

# Annual Accounts 2018/19



**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 2018/19 and understand the year-end financial position as at 31 March 2019. In addition, it provides a narrative on the financial outlook for the Board during financial year 2019/20 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 follows:

Orkney Islands Council, Office HQ, Council Offices, Kirkwall, Orkney, KW15 1NY.

Shetland Islands Council, Office Headquarters, 8 North Ness Business Park, Lerwick, ZE1 0LZ.

A searchable online facility for the Valuation Roll and Council Tax List are available here: <https://www.saa.gov.uk/orkneyandshetland/>

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.

The current Assessor is Dennis M Stevenson, MRICS IRRV; he has been in post since May 2015 and is based in the Orkney office in Kirkwall. The post of Assistant Assessor has remained vacant since May 2015 following unsuccessful recruitment exercises. Alternative arrangements, such as the engagement of a consultant valuer

have been established to address the resulting capacity gap.

Copies of the minutes of meetings and audited accounts of the Board can be found on the Board's website: [www.orkney-shetland-vjb.co.uk](http://www.orkney-shetland-vjb.co.uk).

## 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	Shetland Islands Council
A Drever (Convener)	T Smith (Vice-Convener)
S Clackson	A Cooper
D Dawson	A Duncan
S Heddle*	J Fraser
H Johnston	B Wishart**

### Substitute Members:

Orkney Islands Council	Shetland Islands Council
B Foulkes	M Bell
J R Scott*	S Leask
	E MacDonald
	G Smith
	R Thomson

\* On 14 May 2019 at a Special General Meeting of Orkney Islands Council, Councillor S Heddle and Councillor J R Scott exchanged membership roles.

\*\* On 9 September 2019, B Wishart resigned as an elected member following her successful election as MSP for the Shetland Islands. Shetland Islands Council is currently organising a by-election to fill the vacant seat.

## 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>

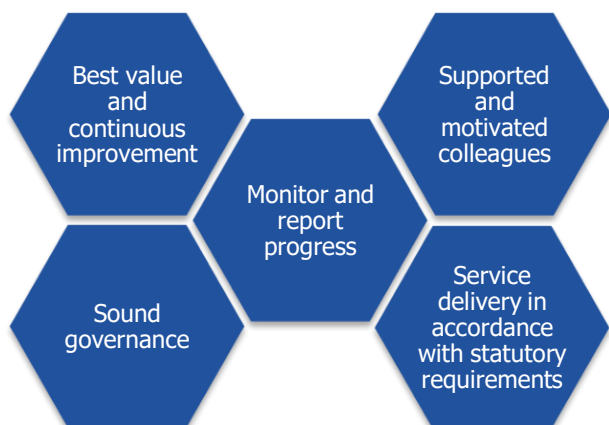
## Strategy

### Corporate Plan

The Board has a three-year corporate plan covering financial years 2016 to 2019. 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 match their expectations"

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



The plan is monitored by the Board's senior management team and a progress update was due to be reported to the Board in late 2018. However due to the Barclay Report implications on the Board's resources this review will be undertaken in 2019 encompassing the Barclay proposals.

The corporate plan can be found at:  
<http://www.orkney-shetland-vjb.co.uk/OSVJB%20Corporate%20Plan%202016%20-19.pdf>

## Performance Information

2018/19 was another active year for the Board and its employees involving the continuing citation and negotiation of non-domestic 2017 rating

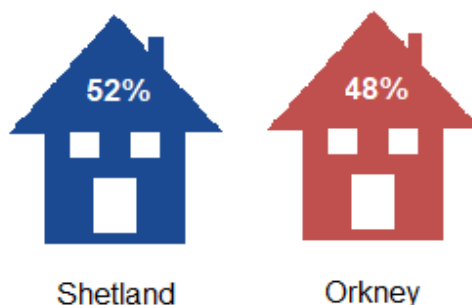
revaluation appeals in addition to ongoing valuation duties. While there were no electoral events in 2018/19 an electoral annual canvass was undertaken along with preparations for the European Election on 23 May 2019.

Individual Electoral Registration (IER) continues to be a demand on resources. Funding from the Cabinet Office was received in 2018/19 with assurance that this will continue until 2020. A further Justification Led Bid was also successfully claimed in February 2019 for the identified additional costs of the IER functions.

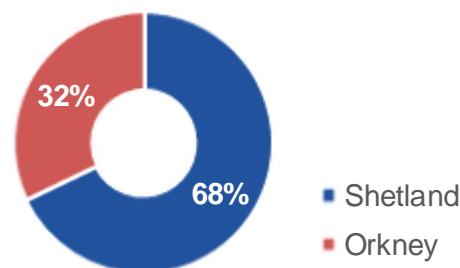
Work on the rolling programme to update and revalue subjects contained in the asset register on behalf of Orkney Islands Council continues to be an extra service provided by the Board. While this service is funded, the impact on the statutory functions of the Board are continually monitored. There has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

As at 31 March 2019, the Board had:

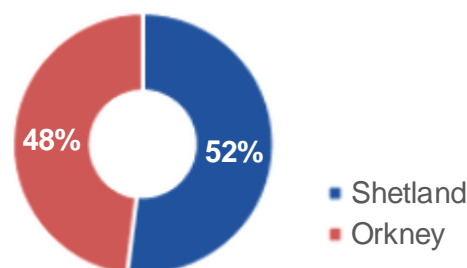
### ENTRIES IN VALUATION ROLL: 4,958



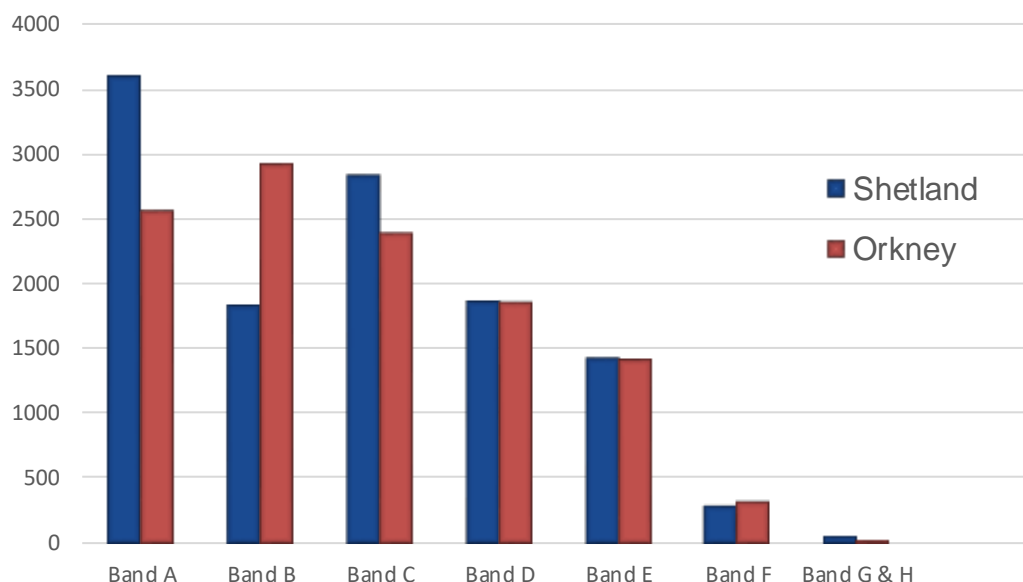
### RATEABLE VALUE: £90,524,840



### ELECTORS: 34,816



## COUNCIL TAX PROPERTIES: 23,411



### 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.

Performance targets have been achieved during 2018/19 despite the Assistant Assessor's post remaining vacant and the workload of the 2017 Revaluation appeals settlements. Temporary valuation resource is being provided to the Board by the employment of a Consultant Valuer.

The non-financial KPIs are:

Council Tax List	2018/19		2017/18
	Target %	Actual %	Actual %
% entered in List within 3 months of occupation	87.00	97.45	87.34
% entered in List within 6 months of occupation	96.00	98.92	99.33
% entered in List more than 6 months after occupation	<4.00	1.08	0.67

Valuation Roll	2018/19		2017/18
	Target %	Actual %	Actual %
% entered in Roll within 3 months of effective date	75.00	80.40	85.25
% entered in Roll within 6 months of effective date	90.00	91.50	92.14
% entered in Roll more than 6 months after effective date	<10.00	8.5	7.86
Total Reduction on appeal	<1.00	0.40	0.03

The non-financial targets have remained the same as for 2017/18.

The comparison of the actual outcome 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	2018/19	2017/18
Actual net expenditure as a percentage of budgeted net expenditure.	95%	92%

Further information on performance can be found here: <http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html>

## Key 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 5 December 2018. The report highlights one red risk considered high in both likelihood and impact. This is extracted as follows:

<b>Risk: Legislative changes affecting the Statutory Authority</b>
Uncertainty as to the legislative intent of future government, for example the current approach to Council Tax and the Barclay Review of Non-Domestic rating.
<b>Likelihood</b>
Probable, more likely to happen than not, more than a 50% chance of occurrence.
<b>Impacts</b>
Inability to plan with certainty and insufficient valuation staff and resources to carry out statutory duties.
<b>Actions to mitigate risk</b>
Maintain contacts with the Scottish Government, Electoral Commission, Association of Electoral Administrators and Scottish Assessors Association. Obtain Human Resources advice from Shetland Islands Council. Keep the Board informed of potential Barclay Review resource implications. Reports were presented to the Board on September 2018 and December 2018. Carry out a review of staffing and resources once Barclay Review recommendations are clear and adopted by Scottish Government. Consider resource implications and impact on statutory functions as part of the 2019/20 budget setting exercise.
<b>Responsible Officer</b>
Assessor/Assistant Assessor to overview and raise with Orkney Islands Council and Shetland Islands Council

The risk register can be found at: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23334>

An assessment of the potential impacts of withdrawal from the European Union was undertaken in February 2019. No specific or direct challenges on the Board's operations were identified. Given uncertainties remain as to the arrangements of a final deal to the UK's withdrawal; this assessment will have to be updated to respond to any emerging risks.

## 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 2019. 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 2019 of £206 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 is funded by Orkney Islands Council and Shetland Islands Council. The Board meets several times a year, with its budget meeting taking place in January or February. A budget strategy report 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 2018/19 budget was approved by the Board on 9 February 2018. 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 CIES presents the full economic cost of providing the Board's services in 2018/19. This differs from the budgeted outturn position shown in the following table 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 £675k, which is disclosed on the CIES, has been reconciled to the outturn used for management decision making of £628k within Note 1: Expenditure and Funding Analysis, on page 21.

Expenditure (net of income from fees and charges) that is funded from central government and Orkney and Shetland Islands Councils in 2018/19 is summarised in the following table:

	2018/19		
	Budget £	Actual £	Variance £
<b>Expenditure:</b>			
Employee Costs	562,435	500,532	61,903
Operating Costs	174,223	203,612	(29,389)
<b>Income:</b>			
Fees and Charges	(33,000)	(33,252)	252
Specific Grant Income	(44,347)	(42,745)	(1,602)
<b>Net Expenditure</b>	<b>659,311</b>	<b>628,147</b>	<b>31,164</b>

Overall in 2018/19, the Board underspent against its budget. There was an underspend of £62k on employee costs for the year, mainly due to the

Assistant Assessor post remaining vacant for the whole year. To provide capacity and support valuation work, an additional £42k was spent on external consultants; this was offset by underspends on travel and other administration costs of £13k. Additionally, a reduction in IER costs incurred by the Board meant £2k of budgeted Cabinet Office funding was not required.

## The Balance Sheet as at 31 March 2019

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 2019 to that of the prior year, an overall decrease in net worth of the organisation of £326k can be seen.

This has been driven by an increase in pension liabilities that represent a long-term commitment for the Board and do not require to be met in any single year. The increase 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 26.

## 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 2019. This indicated a net pension liability for the Board of £2.257m compared to a net pension liability of £1.933m as at 31 March 2018. The movement in the year is influenced by actuarial assumptions and changes to these assumptions have increased the valuation as at 31 March 2019.

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 26.

Detailed information on the Shetland Islands Council Pension Fund can be found here: [http://www.shetland.gov.uk/about\\_finances/](http://www.shetland.gov.uk/about_finances/)

## The Board Outlook

Looking forward, the Board approved its 2019/20 budget at the Board meeting on 27 February 2019. The approved budget has been set at £695k, which is an increase of £36k (5.5%) on the 2018/19 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 Board considered and approved the Barclay Proposal Report detailing the resource and financial implications at its meeting in December 2018. The Scottish Government has allocated £53k to each constituent Council in 2019/20 to address the additional costs on implementing the Barclay Report recommendation adopted. This funding is in addition to the above approved budget of £695k.

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>

The Board is undertaking an intensive recruitment strategy for the vacant Assistant Assessor post.

Close monitoring will also be given to the IER work and its funding, which remains a concern due to the extra costs being incurred to deliver the obligations.

A medium term financial plan (MTFP) is being developed to identify the medium term funding needs and opportunities for savings to demonstrate value for money and financial sustainability. This is to be reported to the Board before the end of 2019.

Further information on staffing and IER can be found here: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23694>

## 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.



.....  
Andrew Drever  
Convener  
Orkney & Shetland Valuation Joint Board  
26 September 2019



.....  
Jamie Manson CPFA  
Section 95 Officer  
Shetland Islands Council  
26 September 2019



.....  
Dennis M Stevenson  
Assessor and Electoral Registration Officer  
Orkney & Shetland Valuation Joint Board  
26 September 2019



# Annual Governance Statement

## Scope of Responsibility

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

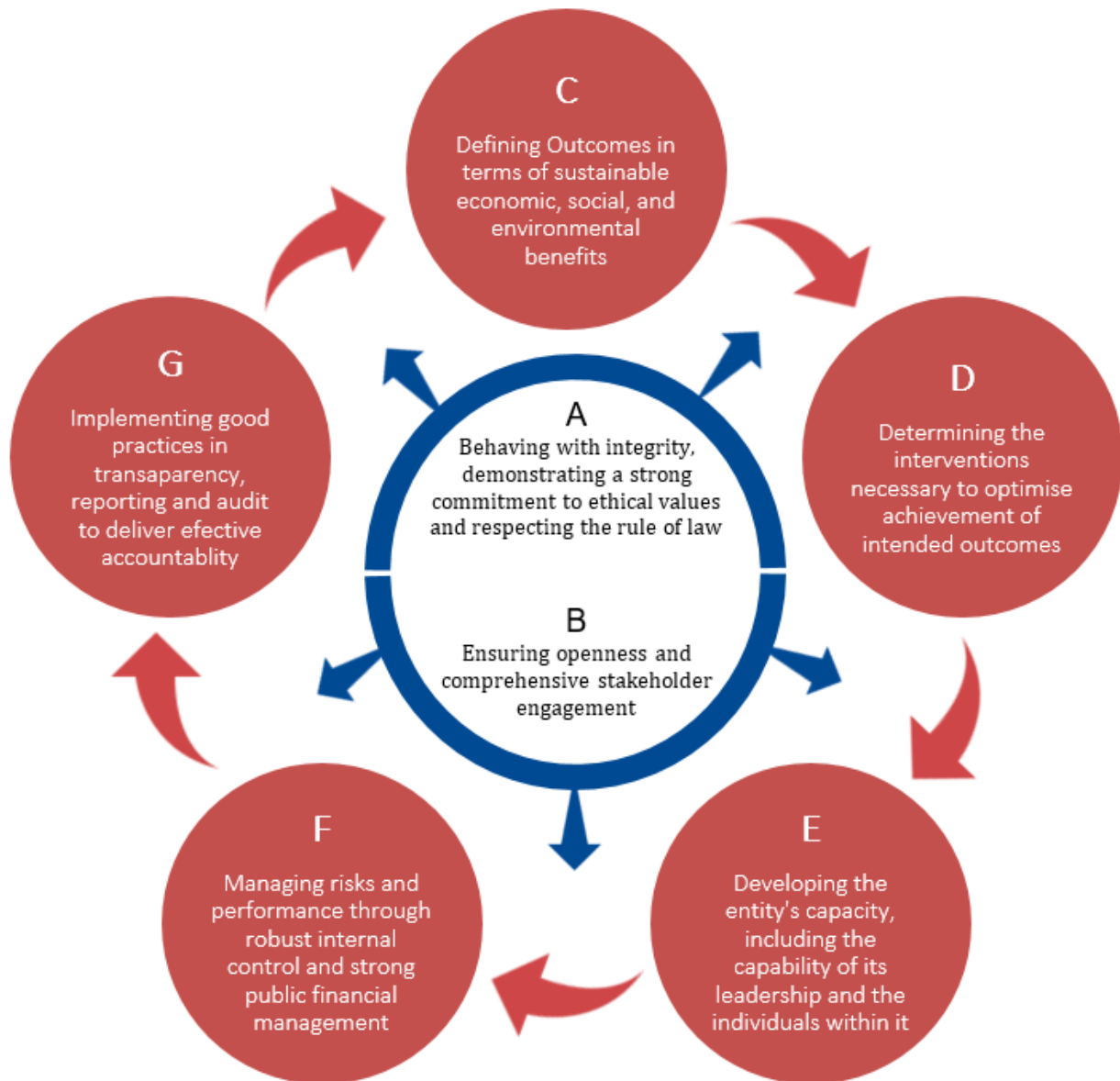
- ensure its business is conducted in accordance with the law and proper standards;
- safeguard and properly account for public money; and
- use public money economically, efficiently and effectively.

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><b>A – Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law</b></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"> <li>• <a href="#">Orkney Islands Council - Register of Interests &amp; Gifts</a></li> <li>• <a href="#">Shetland Islands Council - Register of Interests &amp; Gifts</a></li> </ul> <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 2018/19.</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: <a href="http://www.shetland.gov.uk/about_how_we_work/constitution_andgovernance.asp">http://www.shetland.gov.uk/about_how_we_work/constitution_andgovernance.asp</a>.</p>
<p><b>B – Ensuring openness and comprehensive stakeholder engagement</b></p>		<p>The Assessor’s annual public performance report and annual accounts are available on the Board’s website:</p> <p><a href="http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html">http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html</a>  <a href="http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html">http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html</a></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 <a href="#">CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)</a>.</p>
<p><b>C – Defining outcomes in terms of sustainable, economic, social and environmental benefits</b></p>		<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 : <a href="#">COINS</a></p>

<p><b>D – Determining the interventions necessary to optimise the achievement of intended outcomes</b></p>	<p style="text-align: center;">✓ <i>partially</i></p>	<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><b>E – Developing the entity’s capacity, including the capability of its leadership and the individuals within it</b></p>	<p style="text-align: center;">✓</p>	<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. Shetland Islands Council are committed to developing a similar programme in 2019/20.</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>
<p><b>F – Managing risks and performance through robust internal controls and strong public financial management</b></p>	<p style="text-align: center;">✓</p>	<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><b>G – Implementing good practices in transparency, reporting and audit to deliver effective accountability</b></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 auditors 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>

## 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.

Internal audit arrangements for Shetland Islands Council changed from January 2019, with the internal audit function being performed by Audit Glasgow. As a result, internal audit plans will take into account the activities of the Board in the future.

## 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.

The following table details the actions taken to address the significant governance issue reported in the 2017/18 Annual Governance Statement:

<b>Prior Year Significant Governance Issue</b>
Unsuccessful recruitment of the Assistant Assessor Post.
<b>Responsible Officer</b>
Assessor and Electoral Registration Officer.
<b>Agreed Action</b>
That the Board keep the situation under constant review and the Assessor reports on recruitment options in 2018/19.
<b>Progress</b>
On 13 September 2018 the Board approved a report recommending the application of 30% market forces supplement to the Assistant Assessor evaluated grade, to be reviewed within 2 years of successful appointment. The post was advertised in October 2018, however this recruitment exercise fielded no candidates for interview. The post was re-advertised in April 2019. Interviews were held in May 2019 with a preferred candidate selected and formal offer made with appointment expected to commence in October 2019.

During the year, the following significant governance issue was highlighted as a specific area of concern:

<b>Significant Governance Issue</b>
The Board does not have a MTFP or current financial strategy in place. The Board has 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.
<b>Responsible Officer</b>
Section 95 Officer
<b>Agreed Action</b>
A commitment to develop a MTFP and revised financial strategy for presentation to the Board before the end of 2019.
<b>Date</b>
31 December 2019

There are no other 2018/19 significant governance issues to report.

## Certification

The Governance Framework has been in place for the financial year ended 31 March 2019 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.

Overall, we consider that the governance and internal control environment operating in 2018/19 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.



.....  
 Andrew Drever  
 Convener  
 Orkney & Shetland Valuation Joint Board  
 26 September 2019



.....  
 Dennis M Stevenson  
 Assessor and Electoral Registration Officer  
 Orkney & Shetland Valuation Joint Board  
 26 September 2019



# Remuneration Report

## Introduction

The Remuneration report is set out in accordance with the Local Authority (Scotland) Regulations 2014. 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, pension benefit and pay bands 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	2018/19			2017/18
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Andrew Drever	Convener	4,250	0	4,250	3,357
Theo Smith	Vice-Convener	3,189	0	3,189	2,612
Drew Ratter	Convener (to May 2017)	0	0	0	429

## 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/149 details the salaries paid to Chief Officers.

The Treasurer to the Board is the Executive Manager – Finance of Shetland Islands Council and is remunerated by the Shetland Islands Council. Details are included in the Remuneration report of the Shetland Islands Council. There is no additional remuneration for the role of the Treasurer to the Board.

## Disclosure of remuneration for Senior Employees

Name	Designation	2018/19			2017/18
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Dennis M Stevenson	Assessor & Electoral Registration Officer	71,491	0	71,491	69,105

### General Disclosure of Pay Band

Remuneration Bands	Number of Employees	
	2018/19	2017/18
£65,000 - £69,999	0	1
£70,000 - £74,999	1	0

Bands that do not appear in the table had nil employees in both 2018/19 and 2017/18.

### 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 2019 £	Year ending 31 March 2018 £
Andrew Drever	Convener	774	644
Theo Smith	Vice-Convener	663	543
Drew Ratter	Convener (to 3 May 2017)	0	79

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 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.

The tiered contribution rates are as follows:	2018/19
On earnings up to and including £21,300	5.50%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.50%
On earnings above £35,700 and up to £47,600	9.50%
On earnings above £47,600	12.00%

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 1/49<sup>th</sup> of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).

The accrued pension benefits have been calculated to 31 March 2019. 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.

## Pension benefits – Senior Employees

Name and Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits		
	Year ending 31 March 2019 £	Year ending 31 March 2018 £		As at 31 March 2019 £	As at 31 March 2018 £	Increase / (Decrease) £
Dennis M Stevenson - Assessor & Electoral Registration Officer	22,234	23,352	Pension	32,497	30,104	2,393
			Lump Sum	58,928	56,950	1,978

## McCloud Judgement

The impact of the McCloud judgement in relation to changes to benefits in 2015 are still being assessed. The benefits and related cash equivalent transfer values (CETV) disclosed do not allow for any potential future adjustments that may arise from this judgement.



Andrew Drever  
Convener  
Orkney & Shetland Valuation Joint Board  
26 September 2019



Dennis M Stevenson  
Assessor and Electoral Registration Officer  
Orkney & Shetland Valuation Joint Board  
26 September 2019

# 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;
- 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 26 September 2019.

Signed on behalf of the Valuation Joint Board.



.....  
Dennis M Stevenson  
Assessor and Electoral Registration Officer  
Orkney & Shetland Valuation Joint Board  
26 September 2019

## The Treasurer's responsibilities

The Treasurer 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 (the Accounting Code).

In preparing these annual accounts, the Treasurer 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 Accounting Code (in so far as it is compatible with legislation).

The Treasurer has also:

- kept adequate accounting records which were up to date;
- 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 2019.



.....  
Jamie Manson CPFA  
Section 95 Officer  
Shetland Islands Council  
26 September 2019



# 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 2019 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 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the Orkney and Shetland Valuation Joint Board as at 31 March 2019 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 2018/19 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 three years. We are independent of the Orkney and Shetland Valuation Joint Board 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 Orkney and Shetland Valuation Joint Board. 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 Orkney and Shetland Valuation Joint Board'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 have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

## Responsibilities of the Executive Manager – Finance 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 Orkney and Shetland Valuation Joint Board'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](http://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.

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 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.



.....  
Pat Kenny, CPFA (for and on behalf of Deloitte LLP)  
110 Queen Street  
Glasgow  
G1 3BX  
United Kingdom  
26 September 2019

## Primary Financial Statements

### Comprehensive Income and Expenditure Statement for the year ended 31 March 2019

The CIES shows the full economic cost 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.

2017/18 £	Note	Orkney Islands Council £	Shetland Islands Council £	2018/19 £
499,584	Employee Costs	273,717	273,718	547,435
30,357	Property Costs	19,367	11,323	30,690
40,949	Supplies and Services	22,274	22,083	44,357
21,296	Transport Costs	12,116	12,115	24,231
93,679	Administration Costs	46,988	51,361	98,349
4,270	Payments to Other Bodies	3,176	2,809	5,985
(33,263)	Sales, Fees and Charges	(16,636)	(16,616)	(33,252)
(45,790)	Specific Grant Income	(21,611)	(21,134)	(42,745)
<b>611,082</b>	<b>Cost of Services</b>	<b>339,391</b>	<b>335,659</b>	<b>675,050</b>
	<b>Financing and Investment Income and Expenditure</b>			
55,000	Pension Interest Cost and Expected Return on Pension Assets			53,000
	<b>Taxation and non-specific grant income</b>			
(598,214)	Requisitions from Member Authorities	(316,262)	(311,885)	(628,147)
<b>67,868</b>	<b>Deficit on the Provision of Services</b>			<b>99,903</b>
(114,000)	Actuarial (gains)/losses on pension assets/liabilities			226,000
<b>(46,132)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>325,903</b>



## 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 unusable reserves. The Board has no usable reserves.

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

Comparative movements in 2017/18	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
<b>Balance at 1 April 2017</b>	<b>0</b>	<b>1,978,000</b>	<b>5,167</b>	<b>1,983,167</b>	<b>1,983,167</b>
<b>Movement in reserves during the year</b>					
Total comprehensive income and expenditure	67,868	(114,000)	0	(114,000)	(46,132)
Adjustments between accounting basis & funding basis per regulations	(67,868)	69,000	(1,132)	67,868	0
<b>Increase in year</b>	<b>0</b>	<b>(45,000)</b>	<b>(1,132)</b>	<b>(46,132)</b>	<b>(46,132)</b>
<b>Balance at 31 March 2018</b>	<b>0</b>	<b>1,933,000</b>	<b>4,035</b>	<b>1,937,035</b>	<b>1,937,035</b>

## Balance Sheet as at 31 March 2019

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Board.

As at 31 March 2018 £	Note	As at 31 March 2019 £
	<b>Long-Term Assets</b>	
232	Other Long-term Debtors	0
<b>232</b>		<b>0</b>
	<b>Current Assets</b>	
46,602	Short-term Debtors	25,509
100	Cash in hand	206
<b>46,702</b>		<b>25,715</b>
	<b>Less Current Liabilities</b>	
(50,969)	Short-term Creditors	(31,653)
<b>(4,035)</b>	<b>Net Assets excluding Pension Liability</b>	<b>(5,938)</b>
(1,933,000)	Pension Liability	(2,257,000)
<b>(1,937,035)</b>	<b>Net Liabilities including Pension Liability</b>	<b>(2,262,938)</b>
	<b>Represented by</b>	
4,035	Employee Benefits Reserve	5,938
1,933,000	Pension Reserve	2,257,000
<b>1,937,035</b>		<b>2,262,938</b>

The unaudited financial statements were issued on 27 June 2019 and the audited financial statements were authorised for issue by the Board on 26 September 2019.

*J. Manson*

.....  
 Jamie Manson CPFA  
 Section 95 Officer  
 Shetland Islands Council  
 26 September 2019

## 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.

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			30,690
Supplies and Services	44,357			44,357
Transport Costs	24,231			24,231
Administration Costs	98,349			98,349
Payments to Other Bodies	5,985			5,985
Sales, Fees and Charges	(33,252)			(33,252)
Specific Grant Income	(42,745)			(42,745)
<b>Net Cost of Services</b>	<b>628,147</b>	<b>45,000</b>	<b>1,903</b>	<b>675,050</b>
<b>Other Income and Expenditure:</b>				
Requisitions from Member Authorities	(628,147)			(628,147)
Net Interest Expense	0	53,000		53,000
<b>(Surplus) or Deficit</b>	<b>0</b>	<b>98,000</b>	<b>1,903</b>	<b>99,903</b>

2017/18	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	486,716	14,000	(1,132)	499,584
Property Costs	30,357	0	0	30,357
Supplies and Services	40,949	0	0	40,949
Transport Costs	21,296	0	0	21,296
Administration Costs	93,679	0	0	93,679
Payments to Other Bodies	4,270	0	0	4,270
Sales, Fees and Charges	(33,263)	0	0	(33,263)
Specific Grant Income	(45,790)	0	0	(45,790)
<b>Net Cost of Services</b>	<b>598,214</b>	<b>14,000</b>	<b>(1,132)</b>	<b>611,082</b>
<b>Other Income and Expenditure:</b>				
Requisitions from Member Authorities	(598,214)	0	0	(598,214)
Net Interest Expense	0	55,000	0	55,000
<b>(Surplus) or Deficit</b>	<b>0</b>	<b>69,000</b>	<b>(1,132)</b>	<b>67,868</b>

## Note 2: Accounting Standards Issued and Adopted in year

The following accounting standards were new or amended in the 2018/19 Code:

- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers, including amendments and clarifications;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code required implementation in the financial statements from 1 April 2018. There has not been any significant impact on the Board.

## Note 3: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC23: Uncertainty over Income Tax Treatments
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation
- IFRS16: Leases

The Code requires implementation in the accounts from after 2018/19 and there is therefore no impact on the 2018/19 financial statements.

## 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year as shown in the following table:

Pensions Liability
<b>Uncertainties - estimate</b>
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.
<b>Effect if actual results differ from assumptions</b>
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 £556k 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.

2018/19	Usable reserves £	Unusable reserves £
<b>Adjustments primarily involving the Pensions Reserve:</b>		
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)
<b>Adjustments involving the Employee Benefits Reserve:</b>		
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
<b>Total Adjustments</b>	<b>(99,903)</b>	<b>99,903</b>

2017/18	Usable reserves £	Unusable reserves £
<b>Adjustments primarily involving the Pensions Reserve:</b>		
Reversal of items relating to retirement benefits debited or credited to the CIES (note 16)	(192,000)	192,000
Employer's pension contributions and direct payments to pensioners payable in the year	123,000	(123,000)
<b>Adjustments involving the Employee Benefits Reserve:</b>		
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	1,132	(1,132)
<b>Total Adjustments</b>	<b>(67,868)</b>	<b>67,868</b>

## Note 7: Specific Grant Income

2017/18 £		2018/19 £
(45,790)	Cabinet Office - Individual Electoral Registration	(42,745)
<b>(45,790)</b>	<b>Total</b>	<b>(42,745)</b>

## Note 8: Short-term Debtors

As at 31 March 2018 £		As at 31 March 2019 £
41,256	Other Local Authorities	16,702
5,346	Other Entities and Individuals	8,807
<b>46,602</b>	<b>Total</b>	<b>25,509</b>

At the end of 2018/19, £13,642 was owed to the Board from Shetland Islands Council (£4,824 in 2017/18).



## Note 9: Short-term Creditors

At the end of 2018/19 the Board owed Orkney Islands Council £18,513 (£29,245 in 2017/18).

As at 31 March 2018 £		As at 31 March 2019 £
(34,202)	Other Local Authorities	(18,673)
(11,740)	Other Entities and Individuals	(8,127)
(5,027)	Public Corporations and Trading Funds	(4,853)
<b>(50,969)</b>	<b>Total</b>	<b>(31,653)</b>

## Note 10: Unusable Reserves

As at 31 March 2018 £		As at 31 March 2019 £
1,933,000	Pension Reserve	2,257,000
4,035	Employee Benefits Reserve	5,938
<b>1,937,035</b>	<b>Total</b>	<b>2,262,938</b>

### 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.

2017/18 £		2018/19 £
<b>1,978,000</b>	<b>Balance at 1 April</b>	<b>1,933,000</b>
(114,000)	Actuarial (gains)/losses on pensions assets and liabilities	226,000
192,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	208,000
(123,000)	Employer's pensions contributions and direct payments to pensioners payable in the year	(110,000)
<b>1,933,000</b>	<b>Balance at 31 March</b>	<b>2,257,000</b>

### 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.

As at 31 March 2018 £		As at 31 March 2019 £
<b>(5,167)</b>	<b>Balance at 1 April</b>	<b>(4,035)</b>
5,167	Settlement or cancellation of accrual made at the end of the preceding year	4,035
	<b>Amounts accrued at the end of the current year:</b>	
(4,035)	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	(5,938)
<b>(4,035)</b>	<b>Balance at 31 March</b>	<b>(5,938)</b>

## 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 2019.

### 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 Section 95 Officer on 26 September 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

These annual accounts differ from the published unaudited annual accounts due to amendments arising from audit as described in Note 16: Defined Benefit Pension Schemes on page 26.

## Note 13: External Audit costs

2017/18 £		2018/19 £
7,387	Fees payable with regard to external audit services carried out by the appointed auditor	7,280
<b>7,387</b>	<b>Total</b>	<b>7,280</b>

## 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: 50.3% (£316,262)
- Shetland Islands Council: 49.7% (£311,885)

The Board pays the member authorities for services.

2017/18 £		2018/19 £
	<b>Shetland Islands Council:</b>	
15,079	Support Services	17,507
11,000	Property Services	11,000
6,120	IT Services	6,273
	<b>Orkney Islands Council:</b>	
16,901	Property Services	16,011
4,000	IT Services	4,000
<b>53,100</b>	<b>Total</b>	<b>54,791</b>

The Board in turn provides services to the member authorities:

2017/18 £		2018/19 £
	<b>Orkney Islands Council:</b>	
(30,000)	Valuation Services	(30,000)
<b>(30,000)</b>	<b>Total</b>	<b>(30,000)</b>

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

2017/18 £		2018/19 £
13,200	Not later than one year	13,200
29,229	Later than one year and less than five years	16,029
<b>42,429</b>	<b>Total</b>	<b>29,229</b>

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

2017/18 £		2018/19 £
12,943	Minimum lease payments	13,200
<b>12,943</b>	<b>Total</b>	<b>13,200</b>

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 2018/19 (£11,000 for 2017/18).

## 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 31.

## 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 are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. 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.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The Fund's actuary has adjusted GAD's estimate to better reflect the Pension Funds' local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to Orkney & Shetland Valuation Joint Board is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.37% higher as at 31 March 2019, an increase of approximately £21,000.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

## 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:

2017/18 £	Local Government Pension Scheme	2018/19 £
	<b>Comprehensive Income and Expenditure Statement</b>	
	<b>Cost of Services:</b>	
137,000	Current service cost	134,000
0	Past service cost (including curtailments)	21,000
	<b>Financing and Investment Income and Expenditure:</b>	
55,000	Net interest expense	53,000
<b>192,000</b>	<b>Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>208,000</b>
	<b>Other Post-Employment Benefit Charged to the CIES</b>	
115,000	Return on plan assets (excluding the amount included in the net interest expense)	75,000
8,000	Actuarial (gains) and losses arising on changes in demographic assumptions	0
(395,000)	Actuarial (gains) and losses arising on changes in financial assumptions	397,000
158,000	Actuarial (gains) and losses arising from other experience	1,000
<b>78,000</b>	<b>Total Post-Employment Benefit Charged to the CIES</b>	<b>681,000</b>
	<b>Movement in Reserves Statement</b>	
192,000	Reversal of items relating to retirement benefits debited or credited to the CIES	208,000
	<b>Actual amount charged against the General Fund balance for pensions in the year:</b>	
(123,000)	Employers' contributions and direct payments to pensioners payable in the year	(110,000)

## 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:

2017/18 £		2018/19 £
(5,160,000)	Present value of the defined benefit obligation	(5,745,000)
3,227,000	Fair value of assets in the Local Government Pension Scheme	3,488,000
<b>(1,933,000)</b>	<b>Net liability arising from Defined Benefit Obligation</b>	<b>(2,257,000)</b>
(1,878,000)	Local Government Pension Scheme	(2,204,000)
(55,000)	Unfunded liabilities for Pension Fund	(53,000)
<b>(1,933,000)</b>	<b>Total Pension Reserve</b>	<b>(2,257,000)</b>



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

2017/18 £		2018/19 £
<b>3,246,000</b>	<b>Opening balance at 1 April</b>	<b>3,227,000</b>
83,000	Interest income	87,000
	<b>Re-measurement gains and (losses):</b>	
(115,000)	Return on assets excluding amounts included in net interest	172,000
123,000	Employer contributions	110,000
22,000	Contributions by scheme participants	23,000
(132,000)	Benefits paid	(131,000)
<b>3,227,000</b>	<b>Closing balance at 31 March</b>	<b>3,488,000</b>

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

2017/18 £		2018/19 £
<b>5,224,000</b>	<b>Opening balance at 1 April</b>	<b>5,160,000</b>
137,000	Current service cost	134,000
138,000	Interest cost	140,000
22,000	Contributions by scheme participants	23,000
	<b>Remeasurement (gains) and losses:</b>	
8,000	Actuarial (gains) and losses from changes in demographic assumptions	0
(395,000)	Actuarial (gains) and losses from changes in financial assumptions	397,000
158,000	Actuarial (gains) and losses from other experience	1,000
0	Past service cost (including curtailments)	21,000
(132,000)	Benefits paid	(131,000)
<b>5,160,000</b>	<b>Closing balance at 31 March</b>	<b>5,745,000</b>

## Analysis of Pension Fund's Assets

The Board's share of the Pension Fund's assets at 31 March 2019 comprised:

2017/18 £		2018/19 £
<b>16,100</b>	<b>Quoted prices in active markets:</b> Cash and Cash Equivalents (Liquidity Fund)	<b>28,700</b>
	<i>Property:</i>	
375,300	UK Property	401,000
3,500	Overseas Property	2,600
<b>378,800</b>	<b>Sub-total Property</b>	<b>403,600</b>
	<i>Investment Funds and Unit Trusts:</i>	
2,027,500	Equities	2,208,300
275,300	Bonds	279,400
529,300	Other	568,000
<b>2,832,100</b>	<b>Sub-total Investment Funds and Unit Trusts</b>	<b>3,055,700</b>
<b>3,227,000</b>	<b>Total Assets</b>	<b>3,488,000</b>

## 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 2019.

The significant assumptions used by the actuary were:

2017/18		2018/19
	<b>Long-term expected rate of return on assets in the Scheme:</b>	
2.57%	Investment Funds and Unit Trusts	2.38%
	<b>Mortality Assumptions:</b>	
	<i>Longevity at 65 for current pensioners (in years):</i>	
22.1	Men	22.1
24.0	Women	24.0
	<i>Longevity at 65 for future pensioners (in years):</i>	
23.9	Men	23.9
26.1	Women	26.1
3.40%	Rate of inflation	3.50%
3.02%	Rate of increase in salaries	3.10%
2.40%	Rate of increase in pensions	2.50%
2.70%	Rate for discounting scheme liabilities	2.40%
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 2019	Approximate increase to employer liability %	Approximate monetary amount £
0.5% decrease in Real Discount Rate	10%	556,000
0.5% increase in the Salary Increase Rate	2%	115,000
0.5% increase in the Pension Increase Rate	7%	428,000

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 31.1% for 2018/19. 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 2020 is £0.096m.

The weighted average duration of the defined benefit obligation for scheme members is 18.8 years for 2018/19 (18.8 years for 2017/18).

## Note 17: Accounting Policies

### A General principles

The financial statements summarise the Board's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 benefits are charged to revenue in the financial year in which the holiday absence occurs.

### 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.