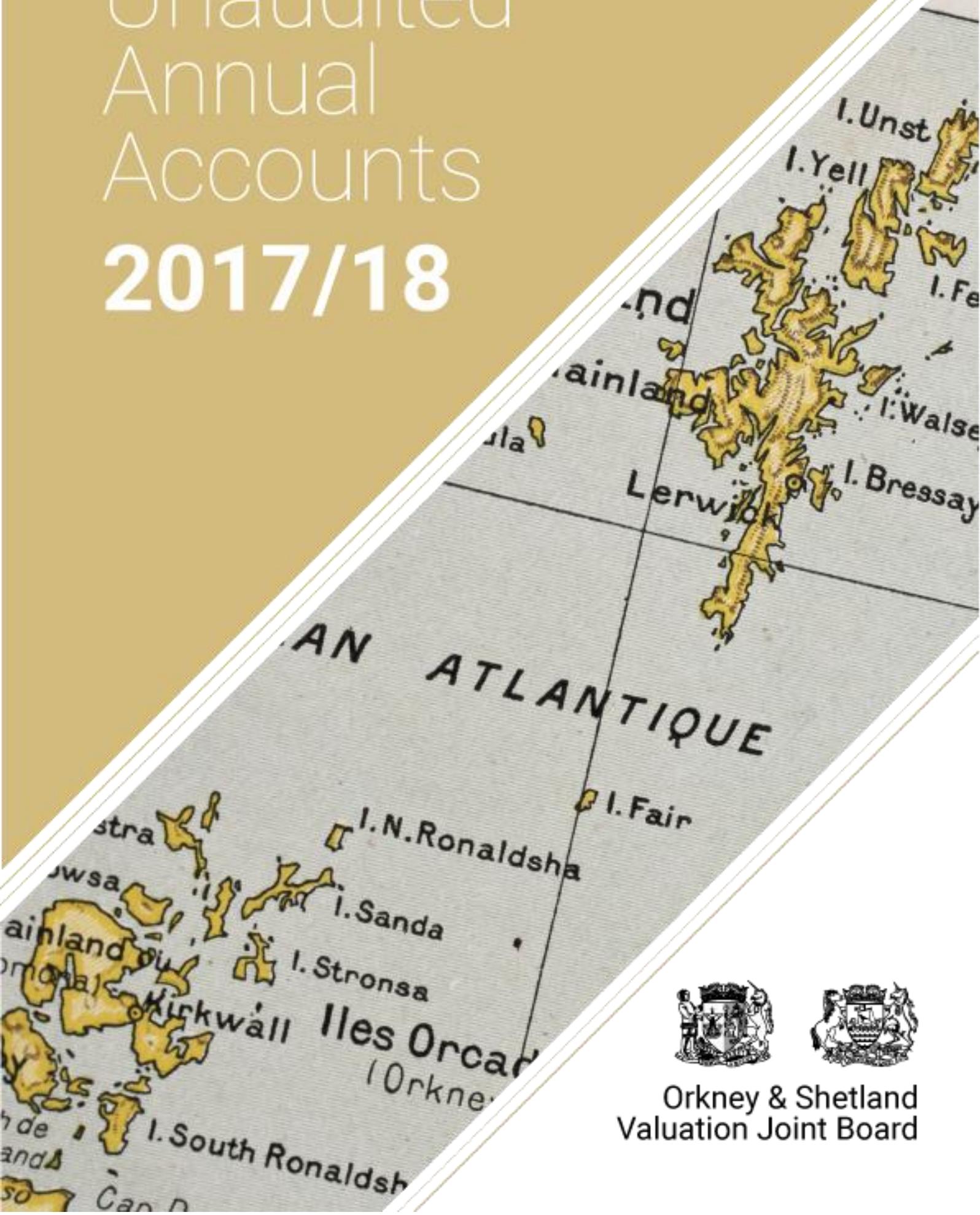


Unaudited Annual Accounts **2017/18**



Orkney & Shetland
Valuation Joint Board

Contents

Management Commentary	1
Annual Governance Statement.....	5
Remuneration Report	8
Statement of Responsibilities for the Annual Accounts	11
Primary Financial Statements	12
Comprehensive Income and Expenditure Statement for the year ended 31 March 2018.....	12
Movement in Reserves Statement.....	13
Balance Sheet as at 31 March 2018.....	14
Notes to the Financial Statements	15
Note 1: Expenditure and Funding Analysis	15
Note 2: Accounting Standards Issued not Adopted.....	16
Note 3: Assumptions made about the future and other major sources of estimation uncertainty	16
Note 4: Adjustments between Accounting Basis and Funding Basis under regulations.....	17
Note 5: Specific Grant Income	18
Note 6: Short-term Debtors.....	18
Note 7: Short-term Creditors.....	18
Note 8: Unusable Reserves	18
Note 9: Events after the Reporting Period	19
Note 10: External Audit costs.....	19
Note 11: Related Parties.....	19
Note 12: Operating Leases	19
Note 13: Retirement Benefits.....	20
Note 14: Accounting Policies	24

Management Commentary

The purpose of the Management Commentary is to help all users of the accounts to assess how the Orkney and Shetland Valuation Joint Board ("the Board") has performed during 2017/18 and understand the year-end financial position as at 31 March 2018. In addition, it provides a narrative on the financial outlook for the Board during financial year 2017/18 and beyond.

Introduction

The Board exists 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, 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.

There are 14 Assessors in Scotland, four are appointed directly by a single Council and the remaining 10 are appointed by Valuation Joint Boards comprising elected members appointed by two or more Councils. Where a Valuation Joint Board exists, all the duties, powers and responsibilities of the constituent Councils as Valuation Authorities are delegated to the Board. An Assessor is therefore 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 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.

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 and alternative arrangements have been established to address the resulting capacity gap.

Copies of the minutes of meetings and audited accounts of the Board can be obtained by emailing assessor@shetland.gov.uk. Alternatively, they can also be found on the Board's website: 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 (OIC) and Shetland Islands Council (SIC) and draws its membership from them, each nominating five councillors to serve on the Board.

Local Government elections were held in May 2017 and the Board members are now 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

The Board composition prior to the election was:

Members:

Orkney Islands Council	Shetland Islands Council
H Johnston (Vice Convener)	D Ratter (Convener)
S Clackson	F Robertson
A Drever	G Smith
J Moar	T Smith
D Tullock	M Stout

Substitute Members:

Orkney Islands Council	Shetland Islands Council
W L Manson	M Bell
G Shearer	A Cooper
	S Coutts
	A Duncan
	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 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 at: (<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 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 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

2017/18 was another busy year for the Board and its employees involving local elections, a snap Parliamentary General Election in close succession, an annual electoral canvass and the completion of the 2017 rating revaluation in addition to ongoing valuation duties.

Individual Electoral Registration (IER) continues to be a demand on resources. Funding from the

Cabinet Office was received in 2017/18 with assurance that this will continue until 2020.

The Land Reform (Scotland) Act 2016 re-introduced shooting rights into the Valuation Roll with effect from 1 April 2017 which proved a significant demand on resources resulting in 666 additional entries being made in the combined Valuation Rolls of Orkney and Shetland.

Work on the 5-year programme to update the asset register on behalf of OIC was completed in May 2016. Work began in 2017 on a refresh of the programme.

Key performance indicators are published on the Board's website; for 2017/18 they show:

Council Tax List	2017/18	
	Target %	Actual %
% entered in List within 3 months of occupation	87.00	87.34
% entered in List within 6 months of occupation	96.00	99.33
% entered in List more than 6 months after occupation	<4.00	0.67
Valuation Roll		
% entered in Roll within 3 months of effective date	75.00	85.25
% entered in Roll within 6 months of effective date	90.00	92.14
% entered in Roll more than 6 months after effective date	<10.00	7.86
Total Reduction on appeal	1.00	0.03

Performance targets have been more than achieved during 2017/18 despite the extra work created by local elections and a Parliamentary General Election, the extra workloads under Individual Electoral Registration, the Assistant Assessor's post remaining vacant and the extra workload of the 2017 Revaluation and shooting rights entries. Temporary valuation cover is being provided to the Board by the employment of a Consultant Valuer.

Further information on performance can be obtained at www.orkney-shetland-vjb.co.uk/.

Primary Financial Statements

The Annual Accounts summarise the Board's transactions for the year and its year-end position at 31 March 2018. 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 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 2018 of £100 represents petty cash held by officers of the Board.

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 OIC and SIC. The Board meets several times a year, with its budget meeting taking place in January or February. The Board's budget is its prime annual planning document and actual expenditure is monitored against it during the year.

The CIES presents the full economic cost of providing the Board's services in 2017/18. This differs from the budgeted outturn position shown in the table below 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 £617k, which is disclosed on the CIES, has been reconciled to the outturn used for management decision making of £598k within Note 1: Expenditure and Funding Analysis, on page 15.

Expenditure (net of income from fees and charges) that is funded from central government and Orkney and Shetland Islands Councils in 2017/18 is summarised in the following table:

	2017/18		
	Budget £	Actual £	Variance £
Expenditure:			
Employee Costs	563,725	486,716	77,009
Operating Costs	177,088	190,551	(13,463)
Income:			
Fees and Charges	(33,400)	(33,263)	(137)
Specific Grant Income	(55,001)	(45,790)	(9,211)
Net Expenditure	652,412	598,214	54,198

Overall in 2017/18, the Board underspent against its budget. There was an underspend of £77k 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 £38k was spent on external consultants; this was offset by underspends on travel and other administration costs of £25k. Additionally, £9k of budgeted funding to cover Householder Enquiry forms was withdrawn by the Cabinet Office.

The Balance Sheet as at 31 March 2018

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 2018 to that of the prior year, an overall increase in net worth of the organisation of £119k can be seen.

This has been driven by a decrease in pension liabilities that represent a long-term commitment for the Board and do not require to be met in any single year. The decrease results from updated pension assumptions which interact in complex ways. For example, an increase in the net discount rate has the effect of decreasing pension liabilities, as a lower value is placed on benefits paid in the future.

Pension Liability

In order to comply with International Accounting Standard (IAS) 19 - Employee Benefits, a valuation of the SIC Pension Fund was made by the Fund Actuary as at 31 March 2018. This indicated a net pension liability for the Board of £1.933m compared to a net pension liability of £2.051m as at 31 March 2017.

The movement in the year is influenced by actuarial assumptions and changes to these assumptions have reduced the valuation as at 31 March 2018. 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.

The Board Outlook

Looking forward, the approved 2018/19 budget for the Board has been set at £659k, which is an increase of £7k (1.1%) on the 2017/18 budget.

The Board has accepted that a Best Value Review would not take place and agreed an alternative revised staffing structure proposed by the Assessor & ERO at the Board's full meeting on 17 February 2017.

Consideration is to be given on a suitable 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 new obligation.

In 2017/18 the Barclay Review published a number of recommendations in relation to Non-Domestic Rates and while all these have not yet been implemented it is anticipated that there will be workload and financial impact on the Board, should they all be implemented in the future. The Board has been updated on the potential implications and will need to monitor the situation as further responses are made by the Scottish Government.

The operational impact of new General Data Protection Regulations (GDPR) that came into force on 25 May 2018 is not yet fully known, but may be resource intensive due to the volume of personal data held and processed under the three statutory functions.

Acknowledgements

Finally, we would like to acknowledge all the hard work of the officers in both Shetland and Orkney Islands Councils and to 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 June 2018

.....
Jonathan Belford
Executive Manager - Finance
Shetland Islands Council
26 June 2018

.....
Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
26 June 2018

Annual Governance Statement

Scope of Responsibility

The Orkney and Shetland Valuation Joint Board 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 establishing 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 2017/18 when the Board was carrying out its business.

The key elements of the systems and processes that comprise the Board's governance arrangements are summarised in the following six principles:

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 and referendums.

The Assessor and Electoral Registration Officer (ERO) is a member of the Scottish Assessors Association (SAA) 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 at least 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 presented to the Board at least twice a year.

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 and ethics regime set by the RICS.

There were no recorded breaches of codes of conduct by officials or members during the 2017/18 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 has undertaken to annually review 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 members and 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 to the governance requirements in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Review of Effectiveness

The 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 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 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.

The Board agreed in February 2017 to seek the recruitment of the Assistant Assessor post that has been vacant for two years. Successful recruitment to this post would strengthen management resilience and capacity, which will support strong governance. The recruitment process was again unsuccessful and therefore the Board has retained the services of an experienced consultant valuer to strengthen management resilience and capacity. The Board keeps the situation under constant review and the Assessor and ERO will report on options in 2018/19.

There are no other significant governance issues to report.

Certification

The Governance Framework has been in place for the financial year ended 31 March 2018 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 2017/18 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 June 2018



.....
 Dennis M Stevenson
 Assessor and Electoral Registration Officer
 Orkney & Shetland Valuation Joint Board
 26 June 2018

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. 2017/66 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. No payment is made to Harvey Johnston, since when he was Vice-Convener (up to 3 May 2017), he was in receipt of remuneration for another Senior Councillor post at Orkney Islands Council.

Disclosure of remuneration for Senior Councillors

Name	Designation	2017/18			2016/17
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Andrew Drever	Convener (from 31 May 2017)	3,357	0	3,357	0
Theo Smith	Vice-Convener (from 1 June 2017)	2,612	415	3,027	0
Drew Ratter	Convener (to 3 May 2017)	382	47	429	4,225

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.

Disclosure of remuneration for Senior Employees

Name	Designation	2017/18			2016/17
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Dennis M Stevenson	Assessor & Electoral Registration Officer	69,090	15	69,105	66,992

General Disclosure of Pay Band

Remuneration Bands	Number of Employees	
	2017/18	2016/17
£50,000 - £54,999	0	0
£55,000 - £59,999	0	0
£60,000 - £64,999	0	0
£65,000 - £69,999	1	1

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 2018 £	Year ending 31 March 2017 £
Andrew Drever	Convener (from 31 May 2017)	644	0
Theo Smith	Vice-Convener (from 1 June 2017)	543	0
Drew Ratter	Convener (to 3 May 2017)	79	837

As no remuneration was payable to Harvey Johnston when Vice-Convener (up to 3 May 2017), there is no corresponding pension employer contribution.

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 related 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 now 65.

From 1 April 2009 a five-tier contribution system was introduced, with contributions from scheme members 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 are as follows:	2017/18
On earnings up to and including £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	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 up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a

lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The 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.

Pension benefits – Senior Employees

Name and Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits		
	Year ending 31 March 2018 £	Year ending 31 March 2017 £		As at 31 March 2018 £	As at 31 March 2017 £	Increase / (Decrease) £
Dennis M Stevenson - Assessor & Electoral Registration Officer	23,352	22,617	Pension	30,104	27,648	2,456
			Lump Sum	56,950	55,154	1,796

.....
 Andrew Drever
 Convener
 Orkney & Shetland Valuation Joint Board
 26 June 2018

.....
 Dennis M Stevenson
 Assessor and Electoral Registration Officer
 Orkney & Shetland Valuation Joint Board
 26 June 2018

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 June 2018.

Signed on behalf of the Valuation Joint Board.



.....
Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
26 June 2018

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 and Shetland Valuation Joint Board at the reporting date and the transactions of the Board for the year ended 31 March 2018.



.....
Jonathan Belford
Executive Manager - Finance
Shetland Islands Council
26 June 2018

Primary Financial Statements

Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

The CIES 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.

2016/17 (restated) £	Note	Orkney Islands Council £	Shetland Islands Council £	2017/18 £
467,486	Employee Costs	252,792	252,792	505,584
32,702	Property Costs	19,160	11,197	30,357
1,790	Supplies and Services	21,340	19,609	40,949
21,678	Transport Costs	10,648	10,648	21,296
120,438	Administration Costs	47,393	46,286	93,679
5,509	Payments to Other Bodies	2,010	2,260	4,270
(27,624)	Sales, Fees and Charges	(16,654)	(16,609)	(33,263)
(63,174)	Specific Grant Income	(23,648)	(22,142)	(45,790)
558,805	Cost of Services	313,041	304,041	617,082
	Financing and Investment Income and Expenditure			
50,000	Pension Interest Cost and Expected Return on Pension Assets			54,000
	Taxation and non-specific grant income			
(577,765)	Requisitions from Member Authorities	(303,803)	(294,411)	(598,214)
31,040	Deficit on the Provision of Services			72,868
571,000	Actuarial (gains)/losses on pension assets/liabilities			(192,000)
602,040	Total Comprehensive Income and Expenditure			(119,132)

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 £
Balance at 1 April 2017	0	2,051,000	5,167	2,056,167	2,056,167
Movement in reserves during the year					
Total comprehensive income and expenditure	72,868	(192,000)	0	(192,000)	(119,132)
Adjustments between accounting basis & funding basis per regulations	(72,868)	74,000	(1,132)	72,868	0
(Increase)/Decrease in year	0	(118,000)	(1,132)	(119,132)	(119,132)
Balance at 31 March 2018	0	1,933,000	4,035	1,937,035	1,937,035

Comparative movements in 2016/17	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
Balance at 31 March 2016	0	1,403,000	10,127	1,413,127	1,413,127
Restatement of opening balance	0	41,000	0	41,000	41,000
Balance at 1 April 2016	0	1,444,000	10,127	1,454,127	1,454,127
Movement in reserves during the year					
Total comprehensive income and expenditure	31,040	571,000	0	571,000	602,040
Adjustments between accounting basis & funding basis per regulations	(31,040)	36,000	(4,960)	31,040	0
(Increase)/Decrease in year	0	607,000	(4,960)	602,040	602,040
Balance at 31 March 2017	0	2,051,000	5,167	2,056,167	2,056,167

Balance Sheet as at 31 March 2018

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

As at 31 March 2017 (restated) £	Note	As at 31 March 2018 £
	Long-Term Assets	
0	Other Long-term Debtors	232
0		232
	Current Assets	
42,990	Short-term Debtors	46,602
209	Cash in hand	100
43,199		46,702
	Less Current Liabilities	
(48,366)	Short-term Creditors	(50,969)
(5,167)	Net Assets excluding Pension Liability	(4,035)
(2,051,000)	Pension Liability	(1,933,000)
(2,056,167)	Net Liabilities including Pension Liability	(1,937,035)
	Represented by	
5,167	Employee Benefits Reserve	4,035
2,051,000	Pension Reserve	1,933,000
2,056,167		1,937,035



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Jonathan Belford
Executive Manager - Finance
Shetland Islands Council
26 June 2018

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.

2017/18	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	486,716	20,000	(1,132)	505,584
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)
Net Cost of Services	598,214	20,000	(1,132)	617,082
Other Income and Expenditure:				
Requisitions from Member Authorities	(598,214)	0	0	(598,214)
Net Interest Expense	0	54,000	0	54,000
(Surplus) or Deficit	0	74,000	(1,132)	72,868

2016/17 (restated)	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	486,446	(14,000)	(4,960)	467,486
Property Costs	32,702	0	0	32,702
Supplies and Services	1,790	0	0	1,790
Transport Costs	21,677	0	0	21,678
Administration Costs	120,439	0	0	120,438
Payments to Other Bodies	5,509	0	0	5,509
Sales, Fees and Charges	(27,624)	0	0	(27,624)
Specific Grant Income	(63,174)	0	0	(63,174)
Net Cost of Services	577,765	(14,000)	(4,960)	558,805
Other Income and Expenditure:				
Requisitions from Member Authorities	(577,765)	0	0	(577,765)
Net Interest Expense	0	50,000	0	50,000
(Surplus) or Deficit	0	36,000	(4,960)	31,040

Note 2: 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 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 requires implementation in the accounts from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements, neither will there be retrospective restatement of the 2017/18 year in next year's accounts upon implementation of the two new standards. Instead, opening balances at 1 April 2018 will be adjusted. There is not expected to be any significant impact on the Board.

Note 3: Assumptions made about the future and other major sources of estimation uncertainty

The annual accounts 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year as shown in the following table:

Pensions Liability
Uncertainties
<p>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.</p>
Effect if actual results differ from assumptions
<p>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 £480k in the pension liability; equating to a 9% increase.</p>

Note 4: 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.

2017/18	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (note 14)	(191,000)	191,000
Employer's pension contributions and direct payments to pensioners payable in the year	117,000	(117,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,132	(1,132)
Total Adjustments	(72,868)	72,868

2016/17 (restated)	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (note 14)	(152,000)	152,000
Employer's pension contributions and direct payments to pensioners payable in the year	116,000	(116,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4,960	(4,960)
Total Adjustments	(31,040)	31,040

Note 5: Specific Grant Income

2016/17 £		2017/18 £
(54,959)	Cabinet Office - Individual Electoral	(45,790)
(6,094)	Cabinet Office - EU Referendum	0
(2,121)	Scottish Government - Young Persons	0
(63,174)	Total	(45,790)

Note 6: Short-term Debtors

As at 31 March 2017 £		As at 31 March 2018 £
37,118	Central Government Bodies	0
3,187	Other Local Authorities	41,256
2,685	Other Entities and Individuals	5,346
42,990	Total	46,602

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 benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

As at 31 March 2017 (restated) £		As at 31 March 2018 £
1,444,000	Balance at 1 April	2,051,000
571,000	Actuarial (gains)/losses on pensions assets and liabilities	(192,000)
152,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	191,000
(116,000)	Employer's pensions contributions and direct payments to pensioners payable in the year	(117,000)
2,051,000	Balance at 31 March	1,933,000

Note 7: Short-term Creditors

As at 31 March 2017 £		As at 31 March 2018 £
(32,902)	Other Local Authorities	(34,202)
(10,209)	Other Entities and Individuals	(11,740)
(5,255)	Public Corporations and Trading Funds	(5,027)
(48,366)	Total	(50,969)

Note 8: Unusable Reserves

As at 31 March 2017 (restated) £		As at 31 March 2018 £
2,051,000	Pension Reserve	1,933,000
5,167	Employee Benefits Reserve	4,035
2,056,167	Total	1,937,035

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 2017 £		As at 31 March 2018 £
(10,127)	Balance at 1 April	(5,167)
10,127	Settlement or cancellation of accrual made at the end of the preceding year	5,167
	Amounts accrued at the end of the current year:	
(5,167)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,035)
(5,167)	Balance at 31 March	(4,035)

Note 9: Events after the Reporting Period

The audited accounts were approved for issue on 26 June 2018. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in these accounts have been adjusted in all material respects to reflect this information. Events taking place after this date are not reflected in the financial statements or notes.

Note 10: External Audit costs

2016/17 £		2017/18 £
7,578	Fees payable with regard to external audit services carried out by the appointed auditor	7,387
7,578	Total	7,387

Note 11: 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: 51% (£303,803)
- Shetland Islands Council: 49% (£294,411)

The Board in turn pays Shetland Islands Council for property and support services. The amount paid in relation to these services for the year ended 31 March 2018 was £11,000 and £15,079 (2016/17 £11,000 and £12,000) respectively.

The Board paid Orkney Islands Council £16,910 for the year ended 31 March 2018 in respect of property services (2016/17 £17,898) and in turn Orkney Islands Council paid the Board for valuation services, amounting to £30,000 (2016/17 £25,000) for 2017/18.

Note 12: Operating Leases

The Board leases a property in Orkney from Orkney Islands Council. This lease has been renewed for three years and is due to expire in June 2021.

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

2016/17 £		2017/18 £
12,951	Not later than one year	13,200
2,821	Later than one year and less than five years	29,229
15,772	Total	42,429

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

2016/17 £		2017/18 £
12,000	Minimum lease payments	12,943
12,000	Total	12,943

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 13: Retirement Benefits

The Local Government Pension Scheme, administered locally by Shetland Islands Council, is a funded defined benefit career average related earnings 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. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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 now linked to the state pension age, with the minimum age now 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.

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

2016/17 (restated) £		2017/18 £
(5,257,000)	Present value of the defined benefit obligation	(5,160,000)
3,206,000	Fair value of assets in the Local Government Pension Scheme	3,227,000
(2,051,000)	Net liability arising from Defined Benefit Obligation	(1,933,000)
(1,995,000)	Local Government Pension Scheme	(1,878,000)
(56,000)	Unfunded liabilities for Pension Fund	(55,000)
(2,051,000)	Total Pension Reserve	(1,933,000)

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 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 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 CIES via the Movement in Reserves Statement during the year:

2016/17 (restated) £	Local Government Pension Scheme	2017/18 £
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
102,000	Current service cost	137,000
0	Past service cost (including curtailments)	0
	Financing and Investment Income and Expenditure:	
50,000	Net interest expense	54,000
152,000	Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	191,000
	Other Post-Employment Benefit Charged to the CIES	
(416,000)	Return on plan assets (excluding the amount included in the net interest expense)	75,000
0	Actuarial (gains) and losses arising on changes in demographic assumptions	8,000
985,000	Actuarial (gains) and losses arising on changes in financial assumptions	(396,000)
2,000	Actuarial (gains) and losses arising from other experience	121,000
723,000	Total Post-Employment Benefit Charged to the CIES	(1,000)
	Movement in Reserves Statement	
152,000	Reversal of items relating to retirement benefits debited or credited to the CIES	191,000
	Actual amount charged against the General Fund balance for pensions in the year:	
(116,000)	Employers' contributions and direct payments to pensioners payable in the year	(117,000)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of fair value of the scheme assets:

2016/17 (restated) £		2017/18 £
2,670,000	Opening balance at 1 April	3,206,000
94,000	Interest income	83,000
	Re-measurement gains and (losses)	
416,000	Return on assets excluding amounts included in net interest	(75,000)
116,000	Employer contributions	117,000
23,000	Contributions by scheme participants	22,000
(113,000)	Benefits paid	(126,000)
3,206,000	Closing balance at 31 March	3,227,000

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

2016/17 (restated) £		2017/18 £
4,114,000	Opening balance at 1 April	5,257,000
102,000	Current service cost	137,000
144,000	Interest cost	137,000
23,000	Contributions by scheme participants	22,000
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	8,000
985,000	Actuarial (gains) and losses from changes in financial assumptions	(396,000)
2,000	Actuarial (gains) and losses from other experience	121,000
(113,000)	Benefits paid	(126,000)
5,257,000	Closing balance at 31 March	5,160,000

Analysis of Pension Fund's Assets

The Board's share of the Pension Fund's assets at 31 March 2018 comprised:

2016/17 (restated) £		2017/18 £
	Quoted prices in active markets:	
0	Cash and Cash Equivalents (Liquidity Fund)	16,100
	Quoted prices not in active markets:	
13,000	Cash and Cash Equivalents (Bank)	0
	<i>Property:</i>	
334,000	UK Property	375,300
10,400	Overseas Property	3,500
344,400	Sub-total Property	378,800
	<i>Investment Funds and Unit Trusts:</i>	
2,022,600	Equities	2,027,500
278,200	Bonds	275,300
547,800	Other	529,300
2,848,600	Sub-total Investment Funds and Unit Trusts	2,832,100
3,206,000	Total Assets	3,227,000

Basis for Estimating Assets & Liabilities

The Board's share of the liabilities of Shetland Islands Council Pension Fund have been assessed on an actuarial basis using the projected unit credit method: an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The Scheme's 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 2018.

The principal assumptions used by the actuary were:

2016/17 (restated)		2017/18
	Long-term expected rate of return on assets in the Scheme:	
2.93%	Investment Funds and Unit Trusts	2.57%
	Mortality Assumptions:	
	<i>Longevity at 65 for current pensioners (in years):</i>	
22.8	Men	22.1
23.8	Women	24.0
	<i>Longevity at 65 for future pensioners (in years):</i>	
24.9	Men	23.9
26.7	Women	26.1
3.40%	Rate of inflation	3.40%
4.40%	Rate of increase in salaries	3.02%
2.40%	Rate of increase in pensions	2.40%
2.60%	Rate for discounting scheme liabilities	2.70%
70.00%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.00%
85.00%	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 2018	Approximate increase to employer liability %	Approximate monetary amount £
0.5% decrease in Real Discount Rate	9%	480,000
0.5% increase in the Salary Increase Rate	2%	103,000
0.5% increase in the Pension Increase Rate	7%	369,000

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

Impact on the Authority'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 a new Career Average Revalued Earning scheme (CARE) for future accruals.

Employer's contributions have been set at 33.8% for 2017/18. 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 2019 is £0.104m.

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

Note 14: Accounting Policies

A General principles

The annual accounts summarise the Board's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the annual accounts is principally historical cost, modified by the valuation of pension assets and liabilities where appropriate. The annual accounts 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 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;
- 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;
- 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.

C Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made only when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

D 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 (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 entitlement arises.

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, projections of earnings for current employees, etc.

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; and
- Unitised securities – current bid price.

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.

E 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.

F Leases

Operating Leases - Board as Lessee: rentals paid under operating leases are charged to the CIES as an expense of the services benefiting 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).

G 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.

H 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 annual accounts 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 annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period, whereby the annual accounts 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 annual accounts.

I 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.