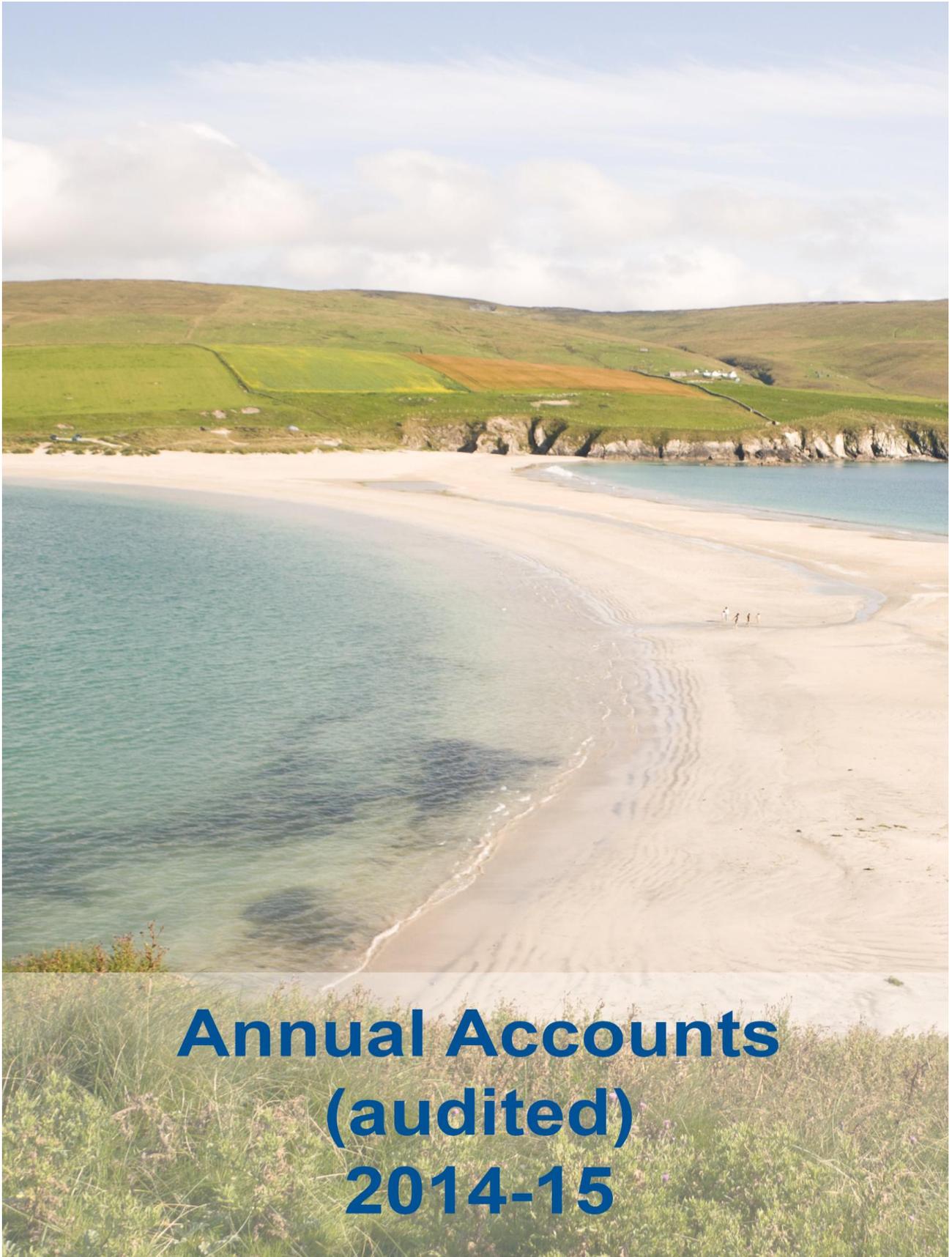




# Orkney & Shetland Valuation Joint Board



## **Annual Accounts (audited) 2014-15**

## CONTENTS

Management Commentary	3
Annual Governance Statement	9
Remuneration Report	13
Statement of Responsibilities for the Annual Accounts	17
Movement in Reserves Statement	19
Comprehensive Income and Expenditure Statement	20
Balance Sheet as at 31 March 2015	21
Cash Flow Statement	22
Notes to the Accounts:	
1. Summary of Accounting Policies	23
2. Critical judgements in applying accounting policies	25
3. Assumptions made about the future and other major sources of estimation and uncertainty	25
4. Employee benefits accrual	26
5. Events after the balance sheet date	26
6. Adjustments between accounting basis and funding basis under regulations	26
7. Cash and cash equivalents	27
8. Short-term creditors	27
9. Unusable reserves	28
10. Pension reserve	28
11. Amounts reported for resource allocation	28
12. Reconciliation of contributing authorities income and expenditure to cost of services in the comprehensive income and expenditure statement	30
13. External audit costs	30
14. Grant and other income	30
15. Related parties	30
16. Operating leases	31
17. Retirement benefits	31
18. Independent auditor's report	37

## Management Commentary

The purpose of the Management Commentary is to inform all users of the accounts, to help them assess how the Board has performed during 2014/15 and understand the year-end financial position as at 31 March 2015. In addition, it provides a narrative on the financial outlook for the Board during financial year 2015/16 and beyond.

### Introduction

The Orkney and Shetland Valuation Joint Board (OSVJB) succeeded the Joint Valuation Committee on 1st April 1996, following a local government reorganisation, for the discharge of certain statutory functions relating to the preparation, publishing 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, Council Tax Valuation list and Electoral Register) are available for public inspection at the Assessor's offices, at the main offices of the two constituent authorities and at public libraries.

The Orkney and Shetland Valuation Joint Board is one of the ten joint boards in Scotland appointed by combinations of local authorities; there are 4 boards appointed by single local authorities making 14 boards in total. Each board appoints an independent assessor to ensure that valuations are seen to be 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.

During 2014/15, the Assessor was Michael A Forbes BSc IRRV FRICS who was appointed in April 2009. He was based in the Board's Shetland office in Lerwick. The Assistant Assessor was Dennis M Stevenson IRRV MRICS, who is based in the Orkney Office in Kirkwall. Day-to-day business is sub-divided between the two offices on a geographic basis, with Orkney matters dealt with in the Kirkwall office and Shetland matters in Lerwick. On 4 May 2015 Mr Forbes retired from the post of Assessor, his successor is Dennis M Stevenson IRRV MRICS, who took up this post on 4 May 2015. The post of Assistant Assessor is currently being advertised. Copies of the Minutes of meetings and audited accounts of the Board can be obtained by emailing [assessor@shetland.gov.uk](mailto:assessor@shetland.gov.uk). Alternatively, they can also be found on the Assessors website – [www.orkney-shetland-vjb.co.uk/](http://www.orkney-shetland-vjb.co.uk/).

### The Board Composition

The Board is a separate public body from the two constituent authorities, but draws its membership from them, each nominating 5 councillors to serve on the Board. The Board Members for 2014/15 are named below:

Orkney (Substantive)	Orkney (Substitute)	Shetland (Substantive)	Shetland (Substitute)
H Johnston (Vice- Convener)	J Moodie (Resigned 8/9/2014)	D Ratter (Convener)	A Cooper
J W R Moar	G Shearer	G Smith	M Bell
S Clackson		T G C Smith	A Duncan
A Drever		F A Robertson	S Coutts
D R Tullock		M W Stout	A I Manson

## Background

Each of the 32 local Councils within Scotland is a valuation authority and is responsible for appointing an Assessor, who must in turn compile and maintain a Valuation Roll and a Council Tax Valuation List.

The functions of the Assessor are different from those of most other Local Government Officers, whose duties are to carry out the policies of Authorities, as determined by elected councillors. The Assessor requires 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. (from: <http://www.saa.gov.uk/theassessor.html>)

## The Statutory Framework

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; the Strathclyde Partnership for Transport 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).

In Scotland the local authority accounting framework is enacted as follows:

- the Local Government (Scotland) Act 1973, section 96, requires Scottish authorities to keep accounts;
- the Local Government in Scotland Act 2003, section 12 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS), the Service Reporting Accounting Code of Practice (SeRCOP) and the Prudential Framework and other statutory guidance issued under section 12 of the 2003 Act, defines proper accounting practices for local authorities in the UK;
- the Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts;
- under paragraph 21 of the Local Authority Accounts (Scotland) Regulations 2014 (Finance circular 7/2014) the proper officer is responsible for certifying that the Financial Statements give a true and fair view of the financial position of the local authority and its group for the year then ended. The certification includes a statement to this effect as part of the Statement of Responsibilities and by signing the Balance Sheet. This certification is required before the Annual Accounts are submitted to the appointed auditor. The proper officer re-certifies the audited Annual Accounts after they have been approved for signature by the local authority or a committee of the local authority, in this case the Orkney and Shetland Valuation Joint Board . The proper officer, known as the Treasurer, is the Executive Manager – Finance of Shetland Islands Council; and
- The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2013.

The Code reiterates the primacy of legislative requirements whereby the overriding principle of public sector accounts is that where an accounting treatment is prescribed by law the legal requirement must be applied.

The overriding requirement of the Code is that the Annual Accounts provide a true and fair view of the financial position and the financial transactions of the Board.

## Performance Information

2014/15 was a very busy year for the Board and its employees.

Firstly, the Scottish Referendum which was held on the 18 September 2014 had a significant impact on staff and resources. The entitlement of 16 and 17 year olds to vote for the first time created data protection issues and also required amendments to computer software requiring additional staff training. A much greater level of public engagement in the Scottish Referendum resulted in a high level of public involvement and expectation, particularly from electors who were not familiar with being involved in the electoral process. Large increases were seen in registration and absent voting activity.

Immediately following the Scottish Referendum, work began on the transition to Individual Electoral Registration (IER). This involved confirming existing electors during 2014/15 before the first full canvass of all households under IER which took place in August 2015. An additional requirement of this canvass will be the addition of 14 and 15 year olds to the register, in preparation for the lowering of the voting age at the next Scottish Parliament election. IER also requires significantly more input of resources and staffing, both in training and computer system developments during the transition and on an ongoing basis.

Revaluation work progressed in relation to Sullom Voe and this was completed in September 2015. Preparation work for the 2017 revaluation of non-domestic properties is underway, and work carried out on the 5 year programme to update the asset register for Orkney Islands Council was completed in May 2015.

Key performance indicators are published on the Orkney and Shetland Valuation Joint Board website, for 2014/15 they show:

<b>Council Tax List</b>	Target %	Actual %
% entered in List within 3 months of occupation	97.00	93.84
% entered in List within 6 months of occupation	99.00	98.84
% entered in List more than 6 months after occupation	< 1.00	1.06
<b>Valuation Roll</b>		
% entered in Roll within 3 months of effective date	85.00	75.50
% entered in Roll within 6 months of effective date	97.00	86.79
% entered in Roll more than 6 months after effective date	< 3.00	13.21
Total Reduction on appeal	1.00	0.0014

Targets have not been achieved during 2014/15 due to the extra work created by the Scottish Referendum, the implementation of IER and the loss of key members of staff during the year. Further information on performance can be obtained at [www.orkney-shetland-vjb.co.uk/](http://www.orkney-shetland-vjb.co.uk/).

## Primary Financial Statements

The Annual Accounts summarise the Orkney and Shetland Valuation Joint Board's transactions for the year, its year-end position at 31 March 2015 and its cash flows. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of the Primary Financial Statements has been included immediately prior to each statement: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These four 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.

## 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 Valuation Joint Board and the public. The Valuation Joint Board is funded by Orkney Islands Council and Shetland Islands Council. The Board normally meets twice a year, with its budget meeting taking place in January. The Valuation Joint Board's budget is its prime annual planning document and actual expenditure is monitored against it during the year.

The Comprehensive Income and Expenditure Statement (CI&ES) presents the full economic cost of providing the Board's services in 2014/15. This differs from the budgeted outturn position shown in the table below as the CI&ES includes accounting adjustments required to comply with proper accounting practice. Therefore the difference between the CI&ES and the actual outturn position is purely as a result of necessary accounting adjustments in the former. The Cost of Services of £686k, which is disclosed on the CI&ES, has been reconciled to the outturn used for management decision making of £559k at Note 12 – Reconciliation of Contributing Authorities Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

Expenditure (net of income from fees and charges) that is funded from central government and Orkney and Shetland Islands Councils in 2014/15 is summarised in the following table:

	2014-15 Budget £	2014-15 Actual £	2014-15 Variance £
<b>Expenditure:</b>			
Employee Costs	463,481	463,142	339
Operating Costs	141,659	155,939	(14,280)
<b>Income:</b>			
Fees and Charges	(22,900)	(28,905)	6,005
Specific Grant Income	0	(30,959)	30,959
<b>Total Expenditure</b>	<b>582,240</b>	<b>559,217</b>	<b>23,023</b>

Overall for the 2014/15 financial year, the Valuation Joint Board underspent against their budget. There was an overspend of £15k on travel and subsistence costs and £10k on printing and postage costs. This was due to attendance at training events, Cabinet Office

meetings and work undertaken associated with the transition to Individual Electoral Registration. Income of £26k was received from the Cabinet Office in order to fund this additional expenditure. Additional income of £5k was received from the Scottish Government to fund overtime incurred on the Scottish Referendum and an extra £5k was received from Orkney Islands Council in relation to asset valuation work undertaken on their behalf. These additional sums represent additional activity that had not been included as part of the approved budget and therefore was funded through a specific cost recovery.

## **The Balance Sheet as at 31 March 2015**

The Balance Sheet sets out the total net worth of the Orkney and Shetland Valuation Joint Board at a snapshot in time. When comparing the net worth of the Board at 31 March 2015 to that of the last Balance Sheet on 30 March 2014 there has been an overall decrease in net worth of the organisation of £246k. The decrease has been driven by the continued increase in pension liabilities that the Board faces in the long term.

### **Pension Liability**

In order to comply with International Accounting Standard (IAS) No.19 (Retirement Benefits), a valuation of the Shetland Islands Council's Pension Fund was made by the Fund Actuary as at 31 March 2015. This indicated a net pension liability for the Valuation Joint Board of £1,710k compared to a net pension liability of £1,466k as at 31 March 2014.

The pension fund is a long-term commitment and is subject of a triennial actuarial valuation; the last valuation at 31 March 2014 recorded a funding level of 92% and the contributions the Board makes to the pension fund are in line with the actuary's valuation and recommendations.

### **Orkney and Shetland Valuation Joint Board Outlook**

Looking forward the approved 2015/16 budget for the Orkney and Shetland Valuation Joint Board has been set at £629k, which is an increase of £47k (8%) on the 2014/15 budget.

Included within this budget is the revised staffing structure approved at the Board meeting on 14 January 2015 (Min Ref: 01/15). There is a recognised transitional period, with the departure of the existing Assessor in May 2015 and the start of the new Assessor in post, immediately thereafter. There are one-off costs relating to the changeover plus pay cost pressures.

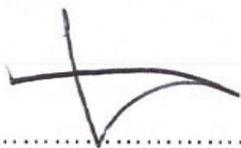
The Board is seeking to appoint an Assistant Assessor in order to ensure the workload is allocated and distributed appropriately and to prevent any deterioration of service to the wide range of customers that the Board has. It is acknowledged that it will be challenging for a small organisation covering two remote island groupings, without an Assistant Assessor, so efforts are focussed on a successful recruitment exercise.

### **Acknowledgements**

As noted above, Michael Forbes retired from the post of Assessor in May 2015 after 20 years of service with the Joint Board, with 6 of those as Assessor. We would like to take this opportunity to acknowledge and thank Mr Forbes for his commitment and contribution to the work of the Board during that time.

Finally, we would like to acknowledge all the hard work of the officers, in both Orkney and Shetland Islands Councils, and to officers of the Orkney and Shetland Valuation Joint

Board who have had a role in the preparation of the annual accounts and those who have worked diligently throughout the year in the delivery of OSVJB objectives.



.....  
Drew Ratter  
Convener Orkney & Shetland Valuation Joint Board

Date. 28/9/15..



.....  
Dennis M Stevenson  
Assessor and Electoral Registration Officer, Orkney & Shetland Valuation Joint Board

Date. 28/9/15..



.....  
Steven Whyte, CPFA  
Treasurer

Date. 28/9/15..

## **Annual Governance Statement**

### **Scope of Responsibility**

The Orkney and Shetland Valuation Joint Board (OSVJB) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, elected members collectively, and senior officers individually are responsible for putting in place proper arrangements for the governance of the organisation's affairs and the stewardship of the resources at its disposal.

### **The Governance Framework**

The undernoted principles were in place throughout 2014/15 when the Board was carrying out its business. Through the adoption of the Annual Governance Statement, the Framework was formally approved by the Board on 26 June 2015.

The key elements of the systems and processes that comprise the Board's governance arrangements are summarised as follows:

#### **Governance Principle 1 – focusing on the purpose of the authority and on outcomes for the Island Communities of Orkney and Shetland**

This principle is about delivering intended outcomes for citizens and service users, ensuring that high quality valuation assessment and registration services are delivered, and that best use is made of the Board's resources.

The Board is focused around delivery of specialised valuation and registration service. The two services delivered by the Board are foundation stones to local government and democracy at local, national and international levels, as the services provide the means to raise local taxation and to conduct elections / referendums.

The Assessor and Electoral Registration Officer (ERO) is a member of the Scottish Assessors Association and through this non-statutory voluntary association, the 14 Assessors that provide valuation assessments and registration services across the 32 local authority areas in Scotland share expertise and resources.

Through engagement with external stakeholders such as the Electoral Commission, the Cabinet Office, the Scottish Government, the Electoral Management Board for Scotland (EMB), the Institute of Revenue and Rating and Valuation (IRRV), the Royal Institution of Chartered Surveyors (RICS) and through close working with the Corporate Service directorates of the two constituent local authorities, the Assessor and ERO draws on these resources and has developed engagement strategies that reflect the prevailing service requirements.

The Board's performance management framework is reviewed regularly to drive continuous improvement and ensure effective monitoring of progress and outcomes against stated objectives. Best Value progress reports are provided by the Assessor and ERO twice yearly to the Board.

## **Governance Principle 2 – members and officers working together to achieve a common purpose with clearly defined functions and roles**

This principle is about defining roles of elected members and officers, making sure responsibilities are clearly defined.

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.

Performance and Best Value reports are made at Board meetings at least twice yearly.

Functions and roles of statutory posts including the Clerk, Treasurer, Assessor and ERO are clearly defined.

## **Governance Principle 3 – promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

High standards of behaviour are essential to good governance. There is an expectation that elected members and senior officers will exercise leadership through exemplary standards of behaviour. This is achieved through compliance with codes of conduct and registers of interests which record any potential areas where conflicts of interest might arise.

The Board has in place a scheme for ensuring equalities compliance.

In order to avoid duplication the Board relies on the register of interests and gifts maintained by the relevant constituent authorities for elected members. The Assessor and ERO are bound by the policies of the Board and also must adhere to the professional standards regime set by the RICS.

There were no recorded breaches of codes of conduct by officials or members during the 2014/15 period.

## **Governance Principle 4 – taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

The Board's decision-making process is well established with governance, finance and performance issues being discussed at Board meetings that take place in public (unless exempt under statutory provision). The Board's reports are published prior to each meeting and made available to the media. Rules and procedures govern how decisions are made and appropriate legal, financial and other professional advice is considered as part of the decision-making process. Scrutiny is secured through internal and external audit. Minutes of meetings are periodically uploaded onto the Board's website thereby also allowing access through the link to the SAA website. Associated reports and background papers are available on demand.

Decisions of the Assessor and ERO are subject to public scrutiny, 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.

Risk management is a fundamental part of the organisation's decision making process and informs consideration of reports, both prior to and at Board meetings, reviewing the risk

register on an annual basis. The Board recently approved a Register of all evaluated risks and has undertaken to review annually its strategic and corporate risks and its associated Business Continuity Plans.

### **Governance Principle 5 – developing the capacity and capability of members and officers to be effective**

This element of governance is designed to ensure that both elected members and officers have the knowledge, skills and capacity to enable them to fulfil their respective roles effectively.

New employees receive induction training on taking up their post and some post holders are able to participate in a career grade development scheme that seeks to promote personal and professional development. All officials are subject to a staff review and development scheme and Valuers who are members of the RICS are subject to additional compulsory continuing professional development training that is monitored by the RICS.

### **Governance Principle 6 – engaging with local people and other stakeholders to ensure robust public accountability**

The Board achieves this through timely publication of its annual accounts, of statutory and local performance information, and by publishing the Assessor and ERO's annual public performance report.

The Assessor and ERO also make significant use of media to communicate relevant items of news. 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.

The financial management arrangements conform with the governance requirements on the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

### **Review of Effectiveness**

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

- progress towards key strategic and service objectives, as demonstrated through reporting on targets and performance;
- financial and budget monitoring;
- Internal Audit reviews on the systems of the Council as used by the Joint Board;
- the work of managers within the Board;
- the Annual Report and Accounts; and
- external inspections.

During the year there were no specific internal audits carried out for the Joint Board, and the controls work undertaken across the Council systems by internal and external audit were found to be adequate.

## Significant Governance Issues

The system of governance can provide only reasonable (and not absolute) assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or would be detected within a timely period and all the significant risks impacting on the achievement of our objectives have been mitigated.

There are no significant governance issues to report.

## Certification

The Governance Framework has been in place for the financial year ended 31 March 2015 and up to the date of approval of the Annual Accounts. Effective governance arrangements will remain a key priority for the Joint Board in the future.

Overall, we consider the governance and internal control environment operating in 2014/15 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.



.....  
Drew Ratter  
Convener Orkney & Shetland Valuation Joint Board

Date 28/9/15



.....  
Dennis M Stevenson  
Assessor and Electoral Registration Officer, Orkney & Shetland Valuation Joint Board

Date 28/9/15

## 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 information disclosed in the tables in this Remuneration Report are audited by Audit Scotland. The other sections of the Remuneration Report are review by Audit Scotland 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 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 Orkney & Shetland Valuation Joint Board.

The Board has an arrangement with each Council 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 Orkney & Shetland Valuation Joint Board are remunerated by the Council of which they are a Council Member.

### Disclosure of remuneration for Senior Councillors

Name	Designation	2014-15		2013-14
		Salary, Fees and Allowances £	Total Remuneration 2014-15 £	Total Remuneration 2013-14 £
Drew Ratter	Convener	4,142.04	<b>4,142.04</b>	<b>4,064.68</b>
Harvey Johnston	Vice Convener	2,914.03	<b>2,914.03</b>	<b>2,791.25</b>

### Remuneration of Senior Employees of Orkney & Shetland Valuation Joint Board

The employees of the Valuation Joint 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/144 details the salaries paid to Chief Officers.

The Assessor of the Orkney & Shetland Valuation Joint Board is paid at spinal column point 29 on the Chief Officers' Pay Scale. These arrangements were agreed through approval of the Board following local government reorganisation under the Local Government etc (Scotland) Act 1994.

## Disclosure of remuneration for Senior Employees

Name	Designation	2014-15			2013-14
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration 2014-15 £	Total Remuneration 2013-14 £
Michael Forbes	Assessor & Electoral Registration Officer	71,899.54	822.00	<b>72,721.54</b>	72,005.35

Mr. Forbes is the only senior employee.

## General Disclosure of Pay Band (Para 4 of the schedule)

Remuneration Bands	Number of Employees	
	2014-15	2013-14
£50,000 - £54,999	1	0
£55,000 - £59,999	0	0
£60,000 - £64,999	0	0
£65,000 - £69,999	0	0
£70,000 - £74,999	1	1

## Pension Benefits

### Pension details of Conveners and Vice Conveners of Orkney & Shetland Valuation Joint Board

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 (per para 61 of the guidance).

### Pension employer contributions – Senior Councillors

Name	Designation	In-Year Employer Pension Contributions	
		Year ending 31 March 2015 £	Year ending 31 March 2014 £
Drew Ratter	Convener	774.56	760.10
Harvey Johnston	Vice Convener	623.60	597.33

### Pension details of Senior Employees of Orkney & Shetland Valuation Joint Board

Pension benefits for local government employees are provided through the Local Government Pension Scheme (LGPS). The Pension Scheme is a funded Pension Scheme, consisting of payments being received from members of the Scheme, as well as from the Employer.

For local government employees, this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for employees is 65.

From 1 April 2009 a five-tier contribution system was introduced, with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The Tiered Contribution Rates for 2014/15 are as follows:	Contribution rate 2014/15
On earnings up to and including £20,335	5.5%
On earnings above £20,335 and up to £24,853	7.25%
On earnings above £24,853 and up to £34,096	8.5%
On earnings above £34,096 and up to £45,393	9.5%
On earnings above £45,393	12%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

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

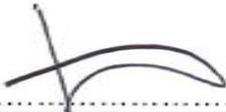
The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

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

### Pension benefits – Senior Employees

Name	Designation	In-Year Employer Pension Contributions	
		Year ending 31 March 2015	Year ending 31 March 2014
		£	£
Michael Forbes	Assessor & Electoral Registration Officer	21,354.13	21,141.49

Name	Designation		Accrued Pension Benefits		
			As at 31 March 2015	As at 31 March 2014	Increase (Decrease)
			£	£	£
Michael Forbes	Assessor & Electoral Registration Officer	Pension	34,810.51	33,284.34	1,526.17
		Lump Sum	82,864.22	82,055.63	808.59



.....  
Drew Ratter  
Convener Orkney & Shetland Valuation Joint Board

Date 28/9/15



.....  
Dennis M Stevenson  
Assessor and Electoral Registration Officer, Orkney & Shetland Valuation Joint Board

Date 28/9/15

## Statement of Responsibilities for the Annual Accounts

### 1. 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 Joint 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 the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Board at its meeting on 28 September 2015.

Signed on behalf of the Valuation Joint Board.



Dennis M Stevenson

Assessor and Electoral Registration Officer, Orkney & Shetland Valuation Joint Board

Date 28/9/15

## 2. 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 local authority 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 and Shetland Valuation Joint Board at the reporting date and the transactions of the Board for the year ended 31 March 2015.

  
.....  
Steven White CPFA  
Treasurer

Date 28/9/15

## Movement in Reserves Statement

This shows the movement in reserves that must be set aside under statute and accounting regulations (i.e. unusable reserves); the Valuation Joint Board has no usable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the service, which is different from the statutory amounts required to be funded from taxation in the year.

The Net (Increase)/Decrease before Transfers to Reserves line shows the statutory balance before any discretionary transfers, to or from reserves, are undertaken by the Board.

	Pension Reserve Restated £	Employee Benefits Accrual £	Total unusable reserves Restated £
<b>Balance as at 31 March 2013</b>	1,323,000	6,443	1,329,443
<b>Movement in reserves during 2013/14</b>			
(Surplus) or deficit on the provision of services	51,000	4,485	55,485
Other comprehensive I&E	92,000	0	92,000
<b>(Increase)/Decrease in 2013/14</b>	143,000	4,485	147,485
<b>Balance as at 31 March 2014</b>	1,466,000	10,928	1,476,928
<b>Movement in reserves during 2014/15</b>			
(Surplus) or deficit on the provision of services	65,000	1,675	66,675
Other comprehensive I&E	179,000	0	179,000
<b>(Increase)/Decrease in 2014/15</b>	244,000	1,675	245,675
<b>Balance as at 31 March 2015</b>	1,710,000	12,603	1,722,603

## Comprehensive Income and Expenditure Statement

This shows the full economic cost of providing the service in accordance with generally accepted accounting practices (GAAP), 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.

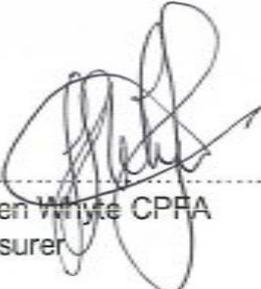
2013/14 £		Note	2014/15 £
453,015	Employee costs		466,817
33,566	Property costs		30,492
2,515	Supplies & services		4,648
16,592	Transport		30,581
73,784	Administration Costs		87,931
4,209	Payments to other bodies		2,287
59,000	Pension interest cost and expected return on pension assets		63,000
<b>642,681</b>	<b>Cost of Services</b>		<b>685,756</b>
(31,210)	Sales, fees & charges		(28,905)
(9,027)	Specific grant income		(30,959)
(546,959)	Requisitions from Member Authorities	15	(559,217)
<b>55,485</b>	<b>Deficit on the provision of services</b>		<b>66,675</b>
92,000	Actuarial losses on pension assets/liabilities		179,000
<b>147,485</b>	<b>Total comprehensive income and expenditure</b>		<b>245,675</b>

## Balance Sheet as at 31 March 2015

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

31 March 2014 £	Current Assets	Notes	31 March 2015 £
25,877	Cash and Cash Equivalents	7	64,179
<u>25,877</u>			<u>64,179</u>
	<b>Less Current Liabilities</b>		
(36,805)	Short-term Creditors	8	(76,782)
<u>(10,928)</u>	<b>Net Assets Excluding Pension Liability</b>		<u>(12,603)</u>
(1,466,000)	Pension Liability	10	(1,710,000)
<u>(1,476,928)</u>	<b>Net Liabilities Including Pension</b>		<u>(1,722,603)</u>
	<b>Represented by</b>		
10,928	Employee Benefits Accrual	9	12,603
1,466,000	Pension Reserve	9	1,710,000
<u>1,476,928</u>			<u>1,722,603</u>

The audited accounts were authorised for issue on 28 September 2015.

  
 .....  
 Steven Whyte CPFA  
 Treasurer

Date 28/9/15

## Cash Flow Statement

This is a key indicator of the extent to which the operations are funded by way of grant-in-aid or income and of how the Board uses the cash and cash equivalents for its operating activities.

2013/14 £		2014/15 £
	<b>Operating Activities</b>	
	<b>Cash Inflows</b>	
(305,126)	Contributions - Orkney Islands Council	(276,834)
(269,279)	- Shetland Islands Council	(281,099)
(40,237)	Other Operating Cash Receipts	(80,334)
<b>(614,642)</b>	<b>Cash inflows generated from operating activities</b>	<b>(638,267)</b>
	<b>Cash Outflows</b>	
456,530	Cash Paid to and on Behalf of Employees	462,122
129,182	Other Operating Cash Payments	137,843
<b>585,712</b>	<b>Cash outflows generated from operating activities</b>	<b>599,965</b>
<b>(28,930)</b>	<b>Net Cash (inflows)/outflows from operating activities</b>	<b>(38,302)</b>
<b>(28,930)</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>(38,302)</b>
(3,053)	Cash and cash equivalents at the beginning of the reporting period	25,877
25,877	Cash and cash equivalents at the end of the reporting period	64,179
<b>(28,930)</b>	<b>Net cash (inflow)/outflow in cash and cash equivalents in year</b>	<b>(38,302)</b>

# Notes to the Financial Statements

## Note 1: Summary of Accounting Policies

### General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the annual accounts;
- making changes to reserves;
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount (i.e. the one that best reflects the economic reality of a transaction or event) to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty (and the range of options is considered to be material).

### Accounting Conventions and Concepts

The concept of the Valuation Joint Board as a going concern is based on the premise that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view. It is a matter of professional judgement as to whether users of the accounts could come to different conclusions about the Board's standards of stewardship or make different economic decisions as a result of deviations from the provisions set out in the Code.

The Valuation Joint Board accounting policies, which are significant in terms of the amounts recognised in its financial statements, are summarised (a – g) below:

#### a) Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Board transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Board; and
- revenue from the provision of services is recognised when the Board can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Board.

## **b) Accumulated Absences**

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.

## **c) Cash and Cash Equivalents**

In the Cash Flow Statement cash and cash equivalents (represented by funds held by Shetland Islands Council) are shown net of bank overdrafts that are repayable on demand.

## **d) Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits 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.

### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Valuation Joint 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 needs to be disclosed at the time that employees earn their future entitlement.

Employees of Orkney and Shetland Valuation Joint Board are members of the Shetland Island Council Local Government Pension Scheme which is administered locally.

The pension scheme is a defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Arrangements for the award of discretionary post retirement benefits upon early retirement 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 pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### **Transactions Relating to Post-employment Benefits**

The cost of retirement benefits is recognised in the reported cost of services when earned by employees, rather than when the benefits are eventually paid as pensions. The charge against council tax, 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.

Statutory provisions require the amount payable by the Valuation Joint Board to be the amount paid directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the Movement in Reserves Statement.

This treatment requires appropriations 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 Valuation Joint Board balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits are 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 as are applied to the Local Government Pension Scheme.

### **e) Exceptional Items and Prior Period Adjustments**

There are no exceptional items or prior year adjustments for 2014/15.

### **f) 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. The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

### **g) Leases**

Operating Leases – The Authority as Lessee: Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement 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).

### **Note 2: Critical Judgements in applying accounting policies**

There is a high degree of uncertainty about future levels of funding for local government in general, however, the Valuation Joint Board has determined that this uncertainty is not an indication that the Orkney and Shetland Island Councils intend to close facilities or reduce levels of service provision.

### **Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

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 Authority with expert advice about the assumptions to be applied. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £439,000; however, the assumptions interact in complex ways. During 2014/15, net pension liability had increased

by £244,000. Falling bond yields resulted in increased liabilities, offset by higher than expected investment performance, increasing assets.

#### Note 4: Employee Benefits Accrual

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.

2013/14 £	Employee Benefits Accrual	2014/15 £
(6,443)	<b>Balance at 1 April</b>	(10,928)
6,443	Settlement or cancellation of accrual made at the end of the preceding year	10,928
(10,928)	Amounts accrued at the end of the current year	(12,603)
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	
<b>(10,928)</b>	<b>Balance at 31 March</b>	<b>(12,603)</b>

#### Note 5: Events after the Balance Sheet Date

The Annual Accounts were authorised for issue by the Treasurer on 28 September 2015. Events taking place after this date are not reflected in the financial statements or notes.

#### Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Valuation Joint Board in the year, in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future expenditure. Such adjustments involve the Pension Reserve and Employee Benefits Accrual by which amounts charged for holiday pay to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements.

31 March 2014 £	Unusable Reserves	31 March 2015 £
	<b>Adjustments primarily involving the Pensions Reserve:</b>	
240,000	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 17)	341,000
(97,000)	Employer's pension contributions and direct payments to pensioners payable in the year	(97,000)
	<b>Adjustments involving the Employee Benefits Accrual:</b>	
4,485	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,675
<b>147,485</b>	<b>Total Adjustments</b>	<b>245,675</b>

#### Note 7: Cash and Cash Equivalents

31 March 2014 £		31 March 2015 £
25,877	Other local authorities	38,156
-	Other entities and individuals	26,023
<b>25,877</b>	<b>Total cash and cash equivalents</b>	<b>64,179</b>

The 2014/15 cash and cash equivalents balance represents amounts due by Shetland Islands Council at March 2015 in respect of its requisition costs, the amount paid to Orkney Islands Council in advance for lease of the Board's office premises in Kirkwall and carry forward of unspent funding received in respect of the implementation of Individual Electoral Registration.

#### Note 8: Short-term Creditors

31 March 2014 £		31 March 2015 £
25,877	Other local authorities	38,156
10,928	Other entities and individuals	38,626
<b>36,805</b>	<b>Total short-term creditors</b>	<b>76,782</b>

The 2014/15 short-term creditors represents the net balances with third parties that Shetland Islands Council and Orkney Islands Council hold on behalf of the Board. This represents the Council's obligation to pay the Board's liabilities as they fall due as part of their responsibilities in hosting the Board.

## Note 9: Unusable Reserves

31 March 2014 £		31 March 2015 £
1,466,000	Pension Reserve	1,710,000
10,928	Employee benefits accrual	12,603
<b>1,476,928</b>	<b>Total unusable reserves</b>	<b>1,722,603</b>

## Note 10: Pension Reserve

31 March 2014 £		31 March 2015 £
1,323,000	<b>Balance at 1 April</b>	1,466,000
92,000	Actuarial losses on pensions assets and liabilities	179,000
148,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	162,000
(97,000)	Employer's pensions contributions and direct payments to pensioners payable in the year	(97,000)
<b>1,466,000</b>	<b>Balance at 31 March</b>	<b>1,710,000</b>

## Note 11: Amounts Reported for Resource Allocations

This provides a subjective analysis of the surplus or deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement:

The income and expenditure of the Joint Board's contributing authorities recorded in the budget reports for the year is as follows:

<b>Valuation Joint Board Income &amp; Expenditure 2014/15</b>	<b>Orkney Islands Council £</b>	<b>Shetland Islands Council £</b>	<b>Total £</b>
<b>Expenditure</b>			
Employee costs	231,571	231,571	463,142
Property costs	19,457	11,035	30,492
Supplies & services	982	3,666	4,648
Transport costs	14,609	15,972	30,581
Administration costs	39,700	48,231	87,931
Payments to other bodies	1,046	1,241	2,287
<b>TOTAL EXPENDITURE</b>	<b>307,365</b>	<b>311,716</b>	<b>619,081</b>
<b>Income</b>			
Fees & charges	(13,767)	(15,138)	(28,905)
Specific grant income	(15,480)	(15,479)	(30,959)
<b>TOTAL INCOME</b>	<b>(29,247)</b>	<b>(30,617)</b>	<b>(59,864)</b>
<b>CONTRIBUTION BY AUTHORITIES</b>	<b>278,118</b>	<b>281,099</b>	<b>559,217</b>

<b>Valuation Joint Board Income &amp; Expenditure 2013/14</b>	<b>Orkney Islands Council £</b>	<b>Shetland Islands Council £</b>	<b>Total £</b>
<b>Expenditure</b>			
Employee costs	228,265	228,265	456,530
Property costs	21,463	12,103	33,566
Supplies & services	1,443	1,072	2,515
Transport costs	8,295	8,296	16,591
Administration costs	36,391	37,393	73,784
Payments to other bodies	1,949	2,261	4,210
<b>TOTAL EXPENDITURE</b>	<b>297,806</b>	<b>289,390</b>	<b>587,196</b>
<b>Income</b>			
Fees & charges	(15,614)	(15,596)	(31,210)
Specific grant income	(4,513)	(4,514)	(9,027)
<b>TOTAL INCOME</b>	<b>(20,127)</b>	<b>(20,110)</b>	<b>(40,237)</b>
<b>CONTRIBUTIONS BY AUTHORITIES</b>	<b>277,679</b>	<b>269,280</b>	<b>546,959</b>

## Note 12: Reconciliation of Contributing Authorities Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Contributing Authorities income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2013/14 £		2014/15 £
546,959	Net expenditure on Contributing Authorities analysis	559,217
95,722	Net expenditure of services and support services not included in the analysis	126,539
<b>642,681</b>	<b>Cost of services in Comprehensive Income and Expenditure Statement</b>	<b>685,756</b>

## Note 13: External Audit Costs

2013/14 £		2014/15 £
7,020	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	7,230
<b>7,020</b>	<b>Total</b>	<b>7,230</b>

## Note 14: Grant and Other Income

2013/14 £		2014/15 £
11,210	Sales, fees and charges	3,905
9,027	Specific Grant Income	30,959
20,000	Asset valuation service to Orkney Islands Council	25,000
<b>40,237</b>	<b>Total</b>	<b>59,864</b>

## Note 15: Related Parties

The Valuation Joint Board's related parties are those bodies or individuals that have the potential to control or significantly influence the Joint Board, or to be controlled or significantly influenced by the Joint Board. The Joint 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.

The member authorities of the Valuation Joint Board have contributed requisitions in the following proportions to enable the Valuation Joint Board to carry out its objectives. The Valuation Joint Board in turn pays Shetland Islands Council for property and support services. The amount paid in respect of these services for the year ended 31 March 2015 was £11,000 and £7,944 (2013/14 £11,300 and £6,989). The Valuation Joint Board pays Orkney Islands Council for property services £15,122 (2013/14 £15,199) and in turn

Orkney Islands Council pays the Valuation Joint Board for valuation service. The amount for 2014/15 was £25,000 (2013/14 £20,000).

2013/14 £			2014/15 £
	<b>Council</b>		
277,679	Orkney Islands Council	49.7%	278,118
269,280	Shetland Islands Council	50.3%	281,099
<b>546,959</b>	<b>Total</b>	<b>100.0%</b>	<b>559,217</b>

### Note 16: Operating Leases

The Board leases a property in Orkney from the Orkney Islands Council. This lease is due to expire in 2017.

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

2013/14 £		2014/15 £
12,000	Not later than one year	12,000
27,000	Later than one year and less than five years	15,000
<b>39,000</b>		<b>27,000</b>

The expenditure charge to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2013/14 £		2014/15 £
12,000	Minimum lease payments	12,000
<b>12,000</b>		<b>12,000</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.

### Note 17: Retirement Benefits

The Local Government Pension Scheme, administered locally by Shetland Islands Council, is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The pensions accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service.)

There is no automatic entitlement to a lump sum in respect of Post 2009 service. Members may however opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The scheme's normal retirement age is 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

Shetland Islands Council Pension Fund 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 Consultative Panel of Shetland Islands Council. The Panel comprises of elected members of Shetland Islands Council along with employee and employer representatives and a pension/deferred member representative.

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 Fund's Consultative Panel. Shetland Islands Council selects and appoints a number of external investment managers/partners and 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 the accounting policies note.

### **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 Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement during the year:

## Note 17a: Transactions relating to post-employment benefits

2013/14 £	Local Government Pension Scheme	2014/15 £
	<b>Comprehensive Income and Expenditure Statement</b>	
	<b>Cost of Services:</b>	
89,000	Current service cost	99,000
0	Past service cost (including curtailments)	0
	<b>Financing and Investment Income and Expenditure:</b>	
59,000	Net Interest Expense	63,000
<b>148,000</b>	<b>Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>162,000</b>
	<b>Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	
(51,000)	Return on plan assets (excluding the amount included in the net interest expense)	(214,000)
0	Actuarial (gains) and losses arising on changes in demographic assumptions	(53,000)
144,000	Actuarial (gains) and losses arising on changes in financial assumptions	444,000
(1,000)	Actuarial (gains) and losses arising from other experience	2,000
<b>240,000</b>	<b>Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>341,000</b>
	<b>Movement in Reserves Statement</b>	
240,000	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	341,000
	<b>Actual amount charged against the General Fund balance for pensions in the year:</b>	
<b>(97,000)</b>	<b>Employers' contributions and direct payments to pensioners payable in the year</b>	<b>(97,000)</b>

The amount included in the Balance Sheet arising from the schemes obligation in respect of the pension fund is as follows:

	2013/14 £	2014/15 £
Present value of the defined benefit obligation	(3,880,000)	(4,482,000)
Fair value of assets in the Local Government Pension Scheme	2,414,000	2,772,000
<b>Net liability arising from Defined Benefit Obligation</b>	<b>(1,466,000)</b>	<b>(1,710,000)</b>
Local Government Pension Scheme	(1,441,000)	(1,686,000)
Unfunded liabilities for Pension Fund	(25,000)	(24,000)
<b>Total</b>	<b>(1,466,000)</b>	<b>(1,710,000)</b>

## Note 17b: Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of fair value of the scheme assets:

2013/14 £		2014/15 £
2,214,000	<b>Opening balance at 1 April</b>	2,414,000
101,000	Interest income	105,000
	<b>Re-measurement gains and (losses)</b>	
51,000	Return on assets excluding amounts included in net interest	214,000
97,000	Employer contributions	97,000
23,000	Contributions by scheme participants	23,000
(72,000)	Benefits paid	(81,000)
<b>2,414,000</b>	<b>Closing balance at 31 March</b>	<b>2,772,000</b>

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2013/14 £		2014/15 £
3,537,000	<b>Opening balance at 1 April</b>	3,880,000
89,000	Current service cost	99,000
160,000	Interest Cost	168,000
23,000	Contributions by scheme participants	23,000
	<b>Remeasurement (gains) and losses:</b>	
0	Actuarial (gains) and losses from changes in demographic assumptions	(53,000)
144,000	Actuarial (gains) and losses from changes in financial assumptions	444,000
(1,000)	Actuarial (gains) and losses from other experience	2,000
(72,000)	Benefits paid	(81,000)
0	Past service costs including curtailments	
<b>3,880,000</b>	<b>Closing balance at 31 March</b>	<b>4,482,000</b>

## Note 17c: Analysis of Pension Fund's Assets

The Valuation Joint Board's share of the Pension Funds assets at 31 March 2015 comprised:

2013/14		2014/15
£	Quoted Prices not in Active Markets	£
89,000	Cash and cash equivalents	0
	Property:	
140,000	UK Property	269,000
23,000	Overseas Property	18,000
<b>163,000</b>	<b>Sub-total Property</b>	<b>287,000</b>
	Investment Funds and Unit Trusts:	
1,962,000	Equities	1,678,000
200,000	Bonds	268,000
0	Other	539,000
<b>2,162,000</b>	<b>Sub-total Investment Funds and Unit Trusts</b>	<b>2,485,000</b>
<b>2,414,000</b>	<b>Total Assets</b>	<b>2,772,000</b>

## Note 17d: Basis for estimating assets & liabilities

The Valuation Joint 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. The Scheme's liabilities have been assessed by Hymans Robertson, an independent firm of Actuaries, and the estimates are based on the latest full valuation of the Fund at 31 March 2014.

The principal assumptions used by the actuary have been:

2013/14		2014/15
	<b>Long-term expected rate of return on assets in the scheme:</b>	
4.3%	Investment Funds and Unit Trusts	3.2%
	<b>Mortality Assumptions:</b>	
	Longevity at 65 for current pensioners (in years):	
23.0	Men	22.8
25.8	Women	23.8
	Longevity at 65 for future pensioners (in years):	
24.9	Men	24.9
27.7	Women	26.7
3.6%	Rate of inflation	2.8%
5.1%	Rate of increase in salaries	4.3%
2.8%	Rate of increase in pensions	2.4%
4.3%	Rate for discounting scheme liabilities	3.2%
70.0%	Take-up of option to convert annual pension into retirement lump sum	70.0%

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 assumption analysed changes, while all the

other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. 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.

<b>Change in assumptions as at 31 March 2015</b>	<b>Approximate increase to employer liability</b>	<b>Approximate monetary amount</b>
	<b>%</b>	<b>£</b>
0.5% decrease in Real Discount Rate	10%	439,000
1 year increase in member life expectancy	3%	134,000
0.5% increase in the Salary Increase Rate	3%	140,000
0.5% increase in the Pension Increase Rate	6%	288,000

Shetland Islands Council does not have an asset and liability matching strategy (ALM).

### **Impact on the Authority's Cash Flows**

The objectives of the scheme are to keep employers' contributions rate as constant as possible. The Fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's common contribution rate has been set at 20.7% for 2015-16. The next three years will be set following completion of the triennial valuation as at 31 March 2017.

The Fund will need to take account of impending national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to a new career average revalued earning scheme (CARE) for future accruals.

The total contributions expected to be made by the Board to the Pension Fund in the year to 31 March 2016 is £0.113m.

The weighted average duration of the defined benefit obligation for scheme members is 17.1 years for 2014/15.

## **Independent Auditor's Report**

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

I certify that I have audited the financial statements of Orkney and Shetland Valuation Joint Board for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and the related notes. 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 2014/15 (the 2014/15 Code).

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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of affairs of the body as at 31 March 2015 and of the income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 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.

## Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.



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28 September 2015