



Orkney & Shetland Valuation Joint Board



Governance and Law
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If calling please ask for
Louise Adamson
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Date: 23 September 2020

Dear Sir/Madam

You are invited to the following meeting:

Special Orkney and Shetland Valuation Joint Board
Remote via MS Teams
Monday 28 September 2020 at 3pm

Apologies for absence should be notified to Louise Adamson at the above number, or by e-mail to louise.adamson@shetland.gov.uk

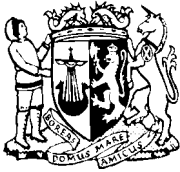
Yours faithfully

J R Riise
Clerk to the Board

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Confirm the minutes of the meeting held on 20 August 2020 (attached)

- 1 Management Accounts 2020/21 – Projected Outturn at Period 4
VF-007
- 2 Annual Audit Report on the 2019/20 Audit
VF-006
- 3 Appointment of Clerk and Treasurer to the Board
VGL-20-20



Orkney & Shetland Valuation Joint Board



(c)

Special Orkney and Shetland Valuation Joint Board
Remote – MS Teams
Thursday 20 August 2020 at 2pm

B - PUBLIC

Members:

Orkney

A Drever D Dawson
H Johnston J R Scott

Shetland

A Duncan J Fraser
R McGregor T Smith

Officers:

Orkney

J Mundell, Chief Executive, OIC
G Mitchell, Head of Legal Services, OIC
D Stevenson, Assessor and Electoral Registration Officer
G Waterson, Head of Finance Services, OIC

Shetland

M Sandison, Chief Executive, SIC
J Manson, Executive Manager – Finance, SIC
J Riise, Executive Manager – Governance and Law, SIC
M Gordon, Team Leader – HR Policy and Employment Support, SIC
L Adamson, Committee Officer, SIC

Also in Attendance:

R Docherty, Independent Consultant

Apologies:

A Cooper
G Smith

Chairperson

Mr Drever, Convener of the Board, chaired the meeting.

Circular

The circular calling the meeting was held as read.

The Chair welcomed Ms R Docherty, Independent Consultant, to the meeting.

Minutes

The Board confirmed the minutes of the meeting held on 16 July 2020 on the motion of Mr T Smith, seconded by Mr Dawson.

09/20 Appointment of Clerk and Treasurer

It was noted that a report would be presented for consideration at a future meeting of the Board.

Mr Drever moved, Mr T Smith seconded, and the Board resolved in terms of subsection 4 of Section 50A of the Local Government (Scotland) Act 1973 to exclude the public from this meeting during consideration of the following item of business on the grounds that it was likely that, if the public were present, there would be disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 7A to the said Act.

(The Assessor and Electoral Registration Officer left the meeting).

10/20 Independent Pay and Grading Model for the O&SVJB

The Board considered a report by the Team Leader, HR Policy and Employment Support (Team Leader – HR), SIC, which provided the Board with an initial report from the Independent Consultant who was engaged to explore the development of an independent pay and grading model for the O&SVJB.

The Team Leader – HR summarised the main terms of the report.

Ms Docherty, Independent Consultant, provided the Board with detail of her initial report, and proposals for moving forward.

During the discussion, Ms Docherty and officers answered various questions from Members.

After further discussion and debate, Mr T Smith moved, Mr Dawson seconded, and the Board RESOLVED to:

- develop a grading and pay model for the Board, and agreed to the further development work which will allow final proposals to be developed and costed and brought to a further meeting of the Board, in late October/November 2020; and
- agree proposals on timescales relating to the Depute Assessor post.

The meeting concluded at 3.30pm.

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Chair

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Orkney & Shetland Valuation Joint Board



Agenda Item

1

Meeting(s):	Orkney & Shetland Valuation Joint Board	28 September 2020
Report Title:	Management Accounts for Orkney and Shetland Valuation Joint Board 2020/21 – Projected Outturn at Period 4	
Reference Number:	VF-007-F	
Author / Job Title:	Jamie Manson, Acting Proper Officer for Finance	

1.0 Decisions / Action required:

- 1.1 That the Orkney and Shetland Valuation Joint Board (“the Board”) considers the Management Accounts showing the projected outturn position as at Period 4: the end of July 2020 (Appendix 1).

2.0 High Level Summary:

- 2.1 The report sets out the Board’s financial position as at the end of Period 4. This shows that expenditure on services is expected to be £758k against a budget of £809k; a projected outturn underspend of £51k.
- 2.2 This is largely due to underspends on employee costs owing to staff vacancies; see Appendix 1 for further detail.
- 2.3 The Scottish Government has allocated funding to meet the implementation costs of the Barclay Review recommendations; this is noted in paragraph 4.2 below.

3.0 Corporate Priorities and Joint Working:

- 3.1 Reduction in funding may impact on the Board’s ability to deliver service priorities. There is ongoing pressure on local authority funding and it is essential that the Board is able to plan and measure its outcomes and associated costs.

4.0 Key Issues:

- 4.1 On 12 March 2020 (O&SVJB Min Ref: 03/20), the Board approved the 2020/21 revenue budget with a net expenditure of £809k. It is vital to the economic wellbeing of the constituent authorities that the Board’s financial resources are managed effectively and that expenditure and income is delivered in line with the budget, as any overspends will result in a further draw on the resources of constituent authorities
- 4.2 On 6 February 2020, (Local Government Finance Circular No. 1/2020) the Scottish Government announced an indicative total allocation of £5.3 million for Barclay Review Implementation costs. A budget of £102k is included in the approved 2020/21 budget to cover these costs. As at Period 4, the projected outturn for Barclay is £97k with actual costs incurred £27k; see further detail in Appendix 1 .

- 4.3 Activity for the Board has been impacted by the need to respond to the COVID-19 pandemic, which has been different to the activity envisaged when setting the Board's budget in March 2020. Certain activities, those where physical visits or survey are required have reduced or been halted due to restrictions imposed by the UK Government and Scottish Government. The Board has however adapted to new ways of working to ensure the delivery of essential services continued throughout.

It is estimated that the financial impact of the pandemic will result in a net saving of £21k during 20/21, as detailed in the table below:

Income & Expenditure items	20/21 Core Outturn Saving/(Costs) £	20/21 Barclay Outturn Saving/(Costs) £	20/21 Total Outturn Savings/(Costs) £
Administration:			
Computer equipment	(3,000)	-	(3,000)
Subsistence	3,000	1,260	4,260
Transport & Mobile Plant:			
Mileage	4,641		4,641
Travel	11,900	3,000	14,900
Net COVID-19 impact	16,541	4,260	20,801

The net saving is included in the projected outturn underspend of £51k for the Board.

- 4.4 Recruitment to the Depute Assessor post is currently on hold in lieu of the outcome of the pay and grading review.

5.0 Exempt and/or confidential information:

- 5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	The vacant Depute Assessor post is currently being covered by consultancy services and extended duties of other staff. This is a temporary arrangement that is being managed within existing budgets and is subject to review by the Board.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	None arising from this report.
6.5 Finance:	The Board is wholly funded by its constituent authorities: Orkney Islands Council and Shetland Islands Council. The Board's projected outturn position at Period 4 was £758k against a budget of £809k, an outturn underspend of £51k. Of

	<p>this underspend £21k is attributable to the impact of the COVID-19 pandemic on the Board's activities.</p> <p>This results in a decreased requisition to each authority: Shetland Islands Council by £28k and Orkney Islands Council by £23k.</p>
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	<p>From a financial management perspective, risks are an integral part of future planning, as assumptions must be made. These can be affected by many internal and external factors, such as demand, which could have a significant financial impact.</p> <p>The Board maintains a Risk Register and its primary risk is a lack of sufficient funding that could result in the Board not meeting statutory duties.</p> <p>This report is part of the framework that provides assurance, or recognises any deviation from the budget that could put the Board in a financially challenging position and require remedial action.</p> <p>A net overspend would have an adverse impact on the budgets of both constituent authorities.</p>
6.10 Policy and Delegated Authority:	Overall stewardship of the Board's resources rests with the Orkney & Shetland Valuation Joint Board.
6.11 Previously considered by:	n/a

Contact Details:

Maria Forrester, Senior Assistant Accountant, Maria.Forrester@shetland.gov.uk,
07/09/2020

Appendices:

Appendix 1 – Revenue Outturn Position 2020/21 as at Period 4

Background Documents:

12 March 2020 – 2020/21 Budget Proposal – Orkney & Shetland Valuation Joint Board
6 February 2020 – Local Government Finance Circular No. 1/2020

Orkney and Shetland Valuation Joint Board

1. Revenue Outturn Position 2020/21 as at Period 4

Income & Expenditure Summary	20/21 Annual Budget £	20/21 Core Outturn at P4 £	20/21 Barclay Outturn at P4 £	20/21 Total Outturn at P4 £	Annual Budget v Outturn (Adv) / Pos £
EXPENDITURE:					
Basic Pay	434,182	334,628	42,101	376,729	57,453
Overtime	500	500	-	500	-
National Insurance	49,469	36,352	5,978	42,330	7,139
Pension Costs	123,905	96,685	11,885	108,570	15,335
Allowances	41,655	34,299	6,470	40,769	886
Liability Insurance	3,270	3,009	-	3,009	261
Employee Costs	652,981	505,473	66,434	571,907	81,074
Administration	108,436	80,667	27,760	108,427	9
Agency Payments	8,315	16,565	-	16,565	(8,250)
Property and Fixed Plant	32,475	32,475	-	32,475	-
Supplies and Services	1,950	43,950	-	43,950	(42,000)
Transport and Mobile Plant	29,630	7,089	3,000	10,089	19,541
Recharges for Shetland Islands Council	18,000	18,000	-	18,000	-
Operating Costs	198,806	198,746	30,760	229,506	(30,700)
TOTAL EXPENDITURE	851,787	704,219	97,194	801,413	50,374
INCOME:					
Sales/Agency Income	(43,200)	(43,200)	-	(43,200)	-
TOTAL INCOME	(43,200)	(43,200)	-	(43,200)	-
NET EXPENDITURE	808,587	661,019	97,194	758,213	50,374
CHARGE TO CONSTITUENT AUTHORITIES:					
Orkney Islands Council	(406,927)	(335,267)	(48,597)	(383,864)	(23,063)
Shetland Islands Council	(401,660)	(325,752)	(48,597)	(374,349)	(27,311)
TOTAL CHARGE TO CONSTITUENT AUTHORITIES	(808,587)	(661,019)	(97,194)	(758,213)	(50,374)

An explanation for the main variances for period 4 are set out below.

1.1 Basic Pay – projected outturn underspend £57,453

The projected outturn underspend predominately relates to an estimated 9 month vacancy of the Depute Assessor post of £49k. The remaining projected outturn underspend relates to two main items: a £6k projected saving due to a reduction of hours worked by a technician and part-time administrative assistant and a £2k projected saving due to progression of career grades not as anticipated.

1.2 Pension Costs – projected outturn underspend £15,335

The projected outturn underspend relates to the vacancy and staff savings noted in 1.1 above.

1.3 Agency Payments – projected outturn overspend (£8,250)

The projected outturn overspend relates to the unbudgeted costs for the pay and grading review consultancy (£7k) and a revised pension report from the Board's actuary for the 2019/20 accounts (£1k).

1.4 Supplies and Services – projected outturn overspend (£42,000)

The projected outturn overspend relates to the estimated full year use of a Consultant Valuer. This is to cover the estimated 9 month Depute Assessor vacancy and provide a suitable 3 month hand-over period (£42k).

1.5 Transport and Mobile Plant – projected outturn underspend £19,541

The projected outturn underspend is attributable to the impact of the COVID-19 pandemic. The Government imposed restrictions on travel and social distancing requirements have resulted in staff working from home, any training or meetings carried out online and physical survey or visits being limited. It is anticipated there will be savings of £15k on travel and £5k on mileage costs.

1.6 Charge to the Constituent Authorities – projected requisition underspend (£50,374)

The overall projected underspend equates to a reduction in requisition expected from the constituents authorities, for the reasons outlined above.



Orkney & Shetland Valuation Joint Board



Agenda Item

2

Meeting(s):	Orkney & Shetland Valuation Joint Board	28 September 2020
Report Title:	Annual Audit Report on the 2019/20 Audit – Orkney & Shetland Valuation Joint Board	
Reference Number:	VF-006-F	
Author / Job Title:	Jamie Manson, Proper Officer for Finance	

1.0 Decisions / Action required:

- 1.1 That the Orkney & Shetland Valuation Joint Board RESOLVES to:
- NOTE the findings of the 2019/20 audit as contained in the external auditor's Annual Report at Appendix 1;
 - APPROVE the agreed Action Plan as outlined in the Annual Report; and
 - APPROVE the audited Annual Accounts for 2019/20 (Appendix 2) for Orkney & Shetland Valuation Board for signature.

2.0 High Level Summary:

- The Local Authority Accounts (Scotland) Regulations 2014 ("the Regulations") require the Council to prepare and publish annual accounts that are subject to external audit. The Council's appointed external auditor is Deloitte LLP.
- Regulation 10 of the Regulations requires the Board to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- The Board approved its unaudited accounts for the year ending 31 March 2020 earlier this year, on 16 July 2020 (Min. Ref. 08/20). One adjustment was required that means the accounting deficit has decreased by £12k.
- Following the audit process, the external auditor has confirmed an unmodified audit opinion for the 2019/20 accounts. This means the annual accounts for 2019/20 are free from material misstatement and present a true and fair view of the Board's financial position as at 31 March 2020.
- In addition, the external auditor expanded the scope of the audit to include an examination of wider audit dimensions. The audit report also includes a comprehensive summary of the external auditor's findings under each of these audit dimensions:
 - Financial sustainability
 - Financial management
 - Governance and transparency, and
 - Value for money
- The external auditor has made 3 new recommendations in relation to the wider audit dimensions, which the Board is encouraged to address with urgency. Further detail can be found on page 39 of Appendix 1.

2.7	The unaudited accounts for the year to 31 March 2020 were approved by the Board on 16 July 2020. There has been a change to the audited annual accounts, which has decreased the deficit and net liabilities by £12,000 owing to the adjustment outlined in 4.6 below.
2.8	Deloitte LLP's Annual Audit Report (Appendix 1) includes an Action Plan relating to high and medium level risks identified in the course of the audit; these are noted in paragraph 4.17 below.
3.0	Corporate Priorities and Joint Working:
3.1	The preparation and presentation of the Annual Accounts is a key element of the Board's overall governance and reporting arrangements.
4.0	Key Issues:
4.1	<p>The Board's annual accounts for the year ending 31 March 2020 were submitted to the external auditor after the statutory deadline of 30 June 2020. This delay was permissible under the Coronavirus (Scotland) Act 2020 and within the guidance issued by Scottish Ministers through Local Government Finance Circular 10/2020. The external auditor is ordinarily required to complete the audit by 30 September 2020 and to report on certain matters arising to those charged with governance. It has not been necessary to defer the publication of the Board's audited annual accounts beyond 30 September 2020, despite the challenges encountered in this year's audit process.</p> <p>Financial Statements Audit</p>
4.2	<p>International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:</p> <ul style="list-style-type: none"> • results of work on key audit judgements; • the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures; • the auditor's internal control observations; and • other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.
4.3	The external auditor's findings are included in the Annual Audit Report at Appendix 1 and confirms their unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Board's financial position at 31 March 2020.
4.4	<p>The Audit report (Appendix 1) highlights two significant risk areas that auditors reviewed, as follows:</p> <ul style="list-style-type: none"> • Occurrence of income; and • Management override of controls.

- 4.5 Pages 11 to 12 of the report at Appendix 1 presents how, in each of these areas, the result of the audit control testing was satisfactory.
- 4.6 A material misstatement was identified during the audit process which has been corrected. An adjustment to the pension liability and pension reserve was required to account for the updated impact of the McCloud judgement and to account for the additional legal case, the Goodwin judgement. Further detail is provided on page 13 of Appendix 1.
- 4.7 The external auditor has identified one error that has not been adjusted in relation to the calculation of pension liabilities following recent developments at a pensions tribunal. The Board has not made an adjustment in its accounts because the error was not material, was identified at a very late stage in the audit process and any adjustment would have necessitated further actuarial analysis that would have likely delayed the publication of the accounts. The Board did not think this was a proportionate response to a non-material error. The error is therefore reported as an uncorrected misstatement, and further detail is set out on page 13 of Appendix 1.
- 4.8 The external auditor makes no recommendations following the conclusion of the 2019/20 financial statements audit.
- 4.9 The progress of recommendations made in the prior year, following the 2018/19 audit are also noted in Appendix 1 from page 40. Three recommendations are outstanding, which the Board are committed to address over the course of the next year.

Wider Audit Dimensions

- 4.10 As well as auditing the annual accounts and financial statements, external auditors are required to examine wider audit dimensions that are intrinsic to the delivery of Best Value. These audit dimensions are:
- financial sustainability,
 - financial management,
 - governance and transparency, *and*
 - value for money.
- 4.11 The external auditor has been unable to conclude whether the Board has sufficient arrangements currently in place to deliver Best Value, which is a statutory duty placed upon the Board. The external auditor expresses concern in the following areas:
- weaknesses in the Board's financial capacity in 2020/21 if action is not taken to appoint proper officers and to make arrangements to access finance services currently provided by SIC on an interim basis,
 - insufficient engagement with internal audit,
 - ineffective workforce development planning,
 - non-existent medium-term financial planning,
 - risks to resourcing of the VJB,
 - weaknesses in leadership and governance,
 - a lack of clarity in roles and responsibilities between Members and Officers, *and*
 - reactive decision making which is not evidence-based and which exposes the VJB to an unnecessary level of risk.

4.12 The external auditor has provided their opinion for each wider audit dimension, which are summarised below:

4.13 Financial management

‘There is a significant risk that the VJB will not have sufficient financial capacity in place throughout 2020/21 to perform effective financial monitoring or develop a robust budget, Medium Term Financial Plan (MTFP) and workforce plan following the resignation of Shetland Islands Council’s Executive Manager – Finance from the position as Proper Officer for Finance for the VJB and the decision of the Council to review the services provided to the VJB. The VJB continues to be exposed to a significant risk in this area as there remains substantial uncertainty surrounding plans for future arrangements more than five months after the issues were identified.

The VJB has not received a Board-specific internal audit report in at least a decade. Given the anticipated changes in service provision and the Proper Officer for Finance role, in addition to the VJB’s distinct governance arrangements, the VJB’s reliance on Shetland Islands Council internal audits for assurance is no longer appropriate.’

4.14 Financial sustainability

‘The VJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. The VJB is faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk. The VJB is faced with a significant risk that it will have vacancies in all four of its senior positions due to resignations during the year and difficulties filling posts. The severity of this risk has unnecessarily been increased by the actions of the Board. We have serious concerns about the Board’s ability to address this risk in the short-term, exposing the VJB to substantial difficulties in 2020/21.

The VJB is reliant on Orkney Islands Council and Shetland Islands Council for a number of support services, with the latter continuing to provide these services on an interim basis only. The VJB has not taken sufficient steps to effect alternative, permanent arrangements. In so doing, the VJB continues to expose itself to an unnecessary level of risk.’

4.15 Governance and transparency

‘Leadership within the VJB is neither robust nor effective, as evidenced by the fact that the VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now and the need for a substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council. There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, in addition to at times ineffective communication between relevant parties, we are satisfied that the matters identified do not

indicate an underlying issues with regards to the Board's attitude to openness and transparency or relationships within the VJB.'

4.16 Value for money

'Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. Given the anticipated impact of COVID-19 and the issues identified throughout this report, there is a significant risk that performance in 2020/21 will decline further.

The VJB has effectively utilised business cases to underpin its approach to recruitment for the Depute Assessor position over a number of years. Similarly, the position taken by the Board in 2020/21 to engage an external review of the pay and grading model in place is appropriate. However, a decision taken by the Board in April 2020 contradicted the evidence contained in the report presented to the Board, with there being a reasonable perception that this decision was driven by personal feeling and judgement rather than an objective assessment of the evidence provided. The consequences of this approach to decision making have been set out throughout this report.'

4.17 Following the conclusion of the audit process, the external auditor has made three new recommendations in relation to wider audit dimensions, which can be found on page 39 of Appendix 1. These recommendations relate to:

- Commissioning an independent review of the Board's governance arrangements,
- Training for Board Members and Officers to clarify the differing roles and responsibilities of Members and Officers, and
- Improvements to the Board's performance reporting

Annual Governance Statement

4.18 The unaudited annual accounts contained a draft annual governance statement following endorsement at the Board meeting on 16 July 2020. The annual governance statement has been revised to reflect feedback from Members and the external auditor.

4.19 An additional significant governance issue is disclosed to reflect the Board's circumstances during both the 2019/20 financial year and the period between the end of the financial year and the date of signing the accounts. The Board has therefore disclosed two significant governance issues:

- The Board has not yet appointed substantive proper officers. Although the Board is confident in being able to make appointments before the end of September 2020, this issues had not been resolved before the final 2019/20 accounts have been approved and signed.
- The Board's governance framework has a number of weaknesses which the Board is encouraged to address with urgency. Furthermore, the Board has seen three resignations from its membership since the end of the financial year. Appointments from both constituent authorities should be sought to ensure the Board returns to full membership.

4.20	The annual governance statement has been revised following feedback from Members and external audit to clarify where the Board can strengthen its compliance with the principles of good governance. For each principle where the Board can only partially demonstrate compliance, specific improvements have been noted next to each principle in the table of compliance on pages 10-12 of Appendix 2.
4.21	The revised annual governance statement has been scrutinised by external audit who confirm the statement has been prepared in accordance with accounting regulations.
4.22	The annual governance statement – <i>notwithstanding the disclosures made in respect of the Board's significant governance issues</i> – concludes that reasonable assurance can be placed on the governance framework and internal control environment for the 2019/20 financial year.
5.0	Exempt and/or confidential information:
5.1	None.
6.0	Implications :
6.1 Service Users, Patients and Communities:	None arising directly from this report.
6.2 Human Resources and Organisational Development:	Other than specific issues raised in the report and appendices, there are no other implications arising directly from this report.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.
6.4 Legal:	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the Board to meet to consider the audited Annual Accounts and aim to approve those accounts for signature no later than 30 September each year.</p> <p>Due to the Coronavirus pandemic and in line with the Coronavirus (Scotland) Act 2020 and Local Government Finance Circular 10/2020, the Scottish Ministers consider it reasonable that Valuation Joint Boards may publish their audited Annual Accounts by no later than 30 November 2020.</p> <p>It has not been necessary to delay the signing and publication of the Council's audited accounts beyond the existing statutory deadline of 30 September 2020.</p> <p>There are no other legal implications directly arising from this report.</p>
6.5 Finance:	Other than specific issues raised in the report and appendices, there are no other implications arising directly from this report.
6.6 Assets and Property:	None arising directly from this report.

6.7 ICT and new technologies:	None arising directly from this report.
6.8 Environmental:	None arising directly from this report.
6.9 Risk Management:	<p>The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.</p> <p>The Board has engaged with the external auditor throughout the audit process and has provided management responses for each of the audit recommendations made, which set out how the Board will seek to address and resolve the weaknesses identified during the course of the 2019/20 audit.</p>
6.10 Policy and Delegated Authority:	The remit of the Orkney & Shetland Valuation Joint Board includes consideration of all reports from the external auditors, including the Annual Audit Report and to review the financial performance outlined.
6.11 Previously considered by:	N/A

Contact Details:

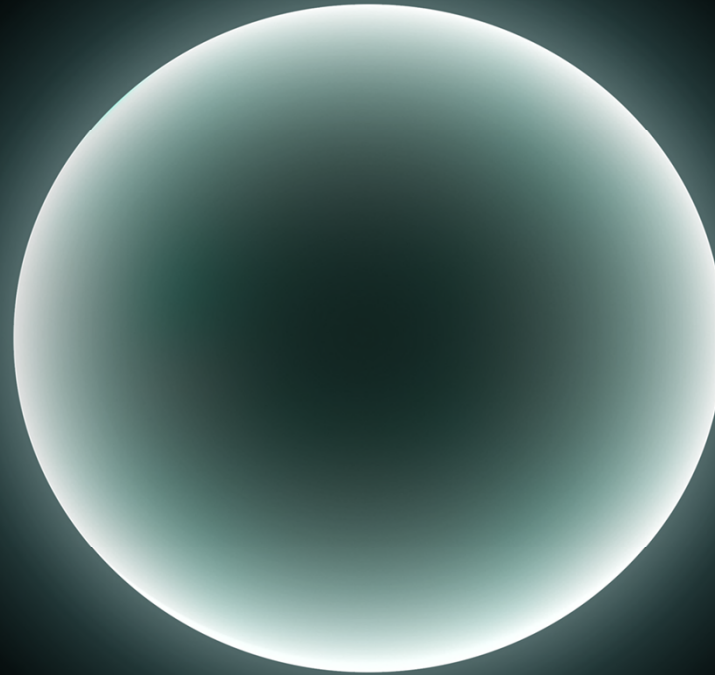
Jamie Manson, Executive Manager - Finance, jamie.manson@shetland.gov.uk,
21 September 2020

Appendices:

Appendix 1 – Annual Audit Report 2019/20 for Orkney & Shetland Valuation Joint Board
Appendix 2 – Audited Annual Accounts 2019/20 for Orkney & Shetland Valuation Joint Board

Background Documents:

[The Local Authority Accounts \(Scotland\) Regulations 2014](#)



Orkney and Shetland Valuation Joint Board

Report to the Members of the Board and the Controller of Audit
on the 2019/20 audit

Issued on 23 September for the meeting on 28 September 2020

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Board of Orkney and Shetland Valuation Joint Board ("the VJB") for the 2019/20 audit. The scope of our audit was initially set out within our planning report presented to the Board in March 2020. Following the identification of additional audit risks through the course of our audit, we have concluded, in agreement with management and Audit Scotland, that it would no longer be appropriate to apply the 'small bodies exemption' from the full wider scope audit. Our 2019/20 audit therefore covers all four audit dimensions.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the VJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original reporting timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers' duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

We will be issuing an unmodified audit opinion.

Following amendments made as a result of the audit, the management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

One financial adjustment in excess of our reporting threshold of £0.6k has been identified up to the date of this report, relating to a change in the pension liability as a result of an event after the balance sheet date. We have identified no disclosure deficiencies during the course of our audit.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of the signed management representation letter; and
- Our review of events since 31 March 2020

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the VJB at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial Management

There is a significant risk that the VJB will not have sufficient financial capacity in place throughout 2020/21 to perform effective financial monitoring or develop a robust budget, Medium Term Financial Plan (MTFP) and workforce plan following the resignation of Shetland Islands Council's Executive Manager – Finance from the position as Proper Officer for Finance for the VJB and the decision of the Council to review the services provided to the VJB. The VJB continues to be exposed to a significant risk in this area as there remains substantial uncertainty surrounding plans for future arrangements more than five months after the issues were identified.

The VJB has not received a Board-specific internal audit report in at least a decade. Given the anticipated changes in service provision and the Proper Officer for Finance role, in addition to the VJB's distinct governance arrangements, the VJB's reliance on Shetland Islands Council's internal audit opinion for assurance is no longer appropriate.

Financial sustainability

The VJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. The VJB is faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The VJB is faced with a significant risk that it will have vacancies in all four of its senior positions due to resignations during the year and difficulties filling posts. The severity of this risk has been increased by the actions of the Board. We have serious concerns about the Board's ability to address this risk in the short-term, exposing the VJB to substantial difficulties in 2020/21.

The VJB is reliant on Orkney Islands Council and Shetland Islands Council for a number of support services, with the latter continuing to provide these services on an interim basis only. The VJB has not taken sufficient steps to effect alternative, permanent arrangements. In so doing, the VJB continues to expose itself to an unnecessary level of risk.

Governance and Transparency

Leadership within the VJB is neither robust nor effective, as evidenced by the fact that the VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now and the need for a substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council.

There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, in addition to at times ineffective communication between relevant parties, we are satisfied that the matters identified do not indicate an underlying issues with regards to the Board's attitude to openness and transparency or relationships within the VJB.

Introduction (continued)

The key messages in this report (continued)

Value for money

Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. Given the anticipated impact of COVID-19 and the issues identified throughout this report, there is a significant risk that performance in 2020/21 will decline further.

The VJB has effectively utilised business cases to underpin its approach to recruitment for the Depute Assessor position over a number of years. Similarly, the position taken by the Board in 2020/21 to engage an external review of the pay and grading model in place is appropriate. However, a decision taken by the Board in April 2020 contradicted the evidence contained in the report presented to the Board, with there being a reasonable perception that this decision was driven by personal feeling and judgement rather than an objective assessment of the evidence provided. The consequences of this approach to decision making have been set out throughout this report.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the VJB as an Appendix on pages 34 and 35 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 39 to 42 of this report which includes a follow up of progress on previous years agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

Many of the issues identified in our report relate to the provision of leadership and governance. The VJB will need committed leadership and strong governance arrangements to address these.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

We have also included conclusions on the Board's Best Value arrangements, which are discussed on page 32.

Pat Kenny
Audit Director








Financial statements audit



Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Key accounting judgements, such as the net defined benefit pension asset support, was provided on time and was of good quality.
Adherence to deliverables timetable		With regards to the financial statements, we were informed about and accepted a delay to production of the annual accounts and supporting evidence, which did not have a significant impact on our ability to meet the reporting timetable. Additional information required for the full wider scope audit was provided in a timely manner.
Access to finance team and other key personnel		Deloitte and the VJB have worked together to facilitate effective remote communication during the audit.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. This included documentation that easily reconciled to the draft financial statements.
Quality of draft financial statements		A full draft of the annual accounts was received for audit on the 7 July 2020. The draft was of a high standard, displaying numerous areas of good practice with limited changes required.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We have identified one financial adjustment above our reporting threshold to date, which relates to an event after the balance sheet date rather than management error. We identified no disclosure deficiencies.



Lagging



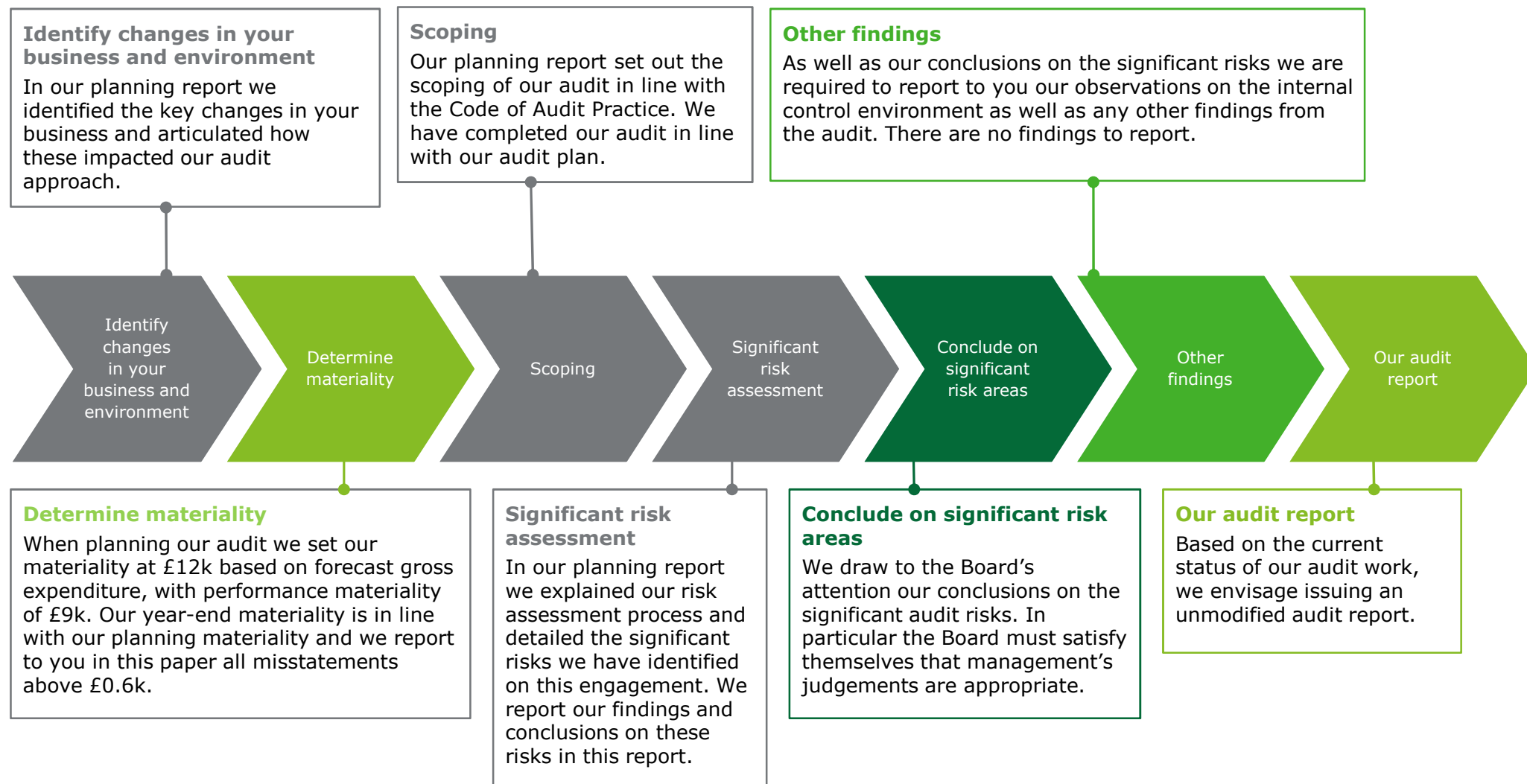
Developing



Mature







Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Occurrence of income			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Occurrence of income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the Board are requisitions from the Orkney Islands Council and Shetland Islands Council. The significant risk is pinpointed to the recognition of this income, being occurrence of income received from the Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.



Key judgements and our challenge of them

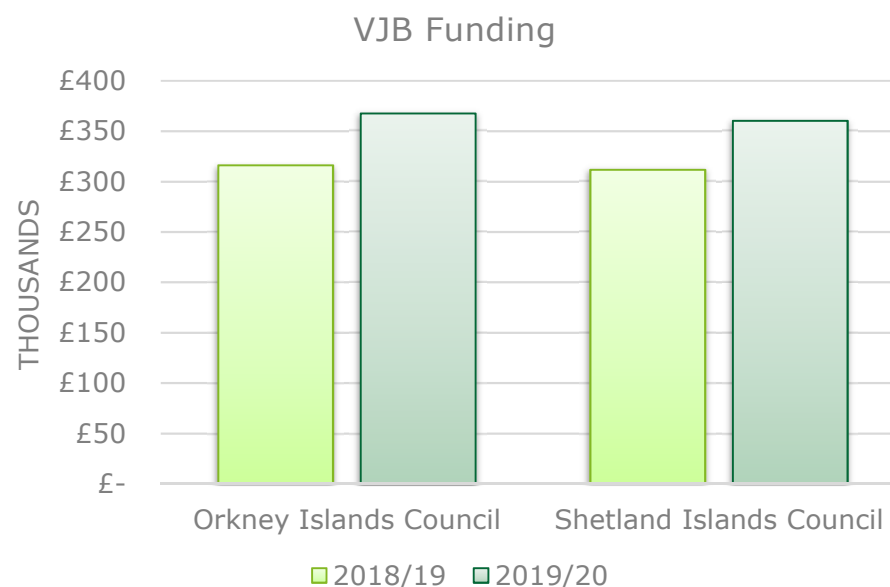
Given the year-end deficit projected by the VJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any amendments have been appropriately applied;
- tested the reconciliations performed by the VJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.



Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



Key judgements

The key judgement in the financial statements is that which we have selected to be the significant audit risk around the occurrence of income (page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Board's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for the review of management accounts.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates and judgements

We reviewed the financial statements for accounting estimates and judgements which could include biases that could result in material misstatements due to fraud.

We have not identified any significant accounting estimates and judgements from our testing.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Other areas of audit focus (continued)

Defined benefits pension scheme

Background

The VJB participates in the Shetland Islands Council Pension Fund, administered by Shetland Islands Council.

The net pension liability has decreased from £2.257m in 2018/19 to £1.925m in 2019/20. The decrease is combination of a reduction of £0.249m in the fair value of the assets and a reduction of £0.581m in the liabilities as a result of demographic changes and financial assumptions. This total includes the impact of the McCloud adjustments.

The VJB's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £16k to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The VJB's actuary has estimated that the potential impact of this is a £1.93k understatement of the liability. This is an estimate and the actual cost could be different. As this amount is not material, management have not made this adjustment to the accounts and this has been reported as an uncorrected misstatement at page 38.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement, subsequent to the year-end, is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £4k to the liability disclosed in the draft accounts which have been updated in the final accounts.



Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below.
- We have obtained assurance over the controls for providing accurate data to the actuary.
- We assessed the reasonableness of the VJB's share of the total assets of the scheme with the Pension Fund financial statements.
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	VJB	Comments
Discount rate (% p.a.)	2.3	Prudent and reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.9	Prudent end of reasonable range
Salary increase (% p.a.)	2.4%	Real salary increases 0.5% above CPI inflation
Pension increase in payment (% p.a.)	1.9	Reasonable
Pension increase in deferment (% p.a.)	1.9	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.4	Prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.7	Prudent

Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin arising from events after the balance sheet date (net impact was a reduction in liability of £12k), we are satisfied that the net pension liability disclosed in the accounts is materially correct. The VJB's actuary has estimated the potential impact of McCloud on the current service cost as £1.93k which has been recorded as an uncorrected misstatement on page 38.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The VJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code. The VJB's annual accounts include numerous areas of good practice, including the use of graphics, tables and signposting; additional narrative explaining key estimates and judgements; useful narrative on significant governance issues and COVID-19, and overall providing a fair and balanced overview of performance in the year.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, the need to review medium to long term plans and the significant governance issues affecting the VJB which resulted in the small bodies exemption from the full wider scope audit requirements no longer being applied.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

COVID-19 outbreak

Impact on the annual accounts and audit

The current crisis is unprecedented in recent times. The local government sector is directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Boards need to consider. We summarise below the key impacts on reporting and audit:

Impact on VJB annual accounts	Impact on our audit
<p>The VJB needs to consider the impact of the outbreak on the annual report and financial statements including:</p> <ul style="list-style-type: none">• Principal risk disclosures;• Change in the funding regime for 20/21;• Onerous contracts and any potential provisions;• Going concern; and• Events after the end of the reporting period.	<p>COVID-19 has fundamentally changed the way we have conducted our audit this year including:</p> <ul style="list-style-type: none">• Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some staff.• The teams have had regular status updates to discuss progress and facilitate the flow of information.• Timetable of the audit has been shorter given the initial accounts delay whilst working towards the same reporting timetable.• Consideration of impacts on the areas of the financial statements and annual accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.• In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 24 September 2020.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Based on our audit work completed to date we expect to issue an unmodified audit opinion.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Board has been faced with financial sustainability issues (as discussed on page 23), it achieved a balanced budget in 2019/20 and has agreed a balanced budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The annual accounts are reviewed in their entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 17.

Your annual accounts

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focuses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. Minor amendments were required as a result of our audit work.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following minor amendments made during the course of the audits, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the VJB.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board governance arrangements provide assurance, are adequate and are operating effectively.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations.</p> <p>Based on the work completed during our audit, the VJB has made amendments to the Annual Governance Statement to appropriately refer to the impacts of the resignation of the Treasurer and Clerk, in addition to the resignation of several members of the Board.</p>

Audit dimensions and best value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, and specifically covers the risks identified in our planning report and the additional risks identified through the course of our audit.

Financial management



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graph TD; A[Financial management] --> B[Financial sustainability]; B --> C[Value for money]; C --> D[Governance and transparency];
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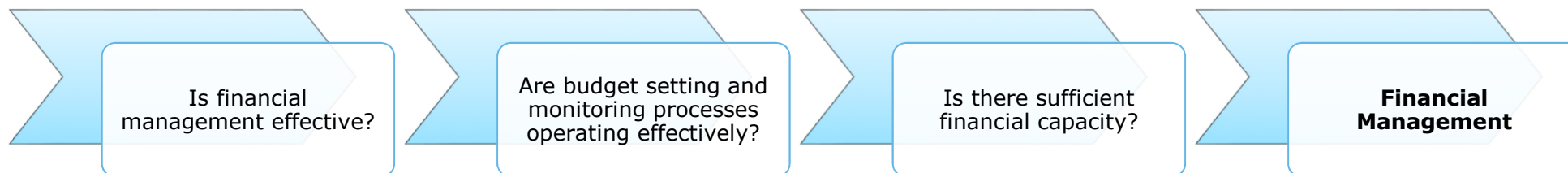
Financial sustainability

Value for money

Governance and transparency

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Areas considered

Our approach to the audit dimensions is risk focused. We did not identify any risks in our audit plan. Through the course of our audit, we identified a risk surrounding financial capacity within the VJB.

Financial capacity

Background: Historically, the VJB has obtained financial support services from Shetland Islands Council. Budgets, financial monitoring reports, payroll and the annual accounts are prepared by Council staff for the VJB. The Executive Manager – Finance for the Council has also acted as the Proper Officer for Finance and Treasurer for the VJB.

Given the size and scale of the VJB's operations, we have not previously identified any risks around financial capacity and considered the arrangements in place to be sufficient for the VJB's purposes. Budgets and financial monitoring reports are prepared by Council staff following Council processes, with recommendations for improvement made to the Council in these areas being picked up as appropriate by the VJB. We have audited the annual accounts for the past three years and not noted any significant concerns related to the capacity of the finance team.

Developments: On 1 May 2020, the Executive Manager – Finance resigned from his position as Treasurer to the Board (including his position as Proper Officer for Finance). This occurred due to a conflict which arose for the Executive Manager – Finance between his position acting for the Council and his position in the VJB, namely that the VJB was adopting a position which it was felt would not enable the Board to fulfil its duties under Best Value requirements. At this time, the Council also indicated that the arrangements under which it provides financial services to the VJB would continue only on an interim basis until new arrangements can be agreed and a new Treasurer appointed.

On 29 June 2020, we highlighted to the VJB that it needed to appoint a Proper Officer for Finance under the Local Authority Accounts (Scotland) Regulations 2014 in order to issue the unaudited annual accounts and submit them for audit. The VJB subsequently re-appointed the Executive Manager – Finance from the Council to the position on a temporary basis, which was accepted by the Executive Manager – Finance on the basis that this was purely for the purposes of completing the annual accounts process.

An updated report with plans for a replacement permanent Proper Officer for Finance and the provision of ongoing financial services was due to be presented to the VJB in August 2020. This did not occur.

Conclusion: At the time of issuing this report, it remains unclear what provisions will be put in place by the VJB to ensure it has sufficient financial capacity. It is also unclear what plans are being made to appoint a permanent Proper Officer for Finance. The annual accounts process ends at the end of September 2020 and the VJB will then need to turn its focus to updating its budget, preparing an MTFP and workforce plan (page 23) and reviewing financial performance in 2020/21 to date. No financial monitoring has taken place during 2020/21 to date, although we note the inclusion of the VJB management accounts as at period 4 will be reported at the end of September 2020.

As interim arrangements remain in place and as the VJB appointed a temporary Proper Officer for Finance to enable the annual accounts process to be finalised, there has not yet been a significant impact on the VJB from the issues identified. However, there remains a significant and growing risk of such impact given the continuing uncertainty over future provisions.

Financial management (continued)

Internal audit

Background: In 2017/18 and 2018/19, we noted that Shetland Islands Council's Chief Internal Auditor did not carry out any internal audits for the VJB. The internal audit opinion given for the VJB relied entirely on internal audits carried out over Council systems. In late 2018/19, the internal audit service for the Council was outsourced to Audit Glasgow, with the Chief Internal Auditor for Glasgow City Council taking this position for Shetland Islands Council and the VJB.

The VJB places no reliance on internal audits carried out for Orkney Islands Council given that it does not use their systems, policies and procedures and does not receive support services from them.

Developments: In 2019/20, there were no internal audits carried out for the VJB. Discussions were held between the VJB and internal audit in March 2020 to consider a review of governance within the VJB, although this was superseded by the risks identified during the external audit. We have liaised closely with internal audit throughout this process to avoid duplication of work.

Conclusion: The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings for the Council to identify areas of relevance for the VJB. Their conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit. We note that internal audit have not provided an overall opinion as to the VJB's system of internal control for 2019/20.

There is no evidence of any specific internal audits being carried out for the VJB for at least a decade. Although the VJB has relied on Council systems and processes, it has its own governance arrangements and policies which should be subject to review. The VJB needs to ensure that it develops a robust annual audit plan with internal audit that provides sufficient assurance for the Board in key areas. Given the anticipated changes in service provision (page 20 and 25) and issues identified throughout this report, it is our view that it is no longer appropriate for the VJB to rely solely on the Council's internal audit programme to provide assurance to the VJB.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the VJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the VJB's arrangements to be designed effectively and implemented appropriately.

Deloitte view – Financial management

We did not identify any issues with financial management in 2019/20. However, in early 2020/21, we identified a significant risk that the VJB will not have sufficient financial capacity in place to perform effective financial monitoring or develop a robust budget, MTFP and workforce plan following the resignation of Shetland Islands Council's Executive Manager – Finance from the position as Proper Officer for Finance for the VJB and the decision of the Council to review the services provided to the VJB. Temporary arrangements were put in place in July 2020 to enable the annual accounts process to be completed and these issues have not yet significantly impacted the VJB, which is a result of timing. There remains substantial uncertainty surrounding plans for future arrangements five months after the issues were identified.

The VJB has not received a Board-specific internal audit report in at least a decade. The VJB has previously relied on Shetland Islands Council internal audits to provide assurance to the VJB given the VJB's reliance on Council staff and systems. Given the anticipated changes in service provision and the Proper Officer for Finance role, in addition to the VJB's distinct governance arrangements, this approach is no longer appropriate.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

"There is a risk that the Board cannot effectively plan for the medium to longer term if they do not know how to prioritise resources based on their corporate plan and outcomes, and how any potential funding gaps are to be met."

Through the course of our audit, we have identified additional risks around the sustainability of the workforce and the resources available to the VJB through services provided by Shetland Islands Council.

Short-term financial balance

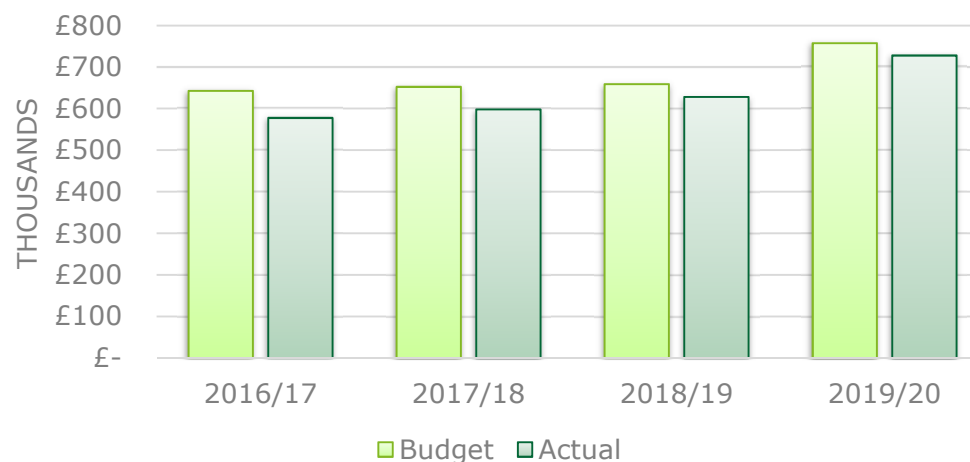
Background: The VJB achieved financial balance in 2018/19, reporting an underspend of £31k (4.7%) against budget in the year. The VJB identified £15k (2.1%) worth of savings in the 2019/20 budget.

Developments: In 2019/20, the VJB again achieved financial balance, reporting an underspend of £29k (3.8%) against budget. In March 2020, the VJB set its 2020/21 budget, totalling £809k. This represents an 11.1% increase on total expenditure in 2019/20. The VJB has again included savings within the budget, representing £22k (2.7%) of expenditure in the year.

In setting the budget, which was approved on 12 March 2020, the VJB could not have anticipated the impact that COVID-19 would subsequently have on the 2020/21 position. The VJB may need to consider emergency budget measures as the impact, financially and operationally, of mobilisation and response to COVID-19 are better understood.

Conclusion: The VJB achieved financial balance in 2019/20. A balanced budget has been set for 2020/21, with a significant uplift in funding from Orkney Islands Council and Shetland Islands Council. However, the impact of COVID-19 remains a significant risk which could impact on the VJB achieving short term financial balance in 2020/21.

Expenditure: Budget vs Actual



Financial sustainability (continued)

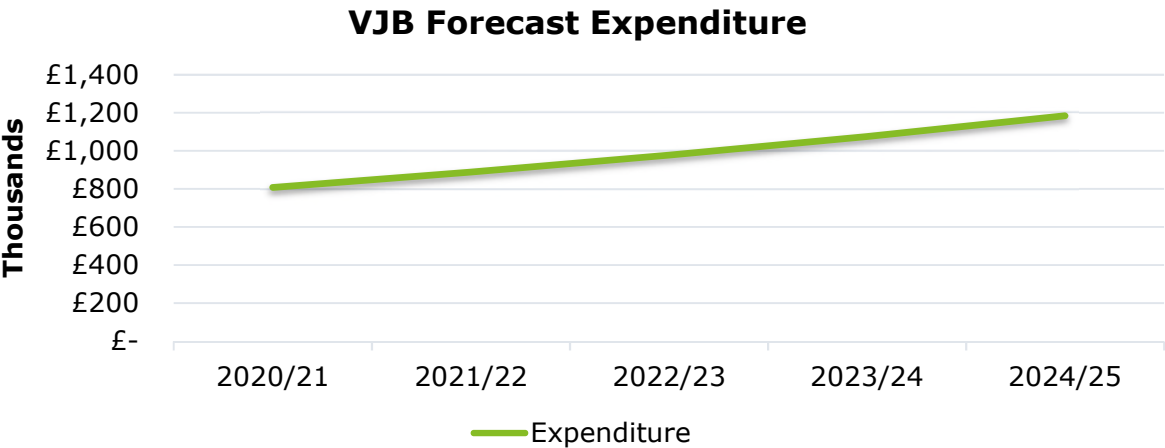
Medium term financial planning

Background: In 2018/19, we noted that the VJB did not have an MTFP and had not quantified a medium-term funding gap. No sensitivity analysis or scenario planning had been carried out. We noted that the VJB does not set out in its five-year strategy, budget or reporting (either internal or external) how it is linking its resources to its priorities or the outcomes it is aiming to progress.

Developments: An MTFP has not been prepared in the year, with delays as a result of the 2020/21 budget settlement process and COVID-19. The VJB has confirmed it intends to prepare an MTFP in 2020/21, although there are risks surrounding this given the identified risks regarding financial capacity (page 20).

While the VJB has not quantified a medium-term funding gap, we have noted from the graph on page 22 that expenditure within the VJB has grown by 26% between 2016/17 and 2019/20. The approval of the budget of £809k for 2020/21 takes this growth to 40%, which equates to 10% growth per year. If this level of growth continues, the VJB will effectively double its expenditure from its 2016/17 position by the end of the MTFP period. This growth in expenditure is driven partly by the implementation of the Barclay review and the impact of multi-year pay awards on staff costs, which are largely outwith the control of the VJB.

The VJB has not reviewed its five-year strategy in the year to improve links to outcomes, nor has there been any improvement in internal reporting of outcomes, reference to outcomes in the annual accounts or linking of resources to priorities and outcomes achieved.



Conclusion: The VJB receives funding from Orkney Islands Council and Shetland Islands Council to enable it to set a balanced budget. Expenditure is expected to grow by 40% between 2016/17 and 2020/21. At a time when both constituent authorities are facing wider economic issues as a result of COVID-19 and with both authorities requiring significant savings within the Council, the VJB needs to ensure that it can demonstrate that financial planning is robust and that effective efforts are being made to address expenditure growth.

To enable the VJB to effectively monitor the medium-term position and plan appropriately, an MTFP should be developed, as recommended in 2018/19.

We reiterate our view that the VJB should align its resources to its priorities and set out the outcomes being achieved in order to demonstrate what is being delivered with the resources available to the VJB.

Workforce planning

Background: In 2018/19, we noted that the VJB did not have a standalone workforce plan. We recommended that the VJB consider the development of a workforce plan given ongoing difficulties in recruiting to key posts (such as the Depute Assessor position).

Developments: The VJB did not develop a workforce plan in the year and it is not adequately considered within the workforce plans of the constituent authorities. There was no reporting in the year to the Board on workforce planning.

During the year and up to the date of this report, there were a number of high-profile changes to the workforce. As set out on page 20, the Proper Officer for Finance resigned his position within the VJB in May 2020. This post remains unfilled.

Financial sustainability (continued)

Workforce planning (continued)

On 30 April 2020, for the same reason, the Clerk (who is also Executive Manager – Governance and Law for Shetland Islands Council) resigned his position within the VJB. This post again remains unfilled.

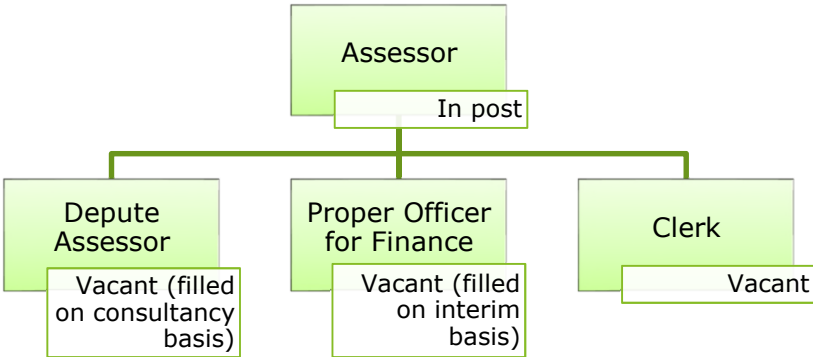
The Assessor submitted their resignation to the Board in February 2020, citing concerns regarding the ongoing Depute Assessor vacancy and salary for both the Depute Assessor and Assessor roles, with his notice period expiring at the end of May 2020. The Assessor offered to withdraw his resignation – with conditions – on 12 March 2020, subject to the Board approving an immediate increase to the Assessor and Depute Assessor salaries. On 29 April 2020, the Board rejected this but also decided not to begin a recruitment exercise or consider alternative options for the position. The Board requested that the Assessor ‘extend’ his notice period, “on a rolling monthly basis, until such time as the review of salary, terms and conditions has been completed and presented to the Board.” This has been accepted by the Assessor and we note that the Assessor remains in post at the time of issuing this report, albeit on a significantly reduced notice period.

The Depute Assessor position remained vacant throughout 2019/20. The VJB applied a permanent uplift to the previously advertised salary and the position was advertised again, with a candidate applying and receiving an offer. This offer was subsequently rejected by the candidate and the position remains unfilled at the time of writing this report. Services continue to be provided on a consultancy basis by an external consultant to address resourcing issues as a result of having a vacant Depute Assessor post. The consultant position costs 80% of the equivalent full-time Depute Assessor position, although the extent of services provided are not directly comparable.

The Board has commissioned an independent review of the pay and grading model for the VJB which reported its initial findings to a Board meeting on 20 August. The Board anticipates the review to conclude by November 2020, at which point a proposal for a new pay and grading model for the VJB will be presented to the Board for their consideration. Formal consultation with trade unions will be required before a new pay and grading model can be implemented.

No effective action has been agreed between the Board and management since March 2020 to address the risk that it faces a potentially vacant Assessor position – with one month’s notice – and a vacant Depute Assessor position (albeit with support continuing to be provided on a consultancy basis).

Conclusion: Given resignations and difficulties in recruitment, the VJB is now faced with vacancies in three of its four most senior positions, with the fourth position continuing on a rolling monthly basis. The VJB is faced with a significant risk that it will not have sufficiently qualified and competent personnel to deliver its responsibilities.



VJB Leadership Team

The Board agreed to a position whereby the Assessor is continuing in post on a rolling monthly basis. Concerns were raised with the Convener by Shetland Islands Council that the ‘rolling’ notice period proposed had no effect in employment law. Separate advice was provided by the Orkney Islands Council which contradicted this view, but the existence of this contradiction was never communicated to the wider Board, nor were the concerns raised responded to, with the contradiction not being known until it was identified through our audit in September 2020. It is unusual that the Board was not made aware of the concerns raised, the contradicting advice available and the overall conclusion reached prior to proceeding with the proposed course of action. It is also unclear why the Convener sought and relied upon legal advice relating to VJB matters from Orkney Islands Council, when support services for the VJB are currently and have historically been provided by Shetland Islands Council. It is concerning that communication between the Councils, VJB and Board was not sufficient to identify and address these issues prior to our audit.

Financial sustainability (continued)

Workforce planning (continued)

The Board has exposed itself to a high level of risk in taking the approach it has to the Assessor's position: namely, it has not begun any recruitment exercises despite the fact that the Assessor has indicated his desire to resign from post, it has not progressed any recruitment exercise for the Depute Assessor since that time, it has wasted the Assessor's notice period (three months) and is now in a position whereby it has at best a one month notice period and potentially has entered into an amendment to an employment contract about which concerns were raised and contradictory advice exists, without appropriate resolution of those issues.

In agreeing to the position it has taken, the Board knowingly took actions which contradicted advice from officers without any appropriate consideration to justify that position and knowingly put itself in a position whereby the VJB would be faced with the resignation of the Proper Officer for Finance and the Clerk and the loss of services from Shetland Islands Council.

In order to reduce the level of risk to which the VJB is exposed, the Board should ensure an appropriate notice period that is enforceable is agreed with the Assessor. If such an arrangement cannot be agreed, the Board should ensure it puts plans in place to deal with a sudden departure.

Our recommendation from 2018/19 that the VJB needs to develop a workforce plan remains in place. This should be informed by the pay and grading review currently underway. This should have clear succession planning and recruitment plans set out to help the VJB avoid the difficulties it currently finds itself faced with.

Resourcing

Background: The VJB receives services from Orkney Islands Council and Shetland Islands Council. It leases property from both authorities, at a cost of £16.3k and £11k respectively in 2019/20. The VJB similarly receives IT services from both authorities, at a cost of £4k and £8.5k respectively. In addition, the VJB receives support services – being human resources, legal and administrative support – from Shetland Islands Council, at a cost of £20.5k in 2019/20.

Developments: As indicated on page 20, Shetland Islands Council has indicated that the support services it provides to the VJB remain in place on an interim basis only, until revised arrangements can be agreed. At the time of issuing this report, five months after the matter arose, it remains unclear what arrangements will be put in place to provide sufficient support services to the VJB in these areas.

Conclusion: The risk to the VJB regarding support services is mitigated by Shetland Islands Council's commitment to continue to provide these services on an interim basis. However, there is a risk that these services could be reduced or withdrawn if the VJB does not sufficiently prioritise identifying these alternative arrangements. It appears logical that either Shetland Islands Council or Orkney Islands Council – as the constituent authorities – would be approached by the VJB to provide these services to the Board. The Board needs to determine its preferred approach as a matter of priority and progress the agreement of new arrangements to address the risk posed by the interim arrangements in place.

Deloitte view – Financial sustainability

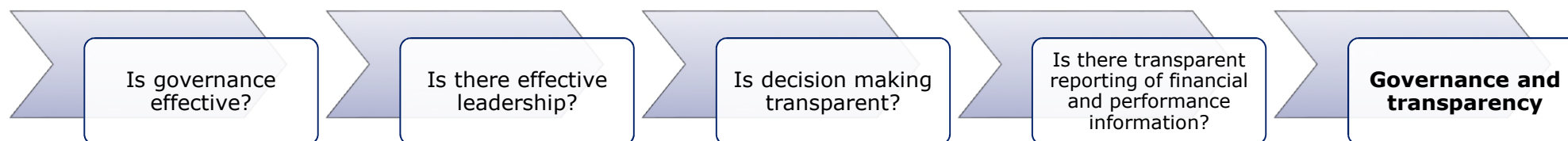
As noted on page 22, the VJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, the VJB has not developed an MTFP in the year and has not quantified its position over the medium-term. Despite this, it is clear that the VJB is faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The VJB is faced with a significant risk that it will have vacancies in all four of its senior positions due to resignations during the year and difficulties filling posts. The Depute Assessor position is currently vacant (and filled on a consultancy basis), with the Proper Officer for Finance position filled on an interim basis until the annual accounts process is complete, with the Clerk position vacant and the Assessor position currently in doubt and with the Board facing a one month notice period. The severity of this risk has been increased by the actions of the Board. We have serious concerns about the Board's ability to address this risk in the short-term, exposing the VJB to substantial difficulties in 2020/21.

The VJB is reliant on Orkney Islands Council and Shetland Islands Council for a number of services. The majority of these are provided by Shetland Islands Council. These services, as with financial services, continue to be provided on an interim basis only. The VJB has not taken sufficient steps to make it clear what future arrangements will be sought or to put those into effect. In so doing, the VJB continues to expose itself to an unnecessary level of risk.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

"The governance statement is not consistent with the wider direction of the accounts or compliant with the CIPFA guidance note."

This risk is addressed through our review of the annual governance statement, set out on page 17.

Through the course of our audit, we have identified additional risks covering leadership, openness and transparency, the effectiveness of governance, the adherence to roles and responsibilities and the effectiveness of relationships.

Leadership

Background: The current Assessor has been in post since 2015/16. The Clerk had been in post since the VJB's inception in 1996/97. The Proper Officer for Finance had been in post since 2018/19. The VJB has unsuccessfully attempted to recruit to the Depute Assessor position since 2015/16, with these services being obtained on a consultancy basis since December 2015.

Developments: As set out earlier in this report, the Proper Officer for Finance resigned his post on 1 May 2020, with this position now filled on an interim basis until the annual accounts process is complete. The Clerk resigned his position on 30 April 2020, with this post remaining vacant. There has been no further progress in recruiting to the Depute Assessor position, with the consultancy arrangement continuing in place.

The Assessor has committed to remain in post until the pay and grading review is complete.

The Assessor's initial resignation was triggered by concerns surrounding attempts to recruit to the Depute Assessor post (considered on page 24) and salary for both the Depute Assessor and Assessor positions. These concerns are attributable in part to decisions of the Board taken on the recommendations of the Proper Officer for Finance and the Clerk, with which the Assessor did not agree.

Similarly, the Proper Officer for Finance and the Clerk both resigned following the Board taking a decision based on the recommendation of the Assessor, with which they did not agree.

Conclusion: The VJB currently has vacancies within two of its leadership positions, with interim arrangements in place for one other and the position being precarious (a conditional withdrawal of a resignation with a one month notice period) for the remaining position. The VJB is faced with a situation that it could effectively have no leadership in place later in 2020/21 if effective action is not taken. Leadership within the VJB is, therefore, not robust.

Leadership within the VJB has been disjointed, with contradictory views presented to the Board which resulted in the Board being faced with a position that regardless of the decision it took, it would be going against the advice of at least some of its leadership. A number of the issues which have arisen, as set out in this report, could and should have been addressed through collective action of the leadership team within the VJB.

Governance and transparency (continued)

Leadership (continued)

Given the significance of the issues facing the VJB, there has been a substantial increase in the level of involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council, with a noticeable increase in the level of involvement in what are essentially operational matters by the Board also. All of this indicates that leadership within the VJB is not effective.

Effectiveness of governance

Background: The VJB has a Board which consists of 10 members, five being from Orkney Islands Council and five from Shetland Islands Council. Orkney Islands Council also has two substitute members, while Shetland Islands Council has five substitute members.

Developments: On 29 April 2020, following concerns regarding the decision taken by the Board, Councillor M Bell resigned his position as a substitute member on the Board.

On 20 August 2020, following concerns regarding the process through which the pay and grading review was progressing, Councillor S Clackson resigned from the Board. On the same date, Councillor J R Scott also resigned from the Board.

As set out earlier in this report, the Clerk and the Proper Officer for Finance resigned on 30 April and 1 May 2020 respectively.

The Assessor resigned on 24 February 2020, although the Assessor remains in post on a rolling monthly contract.

In each of these resignations, a concern surrounding the effectiveness of governance was raised in some way. These concerns range from whether the Board was effectively resourcing and prioritising key roles, to whether the Board was taking decisions in accordance with good governance principles and Best Value requirements, to whether processes adopted by the Board to address the aforementioned issues themselves demonstrated non-compliance with good practice.

In March and April 2020, the Board took decisions which directly contradicted advice received from the Proper Officer for Finance and the Clerk, both of whom advised it would not represent Best Value or good governance and indicated that they would resign rather than implement the decisions. While the Scottish Public Finance Manual is not applicable to local authorities, the requirements within it helps to underline how unusual this position is – for bodies which are within its scope, any decision which a body takes which the appropriate officer has explained would breach Best Value or governance requirements must be immediately reported to the Scottish Government and the Auditor General for Scotland. As noted, this requirement does not apply to the VJB, however, it does underline the significance of taking a decision which contradicts the formal advice received in this area.



Governance and transparency (continued)

Effectiveness of governance (continued)

Conclusion: The Board has found itself in an unenviable position with difficulties recruiting to a Depute Assessor position for a number of years in addition to dealing with the resignation of the Assessor, Proper Officer for Finance and Clerk. From our review of reports and communications covering the relevant period, in addition to discussions with those attending the relevant meeting, there is a reasonable perception that decisions reached were based primarily on personal feeling and loyalty towards relevant officers rather than being based on a reasonable assessment of the risks posed to the VJB. We accept that there were other factors which also will have impacted on the decision reached – such as the risk posed by the loss of the Assessor post while the Depute Assessor position remained vacant – however, it is clear from our review that the decisions reached were not based solely on these objective considerations.

In total, there have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. These resignations occurred for a variety of reasons and came from different areas of the organisation. This clearly indicates that there are significant weaknesses within the governance framework of the VJB. In our view, the VJB should engage an independent and comprehensive review of the governance arrangements in place within the organisation to ensure that they are fit for purpose. The benefits of regular evaluations of governance are clear and set out for ease of reference on page 27.

Roles and responsibilities

Background: Board members are appointed to the VJB by Orkney Islands Council and Shetland Islands Council to provide strategic direction to the Board and scrutinise performance and management actions. The Assessor, Proper Officer for Finance and Clerk are appointed by the Board to carry out the day-to-day operations of the VJB and to ensure that the VJB has arrangements in place to carry out its functions effectively.

Developments: From our review of reports to the VJB covering the ongoing recruitment difficulties with regards to the Depute Assessor position, the Assessor's resignation and the ongoing pay and grading review, we noted numerous instances whereby Board members ventured quite clearly into operational matters, including for example suggesting a rate of pay for the consultant currently providing services to the VJB. Such issues are matters for management, not the Board, which should be respected.

We also noted that the Chair of the Board intended to issue a letter to the Assessor to give effect to the Board's decision to ask the Assessor to renegotiate his resignation and thus his employment status. As set out in guidance issued by the Standards Commission, a Board member should not be involved in operational matters, with such matters being matters for management.

We note from review of the minutes of the relevant Board meeting and discussion with those attending that there was a lack of clarity as to who was being given authority to action the decision of the Board given the resignation of the Treasurer and Clerk, which clearly highlights the lack of the clarity regarding roles and responsibilities in the VJB and underlines the risk posed to the VJB by this lack of clarity.

These are two examples identified and not exhaustive. We did note that these issues were identified by relevant officers at the appropriate time and communicated appropriately to the Board.

Conclusion: While the issues identified were resolved prior to the Board taking actions which would be against good practice, the examples do highlight a risk that there is a lack of clarity surrounding roles and responsibilities of Board members and management. The Board should undertake training on best practice in this area and refresh its understanding by reference to its own governing documents.

Openness and transparency

Background: There is a general expectation that public bodies conduct their business in public and restricted only where there is a clear reason to do so and only to the extent required.

Developments: We have reviewed reporting to the Board regarding the ongoing staffing issues, in addition to reporting in the annual accounts.

Conclusion: We are satisfied that the information restricted from the public concerned specific staffing matters which it is appropriate to exempt from publication. We are similarly satisfied that in a number of cases it would be potentially commercially damaging for the VJB to disclose information which has been presented to it (for example, in relation to the ongoing pay and grading review).

Governance and transparency (continued)

Effectiveness of relationships

Background: The VJB is constituted from members appointed by Orkney Islands Council and Shetland Islands Council. The VJB has its own staff, in addition to support services received from the constituent authorities. Relationships across the Councils, between the Councils and the VJB and within the VJB itself are all of importance.

Developments: As set out throughout this report, there have been numerous resignations from the Board and management. We have noted contradictory positions being presented to the Board, with the Board's decisions resulting in these resignations.

We have noted an increased involvement by the Chief Executives of the constituent authorities, and an increased involvement by the Board in operational areas.

Conclusion: The fact that the VJB has reached the position it has suggests that relationships and communication were not working as effectively as they should have been. We have identified particular issues with regards to the effectiveness of communication on page 24, relating to the concerns raised Shetland Islands Council with the Convener regarding the proposed amendment of the Assessor's terms of employment and the subsequent contradictory advice provided by Orkney Islands Council to the Convener, with those contradictions not being made known between the parties and being left unaddressed until identified through our audit.

Although we have noted disagreements between the relevant parties, with strongly held and occasionally diverging views as to the appropriate way to proceed to address the issues facing the VJB, we have not noted any instances of unprofessional or deliberately damaging behaviour, which suggests that relationships remain effective to a degree. It is clear from our work that all parties involved want to resolve the issues facing the VJB, albeit with differences in approach. Maintaining relationships in place will be key to this.

We note from our discussions with the relevant parties that there are concerns that the approach preferred by the other parties are unreasonable, misguided or pose unnecessary risks to the VJB. It is pivotal that these concerns are reported appropriately and that any contradictions and differences in view are appropriately considered and addressed prior to proceeding with a particular course of action, in order to avoid a repeat of the issues identified above relating to the amendment of the Assessor's terms of employment.

This can be addressed to some degree by clarifying roles and responsibilities through the training recommended on page 28 and ensuring that the overall governance framework within the VJB is effective, as recommended on page 27.

Deloitte view – Governance and transparency

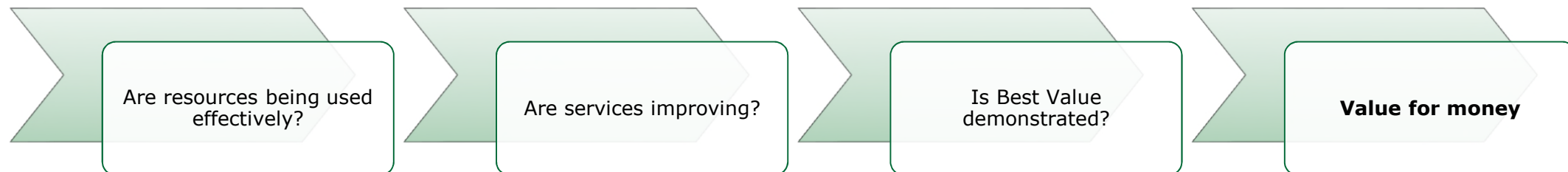
Leadership within the VJB is not robust. The VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now. The issues identified throughout our report and the substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council indicate that leadership within the VJB is not effective.

There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB. We also note the highly unusual nature of the Board adopting positions which contradict advice received from officers without a detailed assessment, particularly given that relevant officers highlighted concerns that the Board would be failing to deliver its obligations under Best Value and good governance principles.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, we are satisfied that the matters identified do not indicate an underlying issues with regards to the Board's attitude to openness and transparency or relationships within the VJB.

Value for money

Value for money is concerned with using resources effectively and continually improving services.



Areas considered

We did not identify any risks in our audit plan. Through the course of our audit, we identified risks surrounding whether decisions are underpinned by appropriate evidence and business cases and whether performance is impacted or likely to be impacted by the other issues identified through our work.

Evidence based decision making

Background: In line with good practice, public bodies should take decisions based on evidence and where appropriate through the use of business cases to clearly set out the justification and considerations behind decisions taken.

Developments: Between 2015 and 2019, a total of 17 reports were presented to the Board regarding the Depute Assessor position. This included a number of detailed reports on staffing structure and cost implications, in addition to reports on proposed changes to the Depute Assessor salary, terms and conditions to encourage applications for the position. The position has been advertised a total of seven times in that period.

In April 2020, the Board took a decision which contradicted the report received from officers. From review of the minutes of the meeting, the decision reached was primarily based on personal judgement rather than evidence based.

The Board engaged an independent, external review of the pay and grading model in place within the VJB, which reported its preliminary findings in August 2020 and which is currently in the process of completing its final report, following which there will be a required period of consultation before further decisions are reached.

Conclusion: The VJB has expended a significant amount of time and resources in attempting to recruit to the Depute Assessor position. We are satisfied that the approach adopted by the VJB to this process – being advertisement of the position, subsequent assessment of the position, readvertising with a temporary uplift in salary and subsequently readvertising with a permanent uplift in salary – has been reasonable and has been underpinned by appropriate evidence based reports and business cases.

The position taken by the Board – being an external review of the pay and grading model in place – is appropriate given the difficulties the VJB has faced with recruitment. The initial report presented to the Board in August 2020 was robust and had a clear evidence base to justify the progression to a final report in November 2020.

The decision taken by the Board in April 2020, however, was neither evidence based nor underpinned by a business case. The decision contradicted the evidence contained in the report presented to the Board, with no clear rationale for this set out by the Board other than personal judgement. The consequences of this approach to decision making have been set out throughout this report, including the loss of key personnel and exposing the VJB to unnecessary risks.

Value for money (continued)

Performance

Background: In 2018/19, the VJB achieved its targets in all seven of its non-financial KPIs, although a decline in performance was noted in all seven areas from 2017/18 to 2018/19.

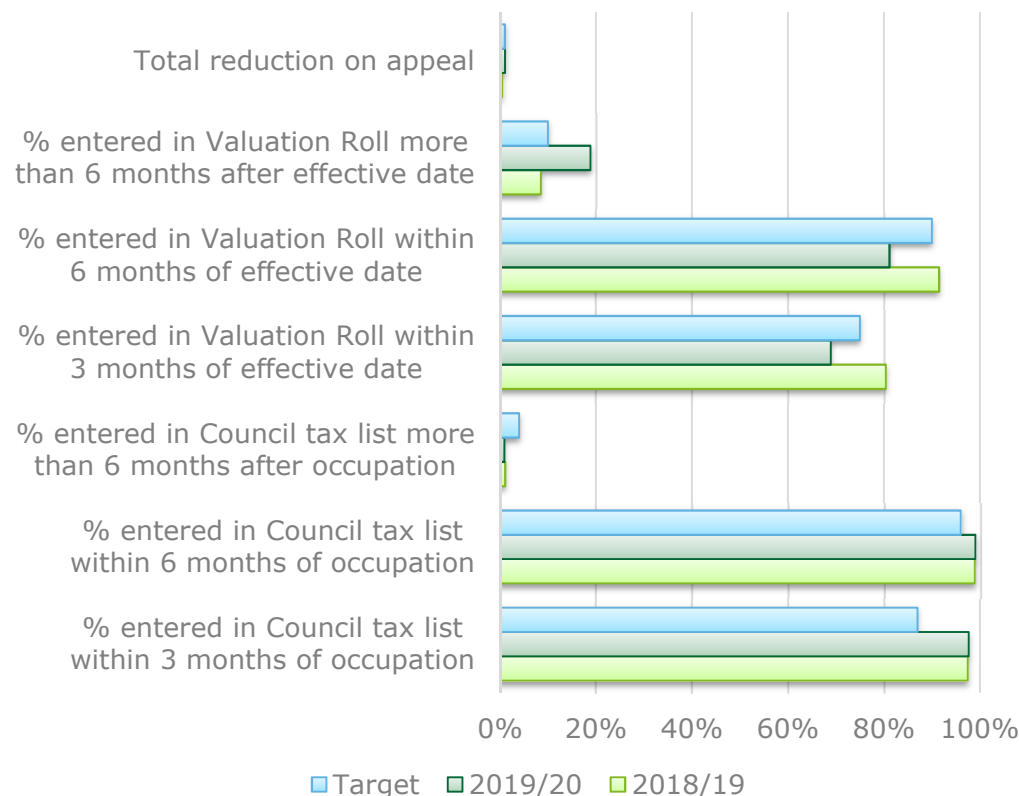
Developments: The VJB's targets for 2019/20 remained unchanged from 2018/19. In 2019/20, the VJB achieved three targets and missed four targets, a significant deterioration on the 2018/19 position. All four KPIs relating to the Valuation Roll were missed, whereas the three KPIs relating to the Council tax list were achieved.

Performance improved marginally in all three KPIs relating to the Council tax list, whereas there were significant declines in performance in all four KPIs relating to the Valuation Roll.

There has been no reporting to the Board on performance subsequent to 2019/20.

Conclusion: Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. The VJB have noted that this is primarily as a result of staff vacancies. These performance issues primarily predate the issues identified throughout this report and the impact COVID-19. There is therefore a significant risk that performance in 2020/21 will be worse than 2019/20, which already was failing to achieve the VJB's targets. The Board will need to closely monitor performance in 2020/21 to ensure that further deteriorations in performance are addressed promptly.

VJB Performance



Deloitte view – Value for money

Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. These performance issues primarily predate the issues identified throughout this report and the impact COVID-19. There is therefore a significant risk that performance in 2020/21 will be worse than 2019/20, which already was failing to achieve the VJB's targets.

The VJB has effectively utilised business cases to underpin its approach to recruitment for the Depute Assessor position over a number of years. We are satisfied that the approach adopted has been reasonable and has been underpinned by appropriate evidence. Similarly, the position taken by the Board in 2020/21 to engage an external review of the pay and grading model in place is appropriate given the difficulties the VJB has faced with recruitment. However, a decision taken by the Board in April 2020 contradicted the evidence contained in the report presented to the Board, with no clear rationale for this set out by the Board other than personal judgement. The consequences of this approach to decision making have been set out throughout this report, including the loss of key personnel and exposing the VJB to unnecessary risks.

Best Value

It is the duty of the Board to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

Duty to secure best value

1. It is the duty of the Board to make arrangements which secure best value.
2. Best value is continuous improvement in the performance of the VJB's functions.
3. In securing best value, the VJB shall maintain an appropriate balance among:
 - a) The quality of its performance of its functions;
 - b) The cost to the VJB of that performance; and
 - c) The cost to persons of any service provided by the VJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the VJB shall have regard to:
 - a) Efficiency;
 - b) Effectiveness;
 - c) Economy; and
 - d) The need to make the equal opportunity requirements.
5. The VJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an VJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

BV arrangements

The VJB receives six monthly reporting on progress with Best Value. The report does not cover in any level of detail the themes of Best Value set out in statutory guidance. The reports are essentially performance reports for the VJB covering electoral registrations, the Valuation Roll, the Council tax list, staffing and other issues. These reports contain significant narrative but insufficient information on targets and historical performance to enable an understanding of whether performance is improving. The effectiveness of this monitoring regime is undermined as the risks and implications inherent in the progress report are not clearly set out.

As noted on page 31, performance has declined significantly against the VJB's KPIs in 2019/20.

Through our work, we have identified weaknesses in the VJB's financial capacity, insufficient engagement with internal audit, ineffective workforce planning, non-existent medium-term financial planning, risks to resourcing of the VJB, weaknesses in leadership and governance, a lack of clarity in roles and responsibilities and reactive decision making which is not evidence based and which exposes the VJB to an unnecessary level of risk.

As set out throughout this report, it is not clear that the VJB has plans in place or the capacity to address these issues in the short term.

Deloitte view – Best Value

It is not clear that the VJB has sufficient arrangements in place to ensure continuous improvement and deliver Best Value.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 23 September 2020

Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report. The uncorrected misstatements have no impact on the overall General Fund position.

		Debit/ (credit) CIES £k	Debit/ (credit) MIRS £k	Debit/ (credit) in net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
Pension Liability – McCloud current service costs	[1]	1.93	(1.93)	(1.93)	1.93	N/A
Total						

[1] As discussed on page 13, the actuary has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The VJB's actuary has estimated that the potential impact of this is a £1.93k understatement of the liability. As the pension liability is fully mitigated by statutory adjustments, this misstatement has no impact on the overall General Fund position.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance and transparency</i>	The VJB should engage an independent review of its governance framework and the effectiveness of governance within the organisation.	The Board acknowledges this recommendation and will seek to commission a review of its governance arrangements. Any review can only take place following the appointment of substantive Proper Officers to the Board which is the immediate priority for the Board.	Chief Executive – Shetland Islands Council	31/03/2021	High
			Chief Executive – Orkney Island Council		
<i>Governance and transparency</i>	The VJB should undertake training to ensure that the Board and management are clear in their understanding of roles and responsibilities in line with the VJB's own governing documents and good practice.	The Board acknowledges this recommendation and commits to provide training to elected members and officers.		30/06/2021	High
		The Board will seek to progress this recommendation once substantive Proper Officers have been appointed to the Board, which is the Board's immediate focus. The Board will consider the benefits of addressing this recommendation in parallel with the review of the Board's governance arrangements, or to progress once the governance review has been concluded.	Chief Executive – Shetland Islands Council Chief Executive – Orkney Island Council		
<i>Value for money</i>	The robustness of performance reporting and reporting against Best Value should be improved by clearly setting out historical performance and targets in addition to current performance, to enable monitoring of improvement. Reporting on Best Value should be clearly linked to the themes of Best Value set out in statutory guidance.	The Board acknowledges this recommendation and will seek to incorporate the suggested changes into its regular performance reports.	Assessor	30/06/2021	Medium

Action plan (continued)

Follow up on 2018/19 Action Plan

We have followed up the recommendations made in our previous year reports and note that only 1 of the total 4 recommendations made have been fully implemented. We will continue to monitor the 3 that have not been fully implemented as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	When developing it's MTFP, the VJB should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the VJB's financial planning. There should be clear links to the Scottish Government MTFS, the VJB's corporate plan and outcomes.	The VJB will update its medium-term financial planning assumptions over the summer of 2019 and will present a refreshed MTFP in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in both the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.	Section 95 Officer	31/3/2020	High	<p><i>Not implemented:</i> The MTFP has not been revised in the year.</p> <p>Updated management response: The Board is committed to developing its own MTFP, which has been delayed during the last year due to delays in the 2020/21 annual budgeting cycle and the COVID-19 pandemic.</p> <p>The Board has commissioned the development of its own pay and grading model, which may have a considerable impact on the future resource requirements of the Board if approved by the Board. The development of the MTFP will need to factor in the pay and grading model.</p> <p>Updated target date: 30/06/2021</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial sustainability	The VJB should consider developing a workforce plan, setting out (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision).	The VJB will work with the Council which is currently developing a workforce plan to consider, following the completion of that exercise, if a stand-alone workforce plan for the VJB is needed.	Section 95 Officer	31/3/2020	High	<p><i>Not implemented:</i> There has been no progress in the development of a workforce plan in the year.</p> <p>Updated management response: The Board is committed to developing its own workforce development plan, however the Board consider it prudent to progress this recommendation once the outcome of a new pay and grading model is known, if approved by the Board.</p> <p>Work on the pay and grading model is currently being developed, at pace, by the Board in conjunction with an independent HR consultant.</p> <p>Updated target date: 31/07/2021</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The VJB should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider community. Through this review, the VJB should identify improvements which can be made in the coming year.	This recommendation will be incorporated into the review of Corporate Governance for the VJB. The review will proceed by way of a self-evaluation process in which openness and transparency will be addressed.	Assessor	31/3/2020	Medium	<p><i>Not implemented:</i> There is no evidence that the VJB has carried out such a review in the year.</p> <p>Updated management response: This recommendation has not been addressed during the year as the Board has been focused on addressing other priorities.</p> <p>The Board acknowledges the new recommendation to undertake a review of its governance arrangements and considers it reasonable to address this recommendation as part of the commitment to review its governance arrangements.</p> <p>Updated target date: 31/3/2021</p>

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in relation to occurrence of income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

Concerns:

No issues to report.



Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.
----------------------------------	--

Fees	The audit fee for 2019/20, increased from that communicated in our planning paper due to the application of the full wider scope requirements, is £20,198, as analysed below:
-------------	---

	£
Auditor remuneration	19,178
Audit Scotland fixed charges:	
Pooled costs	630
Contribution to PABV	0
Audit support costs	390
Total fee	20,198

No non-audit services fees have been charged for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.
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We are not aware of any relationships which are required to be disclosed.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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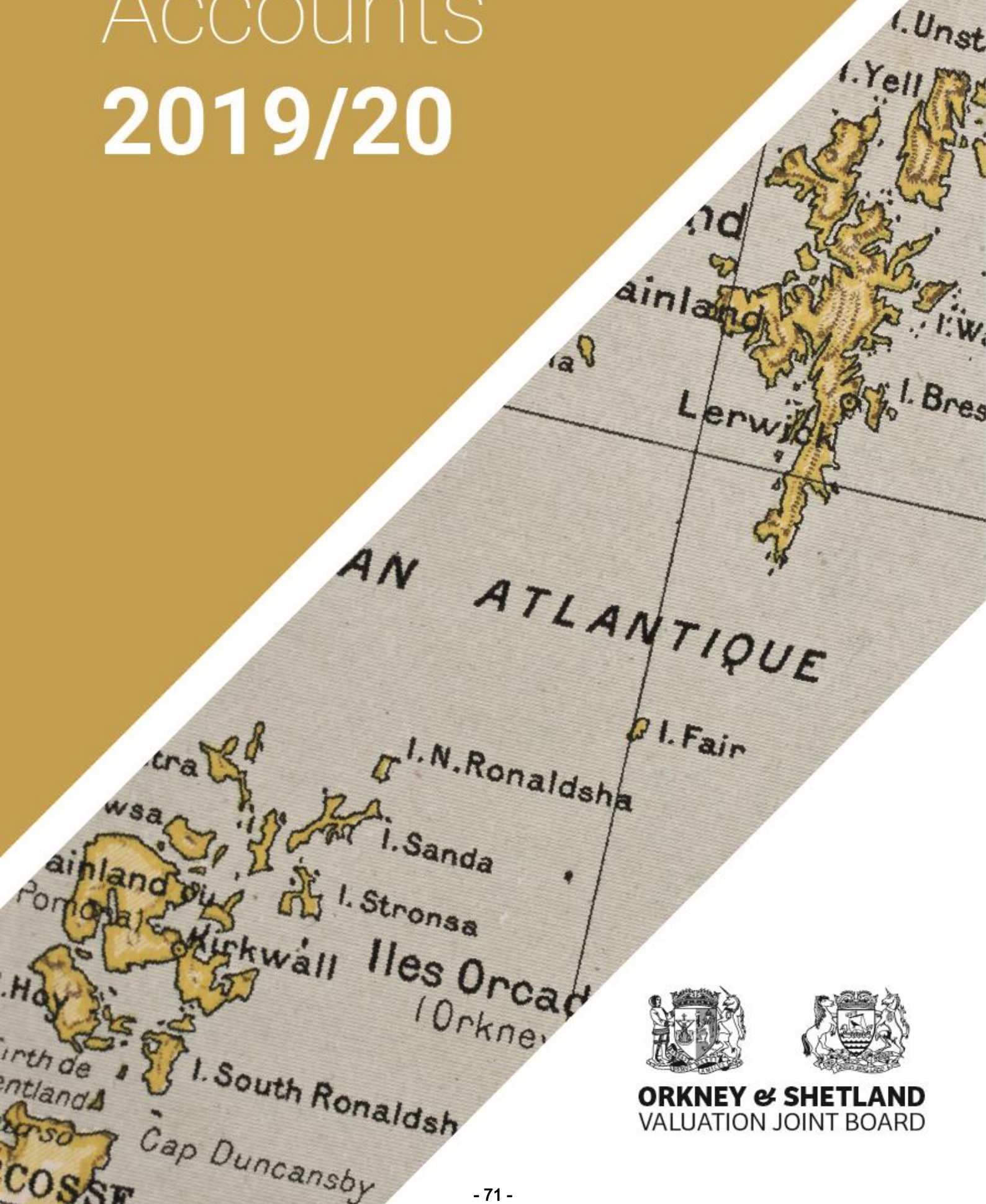
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Annual Accounts 2019/20



ORKNEY & SHETLAND
VALUATION JOINT BOARD

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Management Commentary

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

Introduction

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

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

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

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

Composition of the Board

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

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

Members:

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

Substitute Members:

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

* Resigned from the Board on 29 April 2020.

** Resigned from the Board on 20 August 2020.

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

Chief Officials

Assessor & Electoral Registration Officer:
Dennis M Stevenson MRICS IRRV

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

Treasurer:
Jamie Manson CPFA* – Executive Manager - Finance

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

* Resigned from post on 1 May 2020.

** Resigned from post on 30 April 2020

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

Background

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

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

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

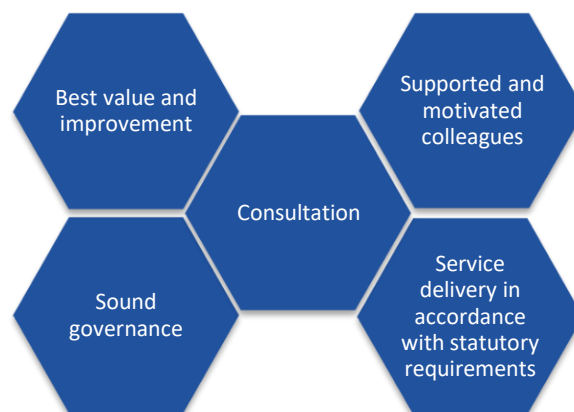
Strategy

Corporate Plan

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

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

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



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

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

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

Performance Information

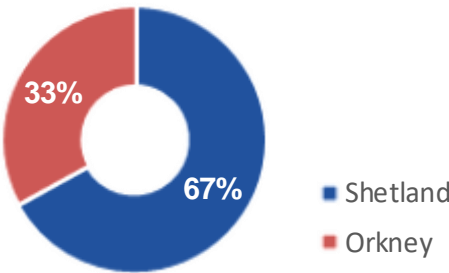
2019/20 was another active year for the Board and its employees involving the continuing citation and negotiation of non-domestic 2017 rating revaluation appeals, which have to be settled by 31 December 2020, in addition to ongoing valuation duties. While there were no planned electoral events in 2019/20,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

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

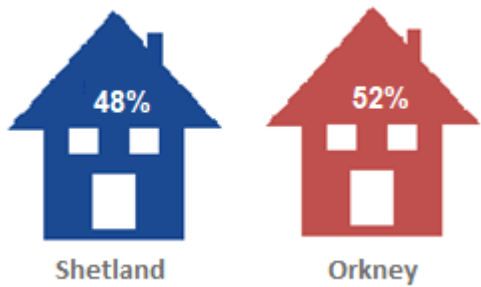
Work on the rolling programme to update and revalue subjects contained in the asset register on behalf of Orkney Islands Council continues to be an extra service provided by the Board. While this service is funded, the impact on the statutory functions of the Board are continually monitored. There has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

As at 31 March 2020, the Board had:

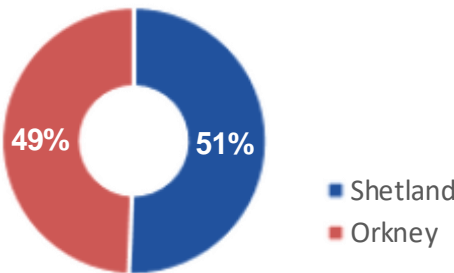
RATEABLE VALUE: £91,416,420



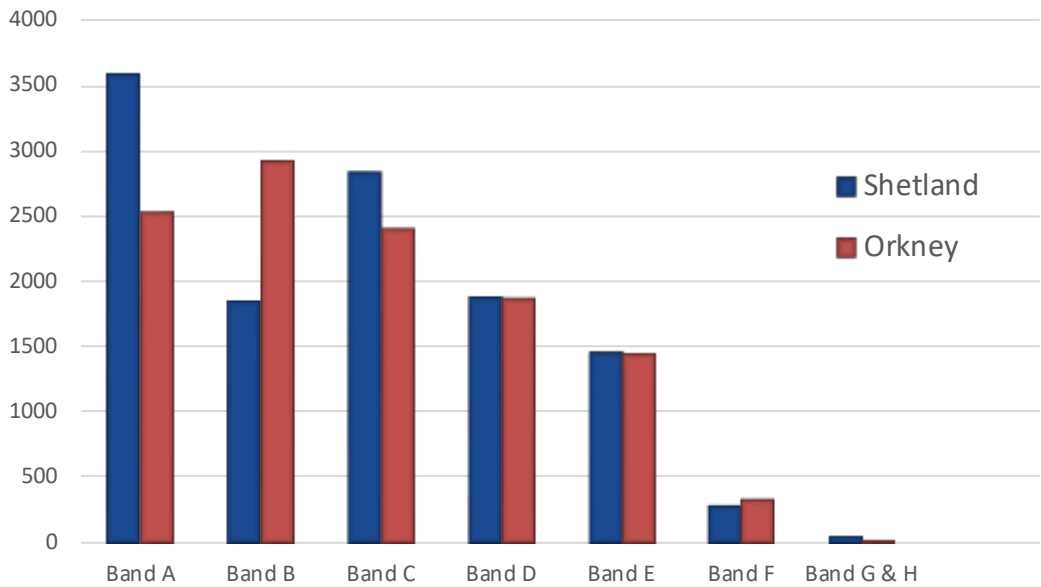
ENTRIES IN VALUATION ROLL: 5,005



ELECTORS: 35,472



COUNCIL TAX PROPERTIES: 23,504



Key Performance Indicators

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

The non-financial KPIs are:

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

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

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

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

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

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

Further information on performance can be found here:

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

Risks and Uncertainties

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

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

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

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

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

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

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

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

Primary Financial Statements

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

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

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

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

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

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

Financial Performance

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

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

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

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

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

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

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

The Balance Sheet as at 31 March 2020

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

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

Material Transaction

Pension Liability

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

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

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

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

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

Looking Ahead

2020/21 Budget

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

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

Further information on the Barclay Review can be found here:

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

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

COVID-19

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

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

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

Beyond 2020

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

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

Further information on staffing and IER can be found here:

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

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

Acknowledgements

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

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

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

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

Annual Governance Statement

Scope of Responsibility

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

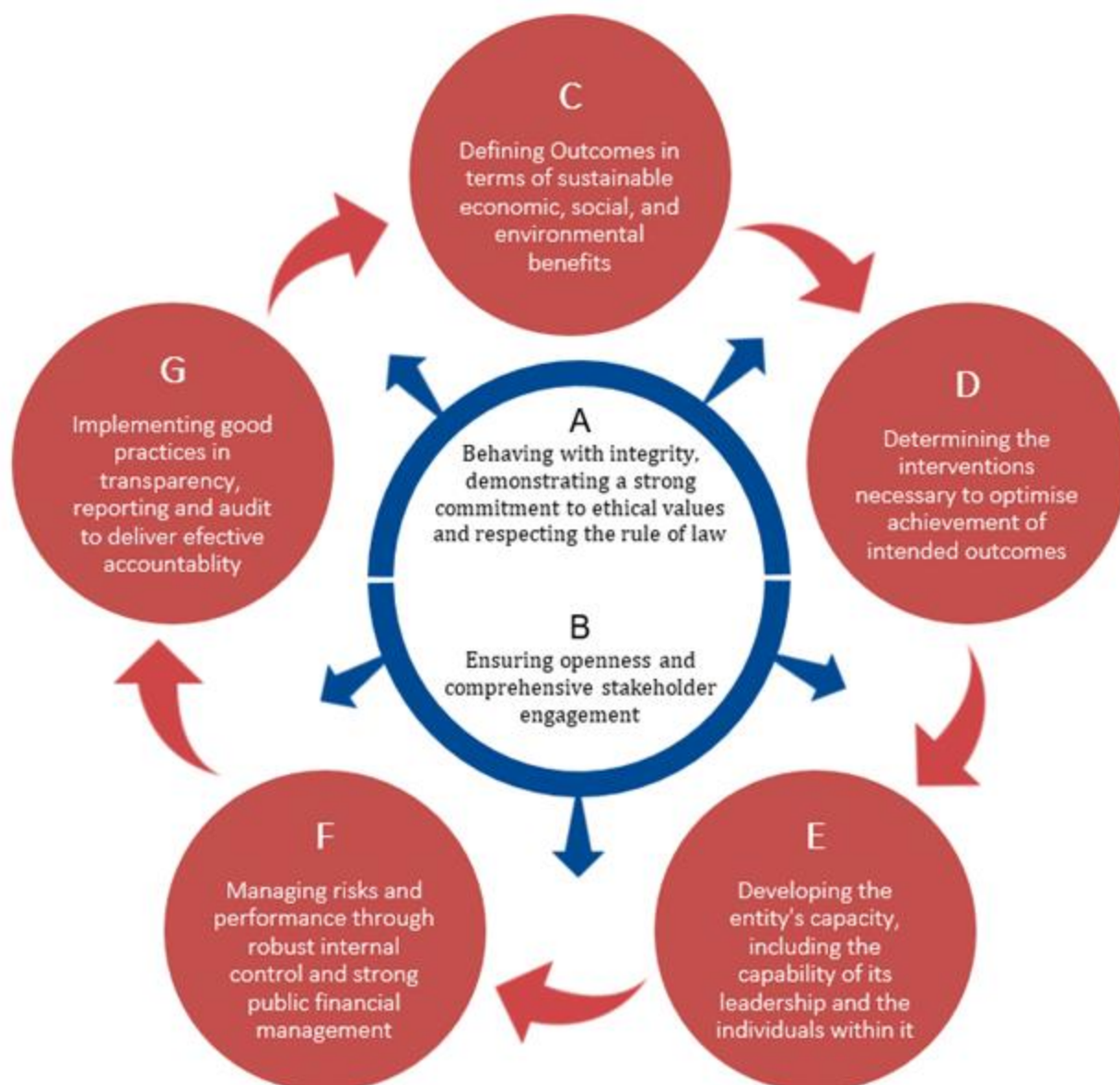
- ensure its business is conducted in accordance with the law and proper standards;
- safeguard and properly account for public money; and
- use public money economically, efficiently and effectively.

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

The Governance Framework



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

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




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

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

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

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

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

Review of Effectiveness

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

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

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

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

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

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

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

Significant Governance Issues

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

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

Update on Significant Governance Issues previously reported

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

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

COVID-19

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

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

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

Service Delivery and Administration

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

Governance Arrangements

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

Longer-term consequences

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

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

Conclusion

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

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

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

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

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

Remuneration Report

Introduction

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

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

Remuneration arrangements of Senior Councillors

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

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

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

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

Disclosure of remuneration for Senior Councillors

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

Remuneration of Senior Employees

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

Disclosure of remuneration for Senior Employees

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

Remuneration of Officers

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

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

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

Exit Packages

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

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

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

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

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

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

Pension details of Senior Councillors

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

Pension employer contributions – Senior Councillors

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

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

Pension details of Senior Employees

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

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

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

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

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

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

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

opt to give up (commute) pension for a lump sum of up to 25% of their pension value at retirement. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

Pension benefits – Senior Employees

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

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

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

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

Statement of Responsibilities for the Annual Accounts

The Board's responsibilities

The Board is required to:

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

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

Signed on behalf of the Valuation Joint Board.

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

The Treasurer's responsibilities

The Treasurer, or Proper Officer for Finance, is responsible for the preparation of the Board's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing these annual accounts, the Proper Officer has:

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

The Treasurer/Proper Officer for Finance has also:

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

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

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

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Orkney and Shetland Valuation Joint Board for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the body as at 31 March 2020 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is four years. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Manager - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

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

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

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

In preparing the financial statements, the Executive Manager – Finance is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual accounts

The Executive Manager - Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

Primary Financial Statements

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

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

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

Movement in Reserves Statement

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

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

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

Balance Sheet as at 31 March 2020

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

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

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

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

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

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

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

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

Note 2: Accounting Standards Issued and Adopted in year

Adoption of new and revised Standards

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

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

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

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

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year

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

- IFRS 16: Leases – HM Treasury have agreed to defer implementation until 1 April 2021;
- IFRS 17: Insurance Contracts – applicable for periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU;

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

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

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

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

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

Note 4: Critical Judgements in Applying Accounting Policies

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

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

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

The financial statements contain estimated figures that were based on assumptions made by the Board about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined

with certainty, actual results could be materially different from assumptions and estimates.

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

Pension Liability
Uncertainties - estimate
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Actuaries are engaged to provide the Board with expert advice about the assumptions to be applied.
Effect if actual results differ from assumptions
The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase of £505k in the pension liability.

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

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

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

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

Note 7: Specific Grant Income

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

Note 8: Short-term Debtors

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

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

Note 9: Short-term Creditors

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

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

Note 10: Unusable Reserves

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

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Board accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Board makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the resources set aside by the Board to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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

Employee Benefits Reserve

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

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

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

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

Credit risk

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

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

Liquidity risk

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

Interest rate risk

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

Price risk

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

Foreign Exchange risk

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

Note 12: Events after the Reporting Period

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

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

Note 13: External Audit costs

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

Note 14: Related Parties

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

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

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

The Board pays the member authorities for services.

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

The Board in turn provides services to the member authorities:

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

Note 15: Operating Leases

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

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

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

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

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

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

Note 16: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Board participates in two post-employment schemes:

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

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

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

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

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the contributing authorities the amounts required by statute as described in Note 17: Accounting Policies on page 36.

Impact of McCloud judgement

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

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

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

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

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

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

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

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

Transactions Relating to Post-employment Benefits

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

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

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

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

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

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

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

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

Analysis of Pension Fund's Assets

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

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

Basis for Estimating Assets & Liabilities

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

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

The significant assumptions used by the actuary were:

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

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

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

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

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

Impact on the Board's Cash Flows

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

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

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

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

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

Note 17: Accounting Policies

A General principles

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

prepared in accordance with proper accounting practices.

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

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

B Accruals of income and expenditure

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

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

C Employee benefits

Benefits payable during employment

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

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

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

Termination benefits

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

Post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

Discretionary benefits

The Board has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies that are applied to the Local Government Pension Scheme.

D Overheads and support services

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

E Leases

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

F Government grants and other contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Specific Grant Income line in the CIES.

G Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified:

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

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

H Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.



Orkney & Shetland Valuation Joint Board



Agenda Item

3

Meeting(s):	Orkney and Shetland Valuation Joint Board	28 September 2020
Report Title:	Appointment of Clerk and Treasurer to the Board	
Reference Number:	VGL-20-20-F	
Author / Job Title:	Maggie Sandison, Chief Executive, Shetland Islands Council	

1.0 Decisions / Action required:

1.1 That the Orkney and Shetland Valuation Joint Board:

- (a) NOTE the statutory provisions in respect of appointment of a Clerk and a Treasurer, as contained in Section 4 of Schedule 2 to the Valuation Joint Boards (Scotland) Order 1995; and
- (b) NOTE the history of appointments of a Clerk and a Treasurer to the Board since 1995 (detailed at Section 4 of the report); and
- (c) NOTE the resignations of the Clerk to the Board and the Treasurer to the Board on 29 April 2020; and
- (d) NOTE the offer from Shetland Islands Council (paragraphs 4.9 – 12) to continue to provide support services in relation to the functions performed by the Clerk and the Treasurer to the board; and
- (e) APPOINT a Clerk and a Treasurer to the Board.

2.0 High Level Summary:

2.1 The purpose of this report is to present the requirement for the Board to appoint to a Clerk to the Board and Treasurer to the Board, following the resignation of both position holders.

3.0 Corporate Priorities and Joint Working:

3.1 The Board must appoint a Clerk and a Treasurer in accordance with the provisions of the Valuation Joint Boards (Scotland) Order 1995.

4.0 Key Issues:

- 4.1 Since December 1995, the roles of Clerk to the Board and Treasurer to the Board have been provided by Shetland Islands Council. In the past, the Board had however indicated an intention to rotate the Clerk and Treasurer roles between constituent authorities on a two-yearly and three-yearly basis.
- 4.2 Since 1995, the Board has considered the appointment of Clerk and Treasurer to the Board on at least seven separate occasions, however each time the Board's

decision has been for the roles to continue to be carried out by Shetland Islands Council. Appendix 1 provides background to the decisions made by the Board in regard to these appointments to date.

- 4.3 The role of the Clerk provides services to the Board including committee clerk and agenda management services, as well as legal advice and support. There are approximately 3-4 board meetings per annum.
- 4.4 Further to the Clerk role, Human Resources services have been provide to the Board by Shetland Islands Council for some time, primarily involving job evaluations and recruitment support.
- 4.5 The roles of Clerk to the Board and Human Resources has been provided by virtue of the appointment of the Executive Manager – Governance and Law, Shetland Islands Council, as Clerk to the Board, until his resignation on 29 April 2020.
- 4.6 The role of Treasurer provides services to the Board including accounting, payroll, purchase and sales ledgers and insurance.
- 4.7 The role of Treasurer to the Board has been provided by the Executive Manager – Finance, Shetland Islands Council, until his resignation on 29 April 2020.
- 4.8 As a result of these resignations, the Board is now required to appoint a Clerk and Treasurer to the Board.

Shetland Islands Council's Offer

- 4.9 In discussions between the Chief Executives of Orkney Islands Council and Shetland Islands Council it has been made clear that giving immediate effect to the proposal by the Board to place the role of Clerk and Treasurer on officers employed by Orkney Islands Council would place a significant resource burden on sections of the Council.
- 4.10 In response to that the Chief Executive of Shetland Islands Council has confirmed that the services currently provided by staff within the Finance Department, Human Resources, and if required Committee Services, could continue to support such appointed officers thereby significantly relieving them of the immediate resource impact. In time those support services could also migrate across but in the meantime could be commissioned by the appointed officers on the basis, for example of a service level agreement.
- 4.11 If the Board chooses to introduce its own standalone pay and grading model at their meeting in November 2020, this would signal the appropriate opportunity for the Board to perhaps seek the provision of external Human Resource and Personnel management advice from an external provider. There are many such providers in the market place and therefore there is competition for these types of services in a manner that would suggest not only that the work could be packaged suitably but also that the costs inherent in going doing this route might not be prohibitive. Members will recall that one of the barriers to an appointment of the Clerk being on officer based in Orkney was that the ongoing alignment of the staff of the Valuation Joint Board with the Shetland Islands Council Single Status

Scheme would make it difficult for any other advisor advising in relation to elements of that scheme.	
4.12	As indicated, the potential for the Board now pursuing its own course means that the previous barrier to HR advice being sourced from anywhere other than Shetland Islands Council is lifted. This will however take some time and in-keeping with the offer mentioned above the Chief Executive of Shetland Islands Council has agreed that HR services continue to be provided by Shetland Islands Council until such time as the Board takes further decisions in relation to the provision of those services in the future.
5.0 Exempt and/or confidential information:	
5.1	None
6.0 Implications :	
6.1 Service Users, Patients and Communities:	The appointments are a statutory requirement and internal to the governance functions of the Board and therefore has no direct impact on the communities of interest hereby listed.
6.2 Human Resources and Organisational Development:	<p>The files concerning individual employees would require to be transferred securely if the roles of the Clerk, Human Resources and the Treasurer are transferred to officers in Orkney Islands Council.</p> <p>No staffing reductions are anticipated in Shetland Islands Council as a result.</p>
6.3 Equality, Diversity and Human Rights:	None
6.4 Legal:	<p>The Board must appoint a Clerk and a Treasurer in accordance with the provisions of the Valuation Joint Boards (Scotland) Order 1995.</p> <p>In securing the provision of Human Resources services, the Board has within its gift the opportunity to consider purchasing such services externally, although detailed consideration of such a proposal is not in contemplation within this report.</p>
6.5 Finance:	<p>The roles of Clerk and Human Resources support in a year where the Human Resources input was relatively low would be in the order of £10k (of which £2k relates to HR support and £8k for legal and administration support).</p> <p>The role of Treasurer support in a year amounts to roughly £11k.</p> <p>Should the roles transfer to Orkney Islands Council then this income would no longer be available to Shetland Islands Council but a commensurate sum would be expected to be applied in Orkney for the delivery of similar services.</p>
6.6 Assets and Property:	The premises used to accommodate existing operational staff in Orkney and in Shetland would remain and are not affected by the resources used by either of the constituent Authorities to

	perform either the Treasury, Clerking or Human Resources functions. Therefore the implications of any decision under this report in that regard should be zero.
6.7 ICT and new technologies:	The administration of ICT systems in Orkney should be able to accommodate any of the processes required for future meetings of the Valuation Joint Board. It is also anticipated that the historic records of the Board in an electronic form can be transferred relatively easily to Orkney Islands Council and this is not seen as an impediment to the transfer of the primary Clerk functions. Key information regarding Valuation Board staff are held on the Council's CHRIS system. An IT solution would be developed for the migration of that information onto the Human Resources / IT systems of Orkney Islands Council.
6.8 Environmental:	None
6.9 Risk Management:	Due to the similarity in skillsets across both constituent authorities the risk of service delivery not being continuous is considered minimal, however a learning curve is expected.
6.10 Policy and Delegated Authority:	The Board must appoint a Clerk and a Treasurer to the Board in accordance with the provisions of the Valuation Joint Boards (Scotland) Order 1995. The Board cannot delegate this decision to any other party.
6.11 Previously considered by:	N/A

Contact Details:

Maggie Sandison

Appendices:

Appendix 1 - Background to the Appointment of Clerk and Treasurer to the Board

Background Documents: None

Background to the Appointment of Clerk and Treasurer to the Board.

- 1.1 Section 4 of Schedule 2 to the Order makes the following arrangements in respect of appointment of Clerk and Treasurer: -
- (a) each Board shall appoint a Clerk and a Treasurer, but the Board may appoint the same person to act as both Clerk and Treasurer;
 - (b) a Board may appoint an officer of one of its constituent authorities to hold a post referred to in sub-paragraph (a) above;
 - (c) a Board may appoint such other staff as may be required for the discharge of its functions;
 - (d) where, under an agreement with a Board, a constituent authority place any of their own staff at the disposal of the Board, the Board shall pay to that authority such amounts as may be agreed for such services.
- 1.2 At its meeting of 11 December 1995, the Board agreed that: -
- (a) the office of Clerk and Treasurer should be discharged by separate individuals;
 - (b) the provision of the services of Clerk and Treasurer should rotate between the two constituent authorities on a two-yearly basis [Min Ref: 2/96].
- 1.3 However in approving the minute at the following meeting of 7 March 1996 [Min Ref 11/96], the Board agreed that rotation of the posts of Clerk and Treasurer as between the constituent authorities should not be a necessary requirement, and instead decided that: -
- (a) consideration should be given to rotating the Clerk to the Board and that the present arrangement would remain in place for three years, until the next local government elections;
 - (b) thereafter it would be for each Board to decide who would undertake the duties for a further period of three years.
- 1.4 At its meeting of 24 June 1999, the Board agreed to leave in place the existing arrangements and decided to retain the services of the Divisional Manager, Administrative Services, Shetland Islands Council as Clerk to the Board, and to retain the services of the Director of Finance, Shetland Islands Council, as Treasurer to the Board [Min Ref: 9/99].
- 1.5 At the Board meeting in August 2003 [Min Ref. 9/03] the Board agreed to reappoint the existing Clerk and Treasurer, being then the Head of Legal and Administrative Services and Head of Finance, Shetland Islands Council, respectively.
- 1.6 Likewise at the Board meeting in August 2007 [Min Ref 09/07], the Board agreed to reappoint the Clerk and Treasurer from Shetland Islands Council. The following was also recorded in the minute of the meeting, "The Re-appointed

Treasurer said he was content for SIC to continue with the role of Treasurer but thought that conceptually, it would be good to move the roles of Clerk and Treasurer to Orkney Islands Council at some point. It was suggested a planning period of 2-3 years would be needed."

- 1.7 At the Board meeting in June 2012 [Min Ref. 07/12] the Board approved the re-appointment of the Clerk and Treasurer of the Board, being Shetland Islands Council's Executive Manager – Governance and Law and Executive Manager - Finance, respectively.
- 1.8 During consideration of a report to the Board in February 2015 [Min Ref. 03/15], which advised on the resignation of the existing Treasurer to the Board, and sought appointment to the role of Treasurer by the new Executive Manager – Finance, Shetland Islands Council, the Board agreed that the appointment of office bearers and service to the Board be reviewed in light of the Assessor now being located in Orkney.
- 1.9 During consideration of the "Appointment of Clerk and Treasurer" report at the meeting on 31 May 2017 [Min. Ref. 13/17], the Board requested a report setting out all aspects of the local authorities taking on the role of Clerk and Treasurer, to the next meeting of the Board.
- 1.10 The Board, at its meeting on 3 October 2017, considered two reports, namely, "Report on the roles of Clerk and Human Resources functions to the Board", and "Report on the role of Treasurer to the Board." The decisions taken by the Board are set out below:
 - (a) "Report on the roles of Clerk and Human Resources functions to the Board" [Min. Ref.: 25/17]:
 - Comment was made on the potential difficulty in terms of the transfer of the Human Resources role, and on the need for the Board to be aware of the full implications following discussion between officials. In that regard, the Board deferred the decision, to allow officers to have dialogue, and to report back to a future meeting
 - (b) "Report on the role of Treasurer to the Board" [Min. Ref. 24/17]:
 - The Board decided that Shetland Islands Council should continue the role of Treasurer at his time.