Domestic ratings and the Barclay Review.

Full details on the risks identified along with the steps to mitigate these can be found at:

<http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html>

Since the most recent presentation of the risk register in November, the Board faces further risks and uncertainties that have not yet been reported:

- Impact on service delivery as a result of the COVID-19 pandemic. This uncertainty is multi-faceted and explored further under a separate COVID-19 heading later in this commentary; and
- Partnership and Stakeholder relationships. The Board does not currently have a substantive Clerk or Treasurer to provide the Board with objective legal or finance advice. A process to make appointments to fill these proper officer roles has been delayed due to the COVID-19 pandemic. A report will be presented to the Board to enable this process to begin.

Primary Financial Statements

The accounting framework defines local authorities as Councils constituted under Section 2 of the Local Government (Scotland) Act 1994 and the Valuation Joint Boards (Scotland) Order 1995 and those bodies to which Section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards, the members of which are appointed by local authorities and charities, etc.).

The annual accounts summarise the Board's transactions for the year and its year-end position at 31 March 2020. The annual accounts are prepared in accordance with the International Accounting Standards Board Framework for the Preparation and Presentation of Financial Statements as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

A description of the purpose of the Primary Financial Statements has been included immediately prior to each statement: the Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement and Balance Sheet. These three statements are accompanied by Notes to the Accounts, which set out the Accounting Policies adopted by the Board and provide more detailed analysis of the figures disclosed on the face of the Primary Financial Statements.

There is no Cashflow Statement because the Board does not have a bank account. All transactions are accounted for through Shetland Islands Council as administering authority.

The cash balance at 31 March 2020 of £120 (£206 as at 31 March 2019) represents petty cash held by officers of the Board.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant annual accounts for the purpose of the auditor's report.

Financial Performance

The purpose of the annual accounts is to present a public statement on the stewardship of funds for the benefit of both members of the Board and the public. The Board meets several times a year, with its budget meeting taking place in January or February. A budget strategy along with the proposed budget is presented to the Board annually. The strategy takes account of any known commitments and costs pressures and is viewed within the context of the available budgets of the constituent authorities. In line with the strategy, the Board approves a budget for the year.

The Board's budget is its prime annual planning document and actual expenditure is monitored against it during the year. Any underspend or overspend of budget is reported to the Board in the quarterly revenue monitoring reports and annual requisitions are correspondingly adjusted.

The 2019/20 budget was approved by the Board on 27 February 2019 and has been funded by the two constituent authorities and the Cabinet Office. Additionally the Scottish Government allocated £53k funding to each constituent authority to help support the Board's work on implementing the Barclay Review recommendations. The 2019/20 budget was increased by £63k - the extent of the anticipated Barclay Review implementation spending for the year. This was reported to the Board on 12 March 2020.

The CIES presents the full economic cost of providing the Board's services in 2019/20. This differs from the budgeted outturn position shown in the table overleaf as the CIES includes accounting adjustments required to comply with proper accounting practice. Therefore, the difference between the CIES and the actual outturn position is purely as a result of necessary accounting adjustments in the former. The Cost of Services of £778k (£675k in 2018/19), which is disclosed on the CIES, has been reconciled to the outturn used for management decision making of £728k (£628k in 2018/19), within Note 1: Expenditure and Funding Analysis, on page 26.

Expenditure (net of income from fees and charges) that is funded from Orkney and Shetland Islands Councils and the Cabinet Office in 2019/20 is summarised in the following table:

	2019/20		
	Revised Budget £	Actual £	Variance £
Expenditure:			
Employee Costs	642,059	533,200	108,859
Operating Costs	189,985	267,896	(77,911)
Income:			
Fees and Charges	(33,200)	(32,456)	(744)
Specific Grant Income	(41,323)	(40,608)	(715)
Net Expenditure	757,521	728,032	29,489

Overall in 2019/20, the Board underspent against its budget. There was an underspend on employee costs for the year, due to the Depute Assessor post remaining vacant for the whole year £87k; changes to contract hours worked and recruitment lag £18k and postponement of door-to-door canvass due to COVID-19 £4k. Operating costs were overspent, an additional (£48k) was spent on external consultants to provide capacity and support valuation work; (£23k) on legal fees in connection with a Council Tax appeal and (£13k) on an increased audit fee due to requirement for a wider scope audit. Minor savings on administration costs £6k reduced the overall operating costs overspend. There was a small under-recovery of income against budget of (£2k); sales of electoral registers lower than anticipated (£1k) and grant funding requirement for IER less than budgeted (£1k).

The Balance Sheet as at 31 March 2020

The Balance Sheet sets out the total net worth of the Board at a snapshot in time. When comparing the net worth of the Board at 31 March 2020 to that of the prior year, an overall increase in net worth of the organisation of £327k (£326K decrease in 2018/19) can be seen.

This has been driven by a decrease in pension liabilities that represent a long-term commitment for the Board and do not require to be met in any single year. The decrease results from updated pension assumptions which interact in complex ways. For example, a decrease in the net discount rate has the effect of increasing pension liabilities, as a higher value is placed on benefits paid in the future. Changes in these assumptions are further discussed in Note 16: Defined Benefit Pension Schemes on page 32.

Material Transaction

Pension Liability

In order to comply with International Accounting Standard (IAS) 19 - Employee Benefits, a valuation of the Shetland Islands Council Pension Fund was made by the Fund Actuary as at 31 March 2020. This indicated a net pension liability for the Board of £1.925m compared to a net pension liability of £2.257m as at 31 March 2019. The movement in the year is influenced by actuarial assumptions and changes to these assumptions have decreased the valuation as at 31 March 2020.

The pension fund is a long-term commitment and is subject to a triennial actuarial valuation; the last valuation at 31 March 2017 recorded a funding level of 90% and the contributions the Board makes to the pension fund reduced in line with the actuary's valuation and recommendations.

Given the net pension liability is an actuarial estimation, i.e. an attempt to look into the future which is dependent on complex judgments, its value is subject to a high degree of uncertainty. The actual results could therefore be materially different from estimates however, such effects can be measured. The effects of changes of assumptions are further discussed in Note 16: Defined Benefit Pension Schemes on page 32.

Detailed information on the Shetland Islands Council Pension Fund can be found here:

http://www.shetland.gov.uk/about_finances/

Looking Ahead

2020/21 Budget

Looking forward, the Board approved its 2020/21 budget at the Board meeting on 12 March 2020. The approved budget has been set at £809k, which is an increase of £51k (6.7%) on the 2019/20 revised budget and will allow the Board to discharge its duties and meet the challenges it faces in response to the planned reform of business rates.

The Scottish Government has allocated £51k to each constituent Council in 2020/21 to support the additional costs on implementing the Barclay Review recommendations. This funding is included in the above approved budget of £809k.

Further information on the Barclay Review can be found here:

<https://www.gov.scot/Publications/2017/08/3435>

<https://www.saa.gov.uk/wp-content/uploads/2017/09/Barclay-Report-SAA-Recommendation-12-action-plan-20170929.pdf>

COVID-19

The Board's senior management team held discussions in the run up to the eventual UK and Scottish Government's announcement on a countrywide lockdown towards the end of March 2020. The Management discussions focused on, amongst other things, the welfare of staff, and enabling homeworking in order that statutory undertakings could continue to be carried out where possible. Arrangements were put in place to deal with all correspondence, both electronic and by post, and for Board staff to have access to IT systems. Accordingly, the arrangements allowed for the following:

- The Valuation Roll for non-domestic rating to be maintained, however activity in this area is reduced in respect of alterations where physical survey is required. Appeals continue to be dealt with where possible. Staff are dealing with an increase in correspondence in relation to Valuation Roll entries, in particular in respect of the new COVID-19 grant legislation put in place by the Scottish Government. Additionally, over 180 appeals have been received against Valuation Roll entries as a result of the pandemic;

- The Valuation List for Council Tax to be maintained, new entries added to the List including any band increases as a result of dwellings being materially altered and then subsequently sold where information exists which allows such changes to be made without the need to undertake site visits. Proposals and appeals continue to be dealt with where possible; and
- The Electoral Registers to be maintained and monthly updates produced as normal. Invitation to Register forms to be issued and processed as appropriate, although there is a current halt on any door-to-door visits,

Beyond 2020

The Board has been unsuccessful in recruiting to the vacant Depute Assessor post, which has been vacant since May 2015. Efforts to recruit a Depute Assessor continue. As a response to long running recruitment and retention challenges the Board has decided to commission an Independent Consultant to look at the current structure in place for pay and grading to consider if it meets the current and future needs of the Board.

Close monitoring will also be given to the IER work and Canvass Reform 2020 and any external funding availability.

Further information on staffing and IER can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24714>

A medium-term financial plan (MTFP) is being developed for the Board to forecast its income and expenditure requirements over the medium-term. The MTFP will allow the Board to demonstrate value for money and improved transparency by setting out where it will deploy its available resources and any opportunities for efficiencies may exist. The development of the MTFP has been delayed until late 2020, partly as the Shetland Islands Council decided to defer the revision of the Council's MTFP, and latterly as a result of the COVID-19 pandemic.

Acknowledgements

Finally, we would like to acknowledge all the hard work of the officers in both Orkney Islands Council and Shetland Islands Council and the officers of the Board who have had a role in the preparation of these annual accounts and those who have worked diligently throughout the year in the delivery of the Board's objectives.

DocuSigned by:



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Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
28 September 2020

DocuSigned by:



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Jamie Manson CPFA
Acting Proper Officer for Finance
Orkney & Shetland Valuation Joint Board
28 September 2020

DocuSigned by:



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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
28 September 2020

Annual Governance Statement

Scope of Responsibility

The Orkney & Shetland Valuation Joint Board’s responsibilities are to:

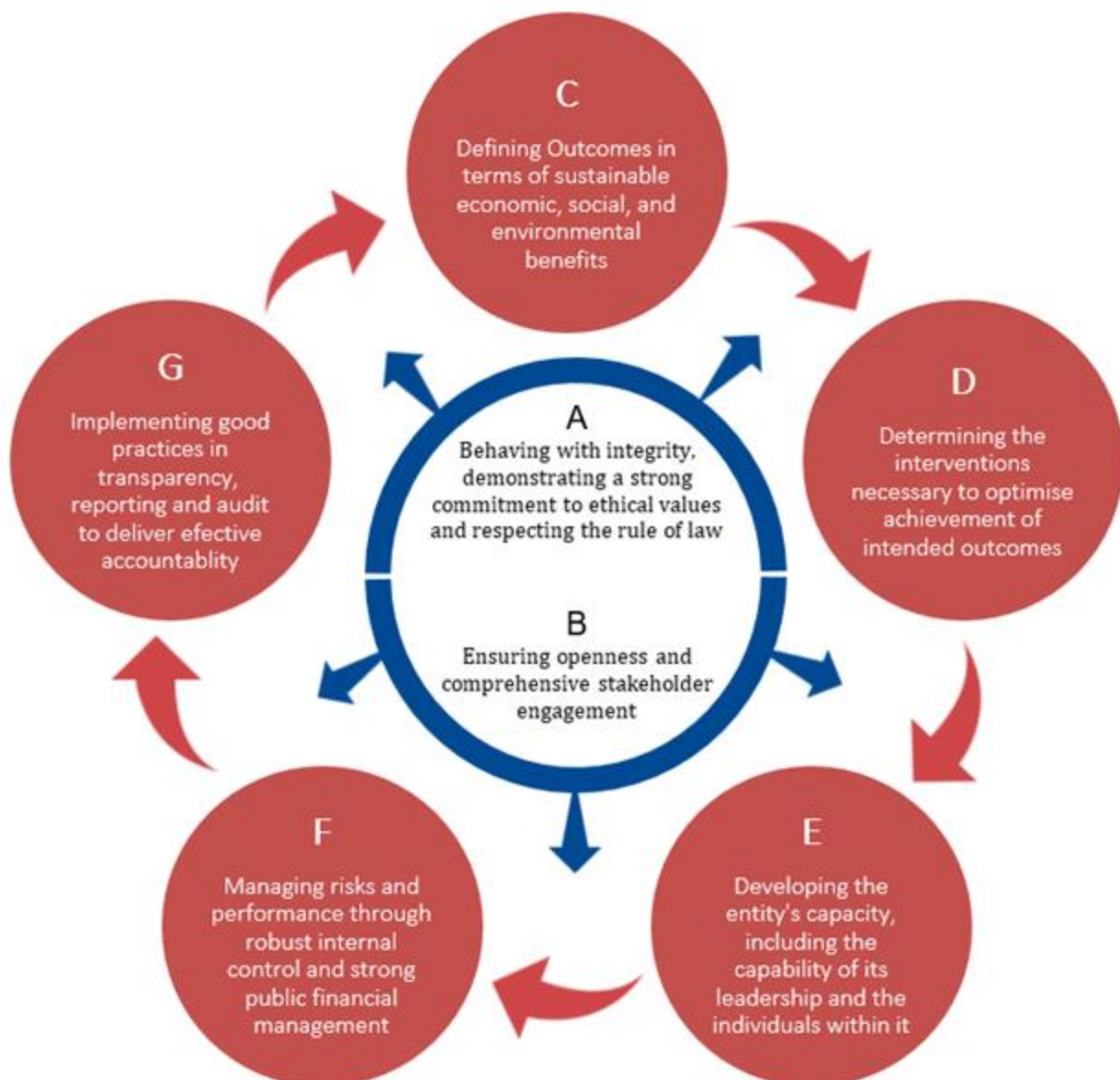
- ensure its business is conducted in accordance with the law and proper standards;
- safeguard and properly account for public money; and
- use public money economically, efficiently and effectively.

To discharge the Board’s responsibilities, the Board must put in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions which includes arrangements for the management of risk.

The Governance Framework



The Board is committed to the pursuit of proper corporate governance throughout the services it delivers and to establishing the principles and practices by which this can be achieved. The governance framework is the system by which the Board leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, culture and values through which the Board strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability.

The Board’s governance environment is consistent with the seven core principles of the revised 2016 CIPFA/SOLACE framework pictured below, which shows each of the seven principles and their interactions.




Principles A and B contain the overarching principles of good governance which percolate down through the remaining principles.

The table below summarises the Board’s compliance with the CIPFA/SOLACE framework and gives examples where the board demonstrates adherence to each of the seven principles.

Principle	Compliance	Comment
<p>A – Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law</p>		<p>Elected members and officers from both constituent authorities are expected to abide by their respective codes of conduct. In order to avoid duplication, the Board relies on the register of interests and gifts maintained by the relevant constituent authorities for elected members. These can be found at:</p> <ul style="list-style-type: none"> • Orkney Islands Council - Register of Interests & Gifts • Shetland Islands Council - Register of Interests & Gifts <p>The Assessor is bound by the policies of the Board and also must adhere to the professional standards and ethics regime set by the RICS.</p> <p>There were no recorded breaches of codes of conduct by officials or members during the 2019/20.</p> <p>Standing orders regulate the form and content of Board meetings and the Board’s financial regulations, modelled on those of Shetland Islands Council, provide a scheme of delegation for financial decisions. They can be found here: http://www.shetland.gov.uk/about_how_we_work/constitutionandgovernance.asp.</p>
<p>B – Ensuring openness and comprehensive stakeholder engagement</p>	 <i>partially</i>	<p>The Assessor’s annual public performance report and annual accounts are available on the Board’s website: http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html</p> <p>The Assessor also makes significant use of media to communicate relevant items of news. For example, to publicise the annual electoral canvass the Assessor pre-recorded a broadcast on BBC Radio Orkney.</p> <p>Procedures are in place to meet requests made under the Freedom of Information (Scotland) Act. Community engagement is driven by the priorities of the particular aspect of the service under consideration. This is particularly evident during the lead up to elections when the information supplied and personal engagement through the media, gives timely information to the voting public of timescales to meet and the value to be gained, for example, by maximising absent voting options.</p> <p>The financial management arrangements conform to the governance requirements in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). However, from 1 May 2020, the Board has not had a substantive Treasurer in post.</p> <p>An area that requires improvement is the need to appoint a substantive Treasurer to ensure the Board’s financial management arrangements are sound and robust.</p>

C – Defining outcomes in terms of sustainable, economic, social and environmental benefits		<p>Progress and performance reports are presented to Board meetings on a regular basis. Records of decision-making, meeting agendas, reports (and any supplementary appendices) and minutes of Board meetings are published timeously on Shetland Islands Council’s committee services website, COINS. For further information, please visit : COINS</p>
D – Determining the interventions necessary to optimise the achievement of intended outcomes	 <i>partially</i>	<p>Key performance indicators have been established for the service and performance against these indicators are reported through the Assessor’s annual report.</p> <p>Standing orders and schemes of delegation are in place that set out the type of decisions that are delegated, and those reserved for the collective decision-making of the Board.</p> <p>An area that requires improvement is the development of a medium-term financial plan (MTFP). The current lack of a Board-specific MTFP inhibits any medium or long term financial planning beyond that of a single-year budgeting cycle. A MTFP for the Board would provide some certainty to both constituent authorities with regards to resource requirements in future years.</p>
E – Developing the entity’s capacity, including the capability of its leadership and the individuals within it		<p>Functions and roles of statutory posts including the Assessor, Clerk, Electoral Registration Officer (ERO) and Treasurer are clearly defined within job descriptions.</p> <p>Member development plans are in place for elected members in Orkney Islands Council and Shetland Islands Council, which are refreshed each year. Additionally, elected members have access to the improvement service CPD framework for elected members.</p> <p>Officers are supported in achieving their continued personal development obligations to remain professionally competent.</p> <p>Standing orders and schemes of delegation are in place that set out the type of decisions that are delegated, and those reserved for the collective decision-making of the Board.</p>
F – Managing risks and performance through robust internal control and strong public financial management	 <i>partially</i>	<p>The Board reviews and approves the Annual Governance Statement.</p> <p>Scrutiny is secured through internal and external audit.</p> <p>Decisions of the Assessor are subject to public scrutiny and scrutiny via an appeal and complaint process to the respective judicial bodies and external stakeholders that monitor performance, such as the Electoral Commission and the Electoral Management Board for Scotland.</p> <p>From 30 April 2020, the Board has not had a substantive Clerk to the Board. From 1 May 2020, the Board has not had a substantive Treasurer to the Board. The provision of objective advice that supports evidenced-based decision making, in terms of policy or strategic direction, is an important element in how the Board demonstrates it manages its risks effectively. The Board will need to make appointments to these two proper officer roles in order to address this weakness in the internal control environment.</p>

		<p>Areas that require improvement include:</p> <ul style="list-style-type: none"> • The board needs to appoint substantive proper officer roles, of Treasurer and Clerk, to ensure it receives the appropriate professional advice in support of its decision making; and • Formalising access to an internal audit function to facilitate effective oversight or scrutiny of the Board’s activity, providing constructive challenge and debate on policies and objectives, which in turn help to ensure continuous improvement.
<p>G – Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<p style="text-align: center;">  <i>partially</i> </p>	<p>The Board maintains a website where users can find further information about the Board’s performance and the financial accounts, including feedback from external auditor in the form of the external audit report and action plan.</p> <p>The Board adopts the Scottish Information Commissioners’ “Model Publication Scheme” and publish on their website a guide to information. This is valid for 3 years effective from 31 October 2017. Information published include the Boards’ data protection policy, data retention policy and privacy notices.</p> <p>Areas requiring improvement include:</p> <ul style="list-style-type: none"> • Formalising access to an internal audit function to provide assurance with regard to the Board’s governance arrangements and to ensure any recommendations for improvement are acted upon timeously; • Gaining assurance on the risks associated with services delivered through third parties, and that this is evidenced in the annual governance statement; and • Ensuring that recommendations for corrective action made by external audit are acted upon.

Review of Effectiveness

The Board has a responsibility for ensuring the continuing effectiveness of the governance framework and systems of internal control. The review of effectiveness is informed by:

- progress towards key strategic and service objectives, as demonstrated through regular performance reporting on targets and key performance indicators;
- financial and budget monitoring;
- internal audit reviews on the systems of the Council as used by the Board;
- the work of managers within the Board;
- the annual accounts; and
- external audits.

During the year, no specific internal audits were carried out for the Board. Internal audits undertaken within Shetland Islands Council that focused on the

internal control environment found no serious deficiencies that impacted on the Board’s activity. Further information can be found in the Council’s Annual Report and Accounts which is available at: http://www.shetland.gov.uk/about_finances/

Although no specific internal audit opinion has been expressed by internal audit for the VJB, the Board is satisfied that the internal audit opinion provided to the Council also covers the activity of the Board and therefore takes assurance from that audit opinion, (which can be found on page 26 of the Council’s annual accounts).

Audit Glasgow provide the strategic planning, professional management and reporting for the internal audit function of Shetland Islands Council and this includes the activities of the Board. This arrangement is under review as Shetland Islands Council considers what services it can provide to the Board following the resignation of the Clerk and Treasurer after the financial year ended.

The Board acknowledges in the table above, that it can strengthen its compliance with the CIPFA/SOLACE principles of good governance. The Board would benefit from formalising its access to an internal audit function in order to facilitate the effective oversight of the Board's activity and to provide constructive challenge and debate on the effectiveness of the Board's policies and objectives.

Significant Governance Issues

The system of governance can provide only reasonable, and not absolute, assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or would be detected within a timely period and all the significant risks impacting on the achievement of our objectives have been mitigated. There were no significant governance issues identified during 2019/20, however two significant governance issues arose between the reporting date and the date on which the annual accounts are authorised for issue as detailed in the table below:

Significant Governance Issues	Responsible Officer(s)	Agreed Action	Target Date
The Board has not yet appointed substantive proper officers to replace the Clerk and Treasurer to the Board, who both resigned shortly after the financial year end. The Board does not have ready access to objective advice on finance, governance and legal matters which compromises the Board's ability to make evidenced-based decisions on policy and strategic direction. Furthermore, the Board is required to make arrangements for the proper administration of their financial affairs under the Local Government (Scotland) Act 1973. The appointment of a proper officer for finance, or Treasurer, will allow the Board to resolve this significant governance concern.	Chief Executive - Orkney Islands Council and Chief Executive - Shetland Islands Council.	The Board is actively considering the appointment of proper officers roles to replace the previous role-holders. A report will be presented to the Board to able the appointments process to begin.	30 September 2020
In addition to the resignation of two proper officers (as outlined in the issue above), three members of the Board have also resigned since the end of the financial year. During the 2019/20 external audit, a number of weaknesses have been identified with respect to governance of the Board. The Board needs to address the weaknesses identified by the external auditor and seek appointments from both constituent authorities to fill the vacancies that have arisen in the Board's membership to ensure it can provide the strategic direction required.	Chief Executive – Orkney Islands Council, Chief Executive – Shetland Islands Council and Clerk to the Board.	The Board is committed to addressing weaknesses in its governance framework and will seek to commission an external review of its governance framework. Following this review, the Board will seek to arrange training for Board members and officers to clarify the different roles and responsibilities that officers and elected members fulfil.	31 July 2021

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues previously reported in the Annual Governance Statement.

Prior Years Significant Governance Issues	Responsible Officer	Agreed Action	Progress
The Board does not have a MTFP or current financial strategy in place. The Board had been waiting for further information about the implementation of the Barclay Review in order to more realistically determine the likely level of resources required to deliver services in the short and medium terms beyond the 2019/20 financial year.	Acting Proper Officer for Finance	A commitment to develop a MTFP and revised financial strategy for presentation to the Board before the end of 2019.	The development of the MTFP has been delayed until late 2020, partly as the Shetland Islands Council decided to defer the revision of the Council's MTFP, and latterly as result of the COVID-19 pandemic.
Unsuccessful recruitment of the Depute Assessor Post.	Assessor and Electoral Registration Officer	That the Board keep the situation under constant review and the Assessor reports on recruitment options in 2019/20.	There were two recruitment exercises carried out in 2019/20. Each exercise led to an offer being made to a preferred candidate, but ultimately neither exercise resulted in a substantive appointment to the Depute Assessor role. Efforts to recruit a Depute Assessor are currently on hold in lieu of the outcome of the pay and grading review.

COVID-19

COVID-19 is a new strain of coronavirus that has quickly spread across the globe, prompting the World Health Organisation, on 11 March 2020, to declare the outbreak a pandemic and a public health emergency of international concern. The COVID-19 pandemic has significantly impacted both constituent authorities, the Board and the residents of Orkney and Shetland, resulting in changes to the way services are delivered across the Isles.

The impact of the COVID-19 pandemic on the board can be summarised under three areas:

- Service delivery and administration;
- Governance arrangements; and
- Longer-term consequences.

Service Delivery and Administration

The Board activated business continuity arrangements and put a range of measures in place to facilitate the continuity of service and to protect the safety and wellbeing of staff and customers. The Board enacted business continuity plans to ensure the essential services were delivered remotely. Arrangements were put in place to facilitate remote working through ICT and the management of correspondence to ensure continuity of workflow.

Governance Arrangements

As the Board follows the Shetland Islands Council scheme of delegations, arrangements were made so that virtual Board meetings could be held to ensure elected members and officers from both constituent authorities adhered to national guidance on social and physical distancing. The temporary arrangements have been in place from April, and will be kept under review as circumstances develop over the coming months.

Longer-term consequences

It is becoming clearer that the world will be living with COVID-19 for the foreseeable future. The consequences arising from the pandemic, from both a health and an economic perspective will be felt for years. There remains uncertainty over the longer-term impact of COVID-19 on public sector funding, especially as UK public sector net debt reaches new historic levels, which may influence future funding levels of the Board.

Long-term health implications arising from COVID-19 are not yet fully known, which may have consequences on the wider global economy and temper any efforts for societies across the world to resume 'normal' life. In turn, that will also influence the extent to which the Board is able to resume a normal service, and how those services may be delivered.

Conclusion

The Governance Framework has been in place for the financial year ended 31 March 2020 and up to the date of approval of the annual accounts. Effective governance arrangements will remain a key priority for the Board in the future.

However, the Board does have a significant weakness in its governance arrangements arising from the resignation of the Board's proper officers. The Board recognises the need to need to make substantive appointments to fill the roles of Clerk and Treasurer, in order to rectify this weakness and to ensure the Board complies with its statutory duties.

Overall, we consider that the governance and internal control environment operating in 2019/20 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

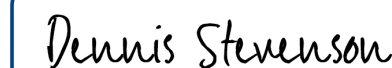
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Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
28 September 2020

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
28 September 2020

Remuneration Report

Introduction

The Remuneration report is set out in accordance with the Local Authority (Scotland) Regulations 2014 (SSI 2014/200). These regulations require various disclosures on the remuneration and pension benefits of senior Councillors and employees.

All disclosures in the tables below in relation to remuneration, pay bands, exit packages and pension benefit are audited by Deloitte LLP. The other sections of the Remuneration Report are reviewed by Deloitte LLP to ensure that they are consistent with the financial statements.

Remuneration arrangements of Senior Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) SSI No. 2018/38 and the (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for

the grading of Councillors for the purposes of remuneration arrangements, as the leader of Council, the Convener of the Council, Senior Councillors and Councillors. These regulations set out the amounts a Councillor may be paid for being a Convener or Vice-Convener of a Joint Board. This is inclusive of any amount payable to them as either a Councillor or Senior Councillor. The Convener and Vice-Convener are the only two Senior Councillor positions recognised by the Board.

The Board has an arrangement with each constituent authority to reimburse that Council for the additional costs of the Councillor arising from them being a Convener or Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the Council by the Board for remuneration and do not reflect the full value of the remuneration that may be paid to the Councillor.

The Convener and Vice-Convener of the Board are remunerated by the Council of which they are an elected member. The regulations permit remuneration of Senior Councillors to one position held.

Disclosure of remuneration for Senior Councillors

Name	Designation	2019/20			2018/19
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Andrew Drever	Convener	4,365	0	4,365	4,250
Theo Smith	Vice-Convener	3,291	0	3,291	3,189

Remuneration of Senior Employees

The employees of the Board are employed on the same terms and conditions as the employees of Shetland Islands Council. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/150 details the salaries paid to Chief Officers. Senior employees are defined as having responsibility for the management of the Board to the extent that they can direct or control the major activities of the Board.

Disclosure of remuneration for Senior Employees

Name	Designation	2019/20			2018/19
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Dennis M Stevenson	Assessor & Electoral Registration Officer	73,642	0	73,642	71,491

Remuneration of Officers

The number of officers who received remuneration (excluding pension contributions) in excess of £50k, disclosed in bands of £5k, for the financial year is shown below:

Remuneration Bands	Number of Employees	
	2019/20	2018/19
£70,000 - £74,999	1	1

The Treasurer and the Clerk to the Board do not receive remuneration from the Valuation Joint Board. The duties of the posts are covered by the post holders' substantive posts in Shetland Islands Council. Details of their salaries are included in the remuneration report for Shetland Islands Council.

Exit Packages

The Regulations require the Board to disclose in bands the number of exit packages agreed and the cost of those packages to the Board in the financial year in rising bands of £20k up to £100k, and bands of £50k thereafter.

The Regulations also require disclosure of the number of compulsory redundancies and other agreed departures.

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

The numbers of exit packages with total cost per band of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£0 - £20,000	0	0	1	0	1	0

The total cost of the exit package outlined above, being within the bracket of £0 - £20,000, has not been disclosed as this may enable the identification of the individual's exit package. The exit package has been agreed and charged to the CIES in the current year.

Pension details of Senior Councillors

The pension disclosure for Joint Boards for a Convener or Vice-Convener is limited to the contribution the Board has been asked to make to that person's pension by the Council of which the Convener or Vice-Convener is a member. No accrued pension benefit needs to be disclosed. Local Government Finance Circular 8/2011 (revised) details the disclosure requirements for Senior Councillors of Joint Boards.

Pension employer contributions – Senior Councillors

Name	Designation	In-Year Employer Pension Contributions	
		Year ending 31 March 2020 £	Year ending 31 March 2019 £
Andrew Drever	Convener	768	774
Theo Smith	Vice-Convener	685	663

Andrew Drever is a member of the Orkney Islands Council Pension Fund. Theo Smith is a member of the Shetland Islands Council Pension Fund.

Pension details of Senior Employees

Pension benefits for local government employees are provided through the Local Government Pension

Scheme (LGPS). The LGPS is a funded pension scheme, consisting of contributions received from members of the scheme as well as from employers.

From 1 April 2015, the LGPS moved away from a final salary pension scheme to a career average revalued earnings scheme (CARE). This means that pension benefits from 1 April 2015 onwards, are worked out using career average revalued earnings rather than final salary.

The scheme's normal retirement age for employees is now linked to their state pension age, with the minimum age of 65.

From 1 April 2009, a tiered contribution system was introduced, with contributions from scheme members ranging from a minimum contribution of 5.5% to a maximum contribution of 12%.

This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions were set at a fixed rate of 6% for all non-manual employees.

If a person works part-time, their contribution rate is worked out on their actual pay for the job. There is no automatic entitlement to a lump sum. Members may

opt to give up (commute) pension for a lump sum of up to 25% of their pension value at retirement. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual 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).

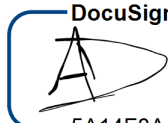
The tiered contribution rates are as follows:	2019/20
On earnings up to and including £21,800	5.50%
On earnings above £21,801 and up to £26,700	7.25%
On earnings above £26,701 and up to £36,600	8.50%
On earnings above £36,601 and up to £48,800	9.50%
On earnings above £48,801	12.00%

Pension benefits – Senior Employees

The accrued pension benefits have been calculated to 31 March 2020. These are standard benefits, without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

Name and Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits		
	Year ending 31 March 2020 £	Year ending 31 March 2019 £		As at 31 March 2020 £	As at 31 March 2019 £	Increase / (Decrease) £
Dennis M Stevenson - Assessor & Electoral Registration Officer	20,841	22,234	Pension	35,032	32,497	2,535
			Lump Sum	60,702	58,928	1,774

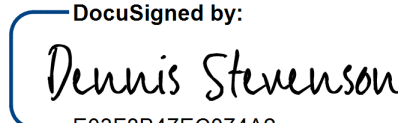
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Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
28 September 2020

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
28 September 2020

Statement of Responsibilities for the Annual Accounts

The Board's responsibilities

The Board is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the appointed Treasurer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the Board, that officer is the Executive Manager – Finance of Shetland Islands Council for the period 1 April 2019 to 30 April 2020. Since 1 May 2020, The Executive Manager- Finance, of Shetland Islands Council, has fulfilled this role as Acting Proper Officer for Finance role on a temporary basis;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure that the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the annual accounts for signature.

I confirm that these annual accounts were approved for signature by the Board at its meeting on 28 September 2020.

Signed on behalf of the Valuation Joint Board.

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
28 September 2020

The Treasurer's responsibilities

The Treasurer, or Proper Officer for Finance, is responsible for the preparation of the Board'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.

In preparing these annual accounts, the Proper Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Code (in so far as it is compatible with legislation).

The Treasurer/Proper Officer for Finance has also:

- kept adequate accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Orkney & Shetland Valuation Joint Board at the reporting date and the transactions of the Board for the year ended 31 March 2020.

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Jamie Manson CPFA
Acting Proper Officer for Finance
Orkney & Shetland Valuation Joint Board
28 September 2020

Independent auditor's report to the members of Orkney and Shetland Valuation Joint Board and the Accounts Commission

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 Orkney and Shetland Valuation Joint Board for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet 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 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the body as at 31 March 2020 and of its 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 2019/20 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 is four years. We are independent of the body 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. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Executive Manager - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body'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.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Responsible Financial Officer and Orkney and Shetland Valuation Joint Board for the financial statements

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

In preparing the financial statements, the Executive Manager – Finance is responsible for assessing the body'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.

Orkney and Shetland Valuation Joint Board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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.

Other information in the annual accounts

The Executive Manager - Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and 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).

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 audited 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; or
- there has been a failure to achieve a prescribed financial objective.

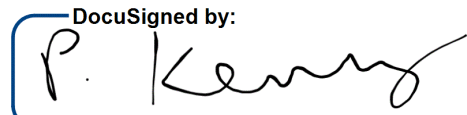
We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street
Glasgow
G1 3BX
United Kingdom
28 September 2020

Primary Financial Statements

Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

The CIES shows the accounting cost in the year of providing the service in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation by way of central government grant-in-aid and amounts requisitioned from Orkney and Shetland Islands Councils. Where accounting costs are different from those to be funded from taxation in the year (e.g. pension costs) the difference is shown in the Movement in Reserves Statement.

2018/19 £	Note	Orkney Islands Council £	Shetland Islands Council £	2019/20 £
547,435		291,388	291,388	582,776
30,690		20,337	11,490	31,827
44,357		26,160	25,949	52,109
24,231		12,226	12,227	24,453
98,349		76,666	77,631	154,297
5,985		2,055	3,155	5,210
(33,252)		(16,298)	(16,158)	(32,456)
(42,745)	7	(20,532)	(20,076)	(40,608)
675,050	Cost of Services	392,002	385,606	777,608
	Financing and Investment Income and Expenditure			
53,000	Pension Interest Cost and Expected Return on Pension Assets 16			55,000
	Taxation and non-specific grant income			
(628,147)	Requisitions from Member Authorities	(367,667)	(360,365)	(728,032)
99,903	Deficit on the Provision of Services			104,576
	<i>Items that will not be reclassified to the (surplus) or deficit on the provision of services</i>			
226,000	Remeasurement of the net defined benefit liability/(asset) 10			(432,000)
226,000	Other Comprehensive Income and Expenditure			(432,000)
325,903	Total Comprehensive Income and Expenditure			(327,424)

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Board, analysed into usable reserves (i.e. those that can be applied to fund expenditure) and other unusable reserves. The Board has no usable reserves.

2019/20	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
Balance at 1 April 2019	0	2,257,000	5,938	2,262,938	2,262,938
Movement in reserves during the year					
Total comprehensive income and expenditure	104,576	(432,000)	0	(432,000)	(327,424)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(104,576)	100,000	4,576	104,576	0
Decrease/(Increase) in year	0	(332,000)	4,576	(327,424)	(327,424)
Balance at 31 March 2020	0	1,925,000	10,514	1,935,514	1,935,514

Comparative movements in 2018/19	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
Balance at 1 April 2018	0	1,933,000	4,035	1,937,035	1,937,035
Movement in reserves during the year					
Total comprehensive income and expenditure	99,903	226,000	0	226,000	325,903
Adjustments between accounting basis & funding basis per regulations (Note 6)	(99,903)	98,000	1,903	99,903	0
Decrease in year	0	324,000	1,903	325,903	325,903
Balance at 31 March 2019	0	2,257,000	5,938	2,262,938	2,262,938

Balance Sheet as at 31 March 2020

This shows the value as at the balance sheet date of the assets and liabilities recognised by the Board.

As at 31 March 2019 £	Note	As at 31 March 2020 £
0	Other Long-term Debtors	227
0	Long-Term Assets	227
25,509	Short-term Debtors	44,212
206	Cash in hand	120
25,715	Current Assets	44,332
(31,653)	Short-term Creditors	(55,073)
(31,653)	Current Liabilities	(55,073)
(2,257,000)	Pension Liability	(1,925,000)
(2,257,000)	Long-Term Liabilities	(1,925,000)
(2,262,938)	Net Liabilities	(1,935,514)
5,938	Employee Benefits Reserve	10,514
2,257,000	Pension Reserve	1,925,000
2,262,938	Total Reserves	1,935,514

The unaudited financial statements were issued on 16 July 2020 and the audited financial statements were authorised for issue by the Board on 28 September 2020.

DocuSigned by:

3692A17ECF004CD.....
 Jamie Manson CPFA
 Acting Proper Officer for Finance
 Orkney & Shetland Valuation Joint Board
 28 September 2020

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the Board for the year has been used in providing services in comparison with those resources consumed or earned in accordance with accounting practices.

2019/20	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	533,200	45,000	4,576	582,776
Property Costs	31,827	0	0	31,827
Supplies and Services	52,109	0	0	52,109
Transport Costs	24,453	0	0	24,453
Administration Costs	154,297	0	0	154,297
Payments to Other Bodies	5,210	0	0	5,210
Sales, Fees and Charges	(32,456)	0	0	(32,456)
Specific Grant Income	(40,608)	0	0	(40,608)
Net Cost of Services	728,032	45,000	4,576	777,608
Other Income and Expenditure:				
Requisitions from Member Authorities	(728,032)	0	0	(728,032)
Net Interest Expense	0	55,000	0	55,000
Deficit	0	100,000	4,576	104,576

2018/19	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	500,532	45,000	1,903	547,435
Property Costs	30,690	0	0	30,690
Supplies and Services	44,357	0	0	44,357
Transport Costs	24,231	0	0	24,231
Administration Costs	98,349	0	0	98,349
Payments to Other Bodies	5,985	0	0	5,985
Sales, Fees and Charges	(33,252)	0	0	(33,252)
Specific Grant Income	(42,745)	0	0	(42,745)
Net Cost of Services	628,147	45,000	1,903	675,050
Other Income and Expenditure:				
Requisitions from Member Authorities	(628,147)	0	0	(628,147)
Net Interest Expense	0	53,000	0	53,000
Deficit	0	98,000	1,903	99,903

Note 2: Accounting Standards Issued and Adopted in year

Adoption of new and revised Standards

a) Standards, amendments and interpretations effective in the current year

In the current year, the Board has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IFRIC 23: Uncertainty over Income Tax Treatment;
- Amendment to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IAS 28: Long-Term Interest in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement; and
- Standards, amendments and interpretations early adopted this year.

There are no new standards, amendments or interpretations early adopted this year

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year

At the date of authorisation of these financial statements, the Board has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS16: Leases – HM Treasury have agreed to defer implementation until 1 April 2021;
- IFRS 17: Insurance Contracts – applicable for periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU;

- Amendments to References to the Conceptual Framework in IFRS Standards – applicable for period beginning on or after 1 January 2020;
- Amendment to IFRS 3 (Definition of a Business) – applicable for periods beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8 (Definition of Material) – applicable for periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 29 and IFRS 7 (Interest Rate Benchmark Reform) – applicable for periods beginning on or after 1 January 2020; and
- Amendment to IAS 1 (Classification of Liabilities as Current or Non-Current) – applicable for periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by the Code from 1 April 2021. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosures to improve transparency of reporting on capital employed.

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the Code for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Balance Sheet as (i) right-of-use assets which represent the Board's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Balance Sheet will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively.

Due to the need to reassess lease calculations, together with uncertainty on expected leasing activity from April 2021 and beyond, a quantification of the expected impact of applying the standard in 2021/22 is currently impracticable. However, the Board does expect the implementation of this standard to have a material impact on the Balance Sheet.

Note 4: Critical Judgements in Applying Accounting Policies

In applying the accounting policies, The Board is obliged to highlight whether it has had to make certain judgements about complex transactions or those involving uncertainty about future events. A critical judgement has been made in the Annual Accounts:

In line with the Code, the Board, does not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default. For its remaining short-term debtors, based on historical observed default rates over their lifecycles the expected credit loss is judged to be negligible.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The financial statements contain estimated figures that were based on assumptions made by the Board 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 assumptions and estimates.

There is one item on the Board's Balance Sheet as at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year as shown in the table below:

Pension Liability
Uncertainties - estimate
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. Actuaries are engaged to provide the Board with expert advice about the assumptions to be applied.
Effect if actual results differ from assumptions
The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase of £505k in the pension liability.

Note 6: Adjustments between Accounting Basis and Funding Basis under regulations

This note, as disclosed in the tables below, details the adjustments that are made to the total CIES, recognised by the Board in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Board to meet future expenditure. Such adjustments involve the Pension Reserve and Employee Benefits Reserve by amounts charged for holiday pay to the CIES that are different from the cost of settlements chargeable in the year in accordance with statutory requirements.

2019/20	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (Note 16)	(211,000)	211,000
Employer's pension contributions and direct payments to pensioners payable in the year	111,000	(111,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,576)	4,576
Total Adjustments	(104,576)	104,576

2018/19	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (Note 16)	(208,000)	208,000
Employer's pension contributions and direct payments to pensioners payable in the year	110,000	(110,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,903)	1,903
Total Adjustments	(99,903)	99,903

Note 7: Specific Grant Income

2018/19 £		2019/20 £
(42,745)	Cabinet Office - Individual Electoral Registration	(40,608)
(42,745)	Total	(40,608)

Note 8: Short-term Debtors

As at 31 March 2019 £		As at 31 March 2020 £
16,702	Other Local Authorities	41,941
8,807	Other Entities and Individuals	2,271
25,509	Total	44,212

At the end of 2019/20, £38,432 was owed to the Board from Shetland Islands Council (£13,642 in 2018/19).

Note 9: Short-term Creditors

As at 31 March 2019 £		As at 31 March 2020 £
(18,673)	Other Local Authorities	(23,676)
(8,127)	Other Entities and Individuals	(13,682)
(4,853)	Public Corporations and Trading Funds	(17,715)
(31,653)	Total	(55,073)

At the end of 2019/20, the Board owed Orkney Islands Council £15,967 (£18,513 in 2018/19).

Note 10: Unusable Reserves

As at 31 March 2019 £		As at 31 March 2020 £
2,257,000	Pension Reserve	1,925,000
5,938	Employee Benefits Reserve	10,514
2,262,938	Total	1,935,514

Pension 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 Board accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Board 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 resources set aside by the Board to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £		2019/20 £
1,933,000	Balance at 1 April	2,257,000
226,000	Actuarial (gains)/losses on pensions assets and liabilities	(432,000)
208,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	211,000
(110,000)	Employer's pensions contributions and direct payments to pensioners payable in the year	(111,000)
2,257,000	Balance at 31 March	1,925,000

Employee Benefits Reserve

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

2018/19 £		2019/20 £
(4,035)	Balance at 1 April	(5,938)
4,035	Settlement or cancellation of accrual made at the end of the preceding year	5,938
	Amounts accrued at the end of the current year:	
(5,938)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(10,514)
(5,938)	Balance at 31 March	(10,514)

Note 11: Nature and Extent of Risks Arising from Financial Instruments

A variety of financial risks may be faced by the Board in holding financial instruments. An assessment on their impact on the annual accounts is detailed below:

Credit risk

The possibility that other parties might fail to pay amounts due to the Board. This is considered immaterial on the basis of past experience and the fact

that most debt payable to the Board is due from other public bodies.

Liquidity risk

The possibility that the Board might not have funds available to meet its commitments to make payments. Given the Board's statutory responsibility to have a balanced budget and its constituent authorities' obligations to fund its activities, this risk is considered immaterial.

Interest rate risk

The possibility that the Board might be exposed to interest rate movements on borrowing and investments. The Board did not hold any borrowing or investments at 31 March 2020.

Price risk

The possibility that fluctuations in equity prices have a significant impact on the value of financial instruments held by the Board. The Board does not currently invest in equity shares.

Foreign Exchange risk

The possibility that fluctuations in exchange rates could result in losses to the Board. The Board conducts all its transactions in £ Sterling.

Note 12: Events after the Reporting Period

The annual accounts were authorised for issue by the Acting Proper Officer for Finance on 28 September 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. The COVID-19 pandemic has had a substantial impact on the Board's service delivery. Further details of this impact are detailed within the Management Commentary.

These annual accounts differ from the published unaudited accounts due to amendments arising from audit. One of the amendments required was due to the employment tribunal finding in favour of the claimant in the Goodwin case and recent proposed changes to McCloud eligibility, resulting in a decrease to the pension liability of £12k. See Note 16: Defined Benefit Pension Schemes on page 32 for further information.

Note 13: External Audit costs

2018/19 £		2019/20 £
7,280	Fees payable with regard to external audit services carried out by the appointed auditor	20,198
7,280	Total	20,198

Note 14: Related Parties

The Board's related parties are those bodies or individuals that have the potential to control or significantly influence the Board, or to be controlled or significantly influenced by the Board. The Board is required to disclose material transactions that have occurred with related parties and the amount of any material sums due to or from related parties. Related party relationships require to be disclosed where control exists, irrespective of whether there have been transactions between the related parties.

To enable the Board to carry out its objectives, the member authorities of the Board have contributed requisitions in the following proportions:

- Orkney Islands Council: 50.5% (£367,667)
- Shetland Islands Council: 49.5% (£360,365)

The Board pays the member authorities for services.

2018/19 £		2019/20 £
17,507	Shetland Islands Council: Support Services	20,464
11,000	Property Services	11,000
6,273	IT Services	8,462
16,011	Orkney Islands Council: Property Services	16,305
4,000	IT Services	4,000
54,791	Total	60,231

The Board in turn provides services to the member authorities:

2018/19 £		2019/20 £
(30,000)	Orkney Islands Council: Valuation Services	(30,000)
(30,000)	Total	(30,000)

Note 15: Operating Leases

The Board leases a property in Orkney from Orkney Islands Council. The lease covers a three-year period and is due to expire in June 2021.

The expenditure charged to the CIES during the year in relation to this lease was:

2018/19 £		2019/20 £
13,200	Minimum lease payments	13,200
13,200	Total	13,200

The minimum lease payments due under non-cancellable leases in future years are:

2018/19 £		2019/20 £
13,200	Not later than one year	13,200
16,029	Later than one year and less than five years	2,829
29,229	Total	16,029

Shetland premises are provided by the Shetland Islands Council. There is no formal lease agreement. The Board's only obligation is to fund the actual running costs of their share of the building, which was £11,000 for 2019/20 (£11,000 for 2018/19).

Note 16: Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Board makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Board has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Board participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Shetland Islands Council, is a funded defined benefit career average related earnings scheme, meaning that the Board and employees, pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets; and

- 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 these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

The Shetland Islands Council Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Fund Committee of Shetland Islands Council. The Committee comprises of elected members of Shetland Islands Council.

Policy is determined in accordance with the Pensions Fund Regulations. Management of the Fund's investments is carried out by Shetland Islands Council, which receives recommendations from the Pension Fund Committee. Shetland Islands Council selects and appoints a number of external investment managers/partners and periodically monitors their investment performance.

The principal risks to the authority of the 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 contributing authorities the amounts required by statute as described in Note 17: Accounting Policies on page 36.

Impact of McCloud judgement

When the LGPS benefit structure was reformed in 2015 transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age

discrimination. The implications of the ruling apply to the LGPS.

LGPS benefits accrued from 2015 may therefore need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. There will therefore be a retrospective increase to members' benefits, which in turn will give rise to a past service cost for the Fund employers.

In 2018/19, the Board made an allowance for the estimated McCloud impact, resulting in an increase to the pension liability of £21k. In 2019/20, following the recent proposed changes to McCloud eligibility, the

previously estimated McCloud element in the balance sheet has been reduced by £16k.

During 2019/20, the Department for Education received a legal challenge in respect of survivor benefits in the Teachers' Pension Scheme. The challenge is that male dependents of female scheme members receive fewer benefits than the female dependents of male members and therefore a claim was made for discrimination based on the outcome of the Walker case. On 30 June 2020, the employment tribunal found for the claimant.

The Council has made an allowance for the estimated impact of the Goodwin ruling, resulting in an increase to the pension liability of £4k.

Transactions Relating to Post-employment Benefits

The Board recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The charge required to be funded in the year, however, is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out via the Movement in Reserves Statement.

The following transactions have been made in the CIES via the Movement in Reserves Statement during the year:

2018/19 £	Local Government Pension Scheme	2019/20 £
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
134,000	Current service cost	168,000
21,000	Past service cost (including curtailments)	(12,000)
	Financing and Investment Income and Expenditure:	
53,000	Net interest expense	55,000
208,000	Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	211,000
	Other Post-Employment Benefit Charged to the CIES	
75,000	Return on plan assets (excluding the amount included in the net interest expense)	337,000
0	Actuarial (gains) and losses arising on changes in demographic assumptions	(193,000)
397,000	Actuarial (gains) and losses arising on changes in financial assumptions	(546,000)
1,000	Actuarial (gains) and losses arising from other experience	(30,000)
681,000	Total Post-Employment Benefit Charged to the CIES	(221,000)
	Movement in Reserves Statement	
208,000	Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(211,000)
(110,000)	Actual amount charged against the General Fund balance for pensions in the year: Employers' contributions payable to scheme	111,000

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2018/19 £		2019/20 £
(5,745,000)	Present value of the defined benefit obligation	(5,164,000)
3,488,000	Fair value of assets in the Local Government Pension Scheme	3,239,000
(2,257,000)	Net liability arising from Defined Benefit Obligation	(1,925,000)
(2,204,000)	Local Government Pension Scheme	(1,879,000)
(53,000)	Unfunded liabilities for Pension Fund	(46,000)
(2,257,000)	Total Pension Reserve	(1,925,000)

Reconciliation of the Movements in Fair Value of the Scheme (Plan) Assets

£		£
3,227,000	Opening balance at 1 April	3,488,000
87,000	Interest income	84,000
	Re-measurement gains and (losses):	
172,000	Return on assets excluding amounts included in net interest	(337,000)
110,000	Employer contributions	111,000
23,000	Contributions by scheme participants	25,000
(131,000)	Benefits paid	(132,000)
3,488,000	Closing balance at 31 March	3,239,000

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

2018/19 £		2019/20 £
5,160,000	Opening balance at 1 April	5,745,000
134,000	Current service cost	168,000
140,000	Interest cost	139,000
23,000	Contributions by scheme participants	25,000
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	(193,000)
397,000	Actuarial (gains) and losses from changes in financial assumptions	(546,000)
1,000	Actuarial (gains) and losses from other experience	(30,000)
21,000	Past service cost (including curtailments)	(12,000)
(131,000)	Benefits paid	(132,000)
5,745,000	Closing balance at 31 March	5,164,000

Analysis of Pension Fund's Assets

The Board's share of the Pension Fund's assets at 31 March 2020 comprised:

2018/19 £		2019/20 £
28,700	Quoted prices in active markets: Cash and Cash Equivalents (Liquidity Fund)	26,600
	Quoted prices not in active markets:	
	<i>Property:</i>	
401,000	UK Property	372,400
2,600	Overseas Property	2,400
403,600	Sub-total Property	374,800
	<i>Investment Funds and Unit Trusts:</i>	
2,208,300	Equities	2,050,600
279,400	Bonds	259,500
568,000	Other	527,500
3,055,700	Sub-total Investment Funds and Unit Trusts	2,837,600
3,488,000	Total Assets	3,239,000

Basis for Estimating Assets & Liabilities

The Board's share of the liabilities of Shetland Islands Council Pension Fund 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 upon assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, and estimates are based on the latest full valuation of the Pension Fund at 31 March 2017, projected forward to 31 March 2020.

The significant assumptions used by the actuary were:

2018/19		2019/20
	Long-term expected rate of return on assets in the Scheme:	
2.38%	Investment Funds and Unit Trusts	2.59%
	Mortality Assumptions:	
	<i>Longevity at 65 for current pensioners (in years):</i>	
22.1	Men	21.4
24.0	Women	23.2
	<i>Longevity at 65 for future pensioners (in years):</i>	
23.9	Men	22.7
26.1	Women	25.0
3.50%	Rate of inflation (RPI)	2.80%
3.10%	Rate of increase in salaries	2.40%
2.50%	Rate of increase in pensions (CPI)	1.90%
2.40%	Rate for discounting scheme liabilities	2.30%
50.00%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.00%
75.00%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.00%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above.

The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the analysed assumption changes, while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

Change in assumptions as at 31 March 2020	Approximate increase to employer liability %	Approximate monetary amount £
0.5% decrease in Real Discount Rate	10%	505,000
0.5% increase in the Salary Increase Rate	2%	99,000
0.5% increase in the Pension Increase Rate (CPI)	8%	398,000

The Pension Funds do not have an asset and liability matching strategy.

Impact on the Board's Cash Flows

The objectives of the scheme are to keep the employers' contributions rate as constant as possible. The Pension Funds have agreed a strategy with the scheme's actuary to achieve a funding level of 100% in the longer term. The Fund takes account of national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to the CARE scheme for future accruals.

Employer's contributions have been set at 28.3% for 2019/20. The three years set out in the latest triennial valuation as at 31 March 2017 are as follows:

Year	Employer contributions
2018/19	31.10%
2019/20	28.30%
2020/21	25.50%

The total contributions expected to be made by the Board to the Pension Fund in the year to 31 March 2021 is £0.096m.

The weighted average duration of the defined benefit obligation for scheme members is 19 years for 2019/20 (18.8 years for 2018/19).

Note 17: Accounting Policies

A General principles

The financial statements summarise the Board's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Board is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be

prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the financial statements is principally historical cost, modified by the valuation of pension assets and liabilities where appropriate. The financial statements have been prepared on a going concern basis

B 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; 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 debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

C Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end, such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year in which employees render service to the Board.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Board to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis in the Comprehensive Income and Expenditure Statement at the earlier of when the Board can no longer withdraw the offer of those benefits or when the Board recognises costs for a restructuring.

Post-employment benefits

As part of the terms and conditions of employment of its officers, the Board makes contributions towards the cost of post-employment benefits. These benefits will not become payable until employees retire. The Board has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Current employees of the Board are members of the Shetland Islands Council Local Government Pension Scheme which is administered locally, as are all current pensioners except two who are members of the Orkney Islands Local Government Pension Scheme.

The Local Government Pension Scheme is accounted for as a defined benefits plan.

The liabilities of the Shetland Islands Council's Pension Fund attributable to the Board are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment to the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.

The pension fund assets attributable to the Board are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price; and
- property – market value.

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

- **current service cost** – the increase in defined benefit obligation as a result of employee service in the current period;
- **past service cost** – the change in defined benefit obligation arising from current year decisions whose effect relates to years of service earned in earlier years, which is debited to the Surplus or Deficit on the Provision of Services in the CIES;
- **net interest cost on the defined benefit liability, i.e. net interest expense of the Board** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;

- **return on plan assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the CIES;
- **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions. Actuarial gains and losses are charged to the CIES; and
- **contributions paid to the pension fund** – cash paid as employer’s contributions to the pension fund in settlement of liabilities which are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the amount payable by the Board to be the amount paid directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the CIES.

In the Movement in Reserves Statement this means that there are transfers to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Board of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

The Board 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 are accrued in the year of the decision to make the award and accounted for using the same policies that are applied to the Local Government Pension Scheme.

D Overheads and support services

Whereby, under agreement with the Board, the constituent authorities place their own staff at the disposal of the Board, the Board pays to that authority such amounts as may be agreed for such services in accordance with the Board’s arrangements for accountability and reporting financial performance. Certain support service costs are provided under a Service Level Agreement between the Board and the service provider.

E Leases

Operating Leases - Board as Lessee: rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

F Government grants and other contributions

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the Board when there is reasonable assurance that:

- the Board will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Board are not credited to the CIES until conditions attaching to the grant or contribution have been satisfied.

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 Specific Grant Income line in the CIES.

G 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 financial statements are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period, whereby the financial statements are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period, whereby the financial statements are not adjusted to reflect such events; where a category or events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

H Value Added Tax

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.