



Executive Manager: Jan-Robert Riise
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Date: 7 November 2023

Dear Sir/Madam

You are invited to the following meeting:

Audit Committee
Council Chamber, Lower Hillhead, Lerwick
Tuesday 14 November 2023 at 10.00am

Apologies for absence should be notified to Lynne Geddes, Committee Officer, on 01595 744592 or by email to the above address.

(Please note that this meeting will be webcast live, recorded, and published online for public access after the meeting.)

Yours faithfully

Executive Manager – Governance and Law

Chair: Councillor Allison Duncan
Vice-Chair: Councillor Catherine Hughson

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.

- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any declaration of interest should be sufficient for those at the meeting to understand why you consider you have a clear and substantial interest. If you are in any doubt about whether you have a declarable interest that would prevent you from participating in discussion or a decision, you should seek the advice of the Monitoring Officer, or the Council's legal officers on his behalf, in advance of the meeting.
- (d) Confirm minutes of meeting held on 19 September 2023 (enclosed).

Items

- 1. Annual Audit Report on the 2022/23 Audit - Shetland Islands Council and Zetland Educational Trust
F-038-23
- 2. Internal Audit Mid-Year Report
CRP-28-23
- 3. Internal Audit Summary Report
CRP-29-23
- 4. Internal Audit Follow Up Monitoring Report
CRP-31-23
- 5. Whistleblowing Arrangements
CRP-30-23



Shetland Islands Council

MINUTES

A & B - Public

Audit Committee
Council Chamber, Lower Hillhead, Lerwick
Tuesday 19 September 2023 at 10.00am

Present:

A Duncan	C Hughson
L Peterson	I Scott
C Smith	

Present via Remote Link:

S Leask

Apologies:

G Robinson	A Wenger
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In attendance (Officers):

C Ferguson, Director of Corporate Services
P Fraser, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
L Adamson, Committee Officer
L Geddes, Committee Officer

Also in Attendance:

B Howarth, Audit Director – Audit Scotland
S O'Hagan, Senior Audit Manager – Audit Scotland
F Owens, Audit Manager – Audit Scotland

Chairperson

Mr Duncan, Chair of the Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

Minutes

The Committee confirmed the minutes of the meeting held on 27 June 2023 on the motion of Mr Leask, seconded by Ms Peterson.

16/23 **Year End Wider Scope Audit - Best Value Thematic Review 2022/23**

The Committee considered a report by the Chief Executive (CE-04-23) presenting the findings and recommendations of the external auditor in the Best Value Thematic Review.

The Director of Corporate Services summarised the main terms of the report, advising that Audit Scotland continued to work on the audited accounts which would be presented to the Council in November. The Council had worked closely with Audit Scotland since the follow up report to the Best Value Audit Review (BVAR) had been received last August, though it was unfortunate that there had not been as much dialogue or interaction as the Council would have liked. Six recommendations had been identified, and there would be further dialogue in that regard as some could have been more precise. Further reports and information would be provided to the Best Value Sounding Board and the Council's various committees when discussion had taken place on the detail of the recommendations, and the process for engaging with Audit Scotland on the follow up report.

Mr Howarth, Audit Director, then introduced the Best Value Thematic Review to Members and outlined the changes in the best value approach and the key messages from the report. The thematic review had been quite wide, with a large part of the exercise following up where the Council had got to since the BVAR in August 2022. It could be difficult to judge progress on longer-term recommendations over this short period, but there had been progress across all areas and recommendations were close to being met. An Accounts Commission meeting in February 2024 would consider the progress. In terms of positive points, there was a good clear vision; clear objectives relevant to the local community and economy; strong performance in comparison with other Councils; an established engagement strategy; and service plans aligned with "Our Ambition". However consideration required to be given to whether performance reporting was completely focused and balanced, and there was a need for development of targets. There was also a need for wider plans to support "Our Ambition", particularly in relation to workforce planning and investment plans.

He went on to say that he was less concerned about the reserves position than previous auditors and reports had been. He highlighted that the Council was in an enviable reserves position compared to other councils, and was adding to that position every year with harbour income and investment returns - with £33 million projected for the coming year. However the net draw last year had been £40 million, and a £24 million draw was projected for 2023-24. This illustrated that the scale of draw on reserves had increased, though this was not an unusual position across local authorities. At the current rate of draw, there were 15 years of reserves remaining, so a key aspect would be managing the scale of that draw, particularly in relation to the long-term reserves position.

Mr Howarth then responded to questions, and Members noted the following:

- The thematic review was now built into the audit process, and the opportunity had been taken to follow up on action points from previous reports. The report to the Accounts Commission in February should not require a separate follow up report, and it was likely that the report being considered today would be presented with a covering report from the Controller of Audit highlighting the up-to-date position on the recommendations, some of which were very close to being completed.
- It had been noted that the Council could be doing more in terms of linking the narrative to data in terms of performance reporting. It was also suggested that more could be done to streamline the performance framework to support the Council's key priorities. The number of performance indicators identified was quite significant in relation to the size of the Council.
- The cost of living crisis and effect on prices meant that money did not go as far as it had in the past. Investment returns had also been subdued in recent years, but may come back to mitigate cost pressures. Many councils were having to take a look at their plans, as they may now be considered optimistic compared to what they had been pre-COVID.
- The Council's Medium Term Financial Plan had illustrated that there would be very little reserves left by 2031-32 at the current rate of usage. However he had examined the data, and estimated that 15 years instead would be a relatively prudent estimate. While the rate of usage had increased significantly over the last year or two, the 15 years estimate did not take into account fully the rate of investment returns. He felt that the previous data and Medium Term Financial Plan may not have fully taken into account the harbour income and the investment returns generated, so he was less concerned and of the view that the reserves were in a more buoyant position than had been referred to in previous reports. He did not feel that there was a short or medium term risk, but the Council would have to consider the extent of the longer-term legacy allowing it to maintain good quality services. It was noted that no other council was in a position where the extent of reserves was more than gross annual expenditure. However the rate of usage had increased over the last couple of years, and there was a need to manage this to ensure that the legacy lasted for a long time.
- Exhibit 4 in the report illustrated the movement in reserves excluding the unrealised gains - excluded because the full value was often not received if gains in investments were realised too quickly. Over the last eight years the Council had added to its reserves almost every year, but there had been a net draw approaching £5 million in 2022/23. The Council had started to dip into useable reserves, and that drain on reserves should be monitored as it had been 8-10 years since there had last been a draw on that reserves position.

The Executive Manager – Finance added that the outlook on the reserves position had perhaps been overly pessimistic, and it was apparent that the Council was not in the same position as others. However the Council was now eating into its reserves and there were questions around the speed of that. It was also the case that harbour income in the future was uncertain, and there were elements going forward that gave reasonable cause for concern. To preserve the investment, there was a need to tighten belts and get on a stable footing without eating into the capital investment. The underlying message about the need to look meaningfully into the financial position was the same. The issues had not gone away and the Council was not finding savings using the existing models.

It was questioned why it was felt that the number of key performance indicators should be streamlined, and Mr Howarth advised all councils were looking at refocusing and reprioritising because of the challenges faced. Given the pressures around in the environment and on staff, there was scope to reduce or review the number of key performance indicators so that the ones selected add to the Council's clear objectives and vision.

The Director of Corporate Services added that it was a difficult area for the Council. Although it was a small local authority – and this was reflected in the size of its teams – the Council had a wide portfolio in terms of the services it ran and managed directly, the range of initiatives, and some unique areas of business. If the Council was to be able to see its performance across all areas of activity, it would be particularly difficult to have fewer indicators. It was also the case that because some services were operated directly, the Council required to report a lot of detail to the government. While the recommendation regarding streamlining was welcomed, it was important to reflect on the breadth of work that the Council undertook, and that the Scottish Government was informed appropriately in this regard. The number of staff employed directly also meant that wage rises - which were not funded by the Scottish Government – had to be built in every year.

Responding to a question regarding the difficulty in embedding the Change Programme, she also advised that this came down to the way the Council was structured. Unlike in other councils, there was a very small central resource to support change programmes. The vast majority of Change Programme business was managed by departments and services, reflected in directorate and service plans, and linked to "Our Ambition". It was perhaps not recognised that the Change Programme was not something itself to be managed separately, but instead an overview of all the change programmes being managed across the Council in a dispersed way. The Change Programme kept an overview so that everything was in view and could be linked to how performance was reported. Other areas had a bigger central resource and were driving things centrally, but what was being done locally was better suited to the local situation and environment. The information informing the overview sat in the departmental and service plans and aimed to make it

effective in terms of what was trying to be achieved through “Our Ambition”.

In response to a question regarding training for members to make them aware of their position in regard to the Nolan Principles, leading to better working between members and officers, the Executive Manager – Governance and Law advised that these Principles were embedded in the nine principles accepted by the Standards Commission in terms of the Councillors’ Code of Conduct. A package of training was currently being developed updating the induction training for Members, and refresher training would be provided on a number of themes, including ethical standards.

The Director of Corporate Services added that communication was at the heart of any working relationships, and high levels of engagement with each other made a huge difference. She hoped that it was always the case that Members could speak to staff and maintain consistent dialogue and a good working relationship at all times, but she would be happy to arrange additional training.

During the discussion that followed Members commented that they were pleased to see a positive report that demonstrated that progress was being made, and there was a need to ensure that this was maintained. It was heartening to note that there were no concerns regarding the capacity and skills of management and senior officers, and to note the number of positive strengths identified.

Some discussion took place regarding the reserves position, where it was commented that there was a need to address the long-term financial sustainability issues as a result of the reduction in central government funding. It was suggested that failure to do so would have a serious impact, and Members would require to make some difficult decisions regarding savings.

However it was also pointed out that the Council was in a very fortunate position compared to others, and was in a position to weather the storm given its reserves position. Cuts to services tended to affect the most vulnerable in the community, and it was vital that vulnerable people were looked after rather than imposing a position of austerity.

Mr Smith referred to the role of the Best Value Sounding Board, and the pressures on staff and resources which would necessitate a need to take a measured look at the level of services going forward. He went on to move that the Committee approve the recommendation in the report, subject to the wording in paragraph 2.3 of the report being amended to read “The Best Value Thematic Review contains six recommendations where the Council *will* improve...”, as this would put pressure on the Council to make these improvements.

Mrs Hughson seconded.

The Chair thanked officers and for their work relating to the report.

Decision:

The Audit Committee:

- NOTED the findings of external auditor in the Best Value Thematic Review
- NOTED the external auditor's recommendations and the agreed Action Plan as set out on pages 40-42 of the Best Value Thematic Review
- AGREED that the wording in paragraph 2.3 of the report should be amended to read "The Best Value Thematic Review contains six recommendations where the Council *will* improve..."

The meeting concluded at 11.10am.

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Chair



Meeting(s):	Audit Committee Shetland Islands Council	14 November 2023 21 November 2023
Report Title:	Annual Audit Report on the 2022/23 Audit – for Shetland Islands Council and the Zetland Educational Trust	
Reference Number:	F-38-23-F	
Author / Job Title:	Paul Fraser, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee:

- a) **NOTES** the findings of the 2022/23 audit; the auditor's covering letter which includes the audit opinion and Letter of Representation for both Shetland Islands Council and Zetland Educational Trust (Appendix 1); and the external auditor's Annual Audit Report (Appendix 2);
- b) **CONSIDERS** a verbal report by the external auditor;
- c) **RECOMMENDS** that the Council **RESOLVES** to approve the audited Annual Accounts for 2022/23 for Shetland Islands Council, for signature (Appendix 3);
- d) **RECOMMENDS** that the Council **RESOLVES** to approve the Trustees' Annual Report and Audited Financial Statements 2022/23 for Zetland Educational Trust, for signature (Appendix 4);
- e) **APPROVES** the Annual Governance Statement contained within the audited Annual Accounts for 2022/23 (Appendix 3).

1.2 That Shetland Islands Council **RESOLVES** to:

- a) **NOTE** the findings of the 2022/23 audit; the auditor's covering letter which includes the audit opinion and Letter of Representation for both Shetland Islands Council and Zetland Educational Trust (Appendix 1); and the external auditor's Annual Audit Report (Appendix 2);
- b) **APPROVE** the audited Annual Accounts for 2022/23 for Shetland Islands Council, for signature (Appendix 3);
- c) **APPROVE** the Trustees' Annual Report and Audited Financial Statements 2022/23 for Zetland Educational Trust, for signature (Appendix 4).

2.0 High Level Summary:

- 2.1 The Annual Audit Report (Appendix 2) will be presented by the external auditor.

- 2.2 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 Audit Scotland.
- 2.3 Regulation 10 of the Regulations requires the Council to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- 2.4 The Council considered its unaudited accounts for the year ending 31 March 2023 on 28 June 2023 (minute reference: 50/23). A small number of presentational adjustments have been made to the Management Commentary, including additional narrative, the Annual Governance Statement and the accompanying notes to the accounts reflecting feedback during the audit process.
- 2.5 Two adjustments were identified during the audit process. One related to the valuation of council dwellings and the other to the valuation of pension assets, both of which have been adjusted for in the annual accounts. The impact of these adjustments is to reduce the Net Assets and Unusable Reserves. The overall net worth shown on the Balance Sheet has therefore decreased from the unaudited accounts published earlier in the year by £32.6m.
- 2.6 Following the audit process, the external auditor has confirmed an unmodified audit opinion for the 2022/23 accounts. This means the annual accounts for 2022/23 are free from material misstatement and present a true and fair view of the Council’s financial position as at 31 March 2023.
- 2.7 An agreed action plan that sets out the external audit recommendations is detailed on pages 28 to 32 of Appendix 1. This includes follow-up of prior year recommendations, BVAR Thematic report recommendations as reported to Committee in September 2023, and three new recommendations following the audit of the 2022/23 financial statements.
- 2.8 The Annual Audit Report also includes findings in relation to the audit of the Trustees’ Annual Report and Financial Statements of Zetland Educational Trust. Further detail can be found on pages 13 to 14 of Appendix 1.

3.0 Corporate Priorities and Joint Working:

- 3.1 The preparation and presentation of the annual accounts is a key element of the Council’s overall governance and statutory reporting arrangements.

4.0 Key Issues:

- 4.1 The Council’s unaudited annual accounts for the year ending 31 March 2023 were submitted to the external auditor by the statutory deadline of 30 June 2023.
- 4.2 As per guidance from Audit Scotland, Regulation 10 of the Local Authority Accounts (Scotland) Regulations 2014 state that the Council should aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate. Regulation 11(1)(a)-(c) goes on to state that the signed accounts and audit opinion should

then be made available through its website no later than 31 October, with a copy of every further report provided by the auditor that relates to the signed financial accounts be made available by 30 December (see regulation 11(1)(d)).

As communicated in the Annual Audit Plan 2022/23 (presented to the Audit Committee on 15 May 2023), Audit Scotland's target date for completion of audit fieldwork and issue of proposed audit opinion was the end of October 2023 (outwith timeframes in the regulations) due to ongoing resource challenges. This committee cycle is the earliest available to approve accounts for signature. Following approval at Council on 21 November, the signed annual accounts and audit opinion along with Audit Scotland's Annual Audit Report, will be made available on the Council's website in compliance with the said regulation 11(1)(d).

Financial Statements Audit

- 4.3 External auditors are required to comply with International Standards on Auditing (ISAs) throughout their audit. The standards include a specific standard, ISA 260 '*Communication with Those Charged with Governance*', which prescribes how auditors should communicate their findings which include:
- 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.
- 4.4 The external auditor's findings, otherwise known as their ISA260 report, are included in the Annual Audit Report at Appendix 1. The report comprises:
- significant matters arising from an audit of the Council's annual accounts;
 - conclusions on the Council's performance in meeting its Best Value duties; and
 - conclusions on the wider scope areas that frame public audit, covering financial management, financial sustainability, vision, leadership, and use of resources to improve outcomes.
- 4.5 For the 2022/23 financial year, the external auditor has confirmed an unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Council's financial position at 31 March 2023.
- 4.6 The Annual Audit Report (Appendix 1) highlights four significant and four non-significant risk areas that auditors reviewed, as detailed on pages 9 to 13 of Appendix 1. From the external auditor's testing, two adjustments were identified as follows:
- Valuation of council dwellings - The Council operates a rolling programme of revaluations over a 5-year period. Council dwellings were last valued in 2019,

with the next valuation due in 2024. A desktop exercise was undertaken covering a sample of assets not subject to valuation during the year. This exercise identified that the beacon values of the sample had decreased, which resulted in a decrease to the carrying value of £7.4m; and

- Valuation of Pension asset / liability – The pension accounting standard (IAS19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. A review of the pension fund asset disclosed in the unaudited accounts, identified that no asset ceiling should have been recognised, due to the present value of the minimum funding requirement contributions exceeding the future service cost. This resulted in a reduction of £2.9m. A further adjustment was required to disaggregate the unfunded liabilities which remain as a pension liability on the balance sheet. The audited financial statements were amended to reflect a pension asset of zero for the Council's funded obligations, with a pension liability of £22.3m for its unfunded obligations.

- 4.7 The external auditor has also completed the audit of the Zetland Educational Trust (ZET) accounts for the year ended 31 March 2023. The unaudited accounts disclosed the trust funds as unrestricted, however as restrictions do exist, the audited accounts have been amended to recognise the funds are restricted by nature. The external auditor has confirmed the accounts have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006.

Annual Governance Statement

- 4.8 The unaudited annual accounts contained a draft Annual Governance Statement which had been endorsed by the Audit Committee on 27 June 2023 (minute reference: 11/23).
- 4.9 Minor changes have been made to the Annual Governance Statement to take account of progress made on prior year significant governance issues.
- 4.10 The revised annual governance statement has been scrutinised by external audit who confirm the statement has been prepared in accordance with applicable regulations.
- 4.11 The annual governance statement as set out on pages 16-22 of Appendix 2 summarises the Council's internal controls and governance arrangements in place throughout 2022/23, including the Chief Internal Auditor's audit opinion on the adequacy and effectiveness of the Council's governance and internal control environment. The Council recognises that a directed focus on areas identified as problematic has led to a high level of recommendations and that clearance of these needs to be more targeted and high priority. Nonetheless, overall, we believe that reliance can be placed upon the adequacy and effectiveness of the internal control systems and governance arrangements.

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:	None arising directly from this report.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.
6.4 Legal:	<p>As per guidance from Audit Scotland, Regulation 10 of the Local Authority Accounts (Scotland) Regulations 2014 state that the Council should aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate. Regulation 11(1)(a)-(c) goes on to state that the signed accounts and audit opinion should then be made available through its website no later than 31 October, with a copy of every further report provided by the auditor that relates to the signed financial accounts be made available by 30 December (see regulation 11(1)(d)).</p> <p>As communicated in the Annual Audit Plan 2022/23 (presented to the Audit Committee on 15 May 2023), Audit Scotland's target date for completion of audit fieldwork and issue of proposed audit opinion was the end of October 2023 (outwith timeframes in the regulations) due to ongoing resource challenges. This committee cycle is the earliest available to approve accounts for signature. Following approval at Council on 21 November, the signed annual accounts and audit opinion along with Audit Scotland's Annual Audit Report, will be made available on the Council's website in compliance with the said regulation 11(1)(d).</p>
6.5 Finance:	None 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:	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.
6.10 Policy and Delegated Authority:	<p>In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the remit of the Audit Committee includes consideration of the annual report, opinion, and summary of Internal Audit activity, and to review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audited accounts of the Council and related certificates is a matter reserved by the Council.</p>
6.11 Previously considered by:	n/a

Contact Details:

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2 November 2023

Appendices:

Appendix 1: Audit Scotland letter
Appendix 2: Annual Audit Report 2022/23 for Shetland Islands Council (incorporating the Zetland Educational Trust)
Appendix 3: Audited Annual Accounts 2022/23 for Shetland Islands Council
Appendix 4: Audited Trustee's Annual Report and Financial Statements 2022/23 for the Zetland Educational Trust

Background Documents:

The Local Authority Accounts (Scotland) Regulations 2014

Audit committee

14 November 2023

Audit of the 2022/23 Annual Accounts of Shetland Islands Council and the registered charity administered by the Council

Independent auditor's report

1. Our audit work on the 2022/23 annual accounts of Shetland Islands Council and the registered charity administered by the Council is now substantially complete. Subject to the receipt of revised sets of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's reports on 21 November 2023. The proposed reports are attached for the Council ([Appendix A](#)) and the charity ([Appendix C](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit committee's consideration our draft annual report on the 2022/23 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

6. We have one unadjusted misstatement to report. The Council accounts include a Blackrock SAIF investment product, which was valued at the end of December 2022. The valuation report to the 31 March 2023, which was received after the unaudited accounts had been prepared shows that the investment had increased by £971,000.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

9. Draft letters of representation are attached for the Council ([Appendix B](#)) and the charity ([Appendix D](#)). These should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Acknowledgement

11. The audit team would like to thank all members, management and staff of Shetland Islands Council for their cooperation and assistance during the audit.

APPENDIX A: Proposed Independent Auditor's Report for Shetland Islands Council

Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Shetland Islands Council for the year ended 31 March 2023 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, Cash Flow Statement, Housing Revenue Account, Council Tax Income Account, Non-Domestic Rate Income Account and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council as at 31 March 2023 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 02 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the council's current or future financial sustainability. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Manager – Finance and the Audit Committee 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 council'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 there is an intention to discontinue the council's operations.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My 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 my 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council;
- inquiring of the Executive Manager - Finance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council;
- inquiring of the Executive Manager - Finance concerning the council's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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 my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Executive Manager - Finance is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge

obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my 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 I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my 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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

APPENDIX B: Letter of Representation (ISA 580) for Shetland Islands Council

<Signed copy of ISA 580 letter to be provided on headed paper with signed Annual Accounts>

Brian Howarth, Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Brian

Annual accounts 2022/23

1. This representation letter is provided about your audit of the annual accounts of Shetland Islands Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Shetland Islands Council's annual accounts for the year ended 31 March 2023.

General

3. Shetland Islands council and I have fulfilled our statutory responsibilities for the preparation of the 2022/23 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Audit committee have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (2022/23 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of Shetland Islands Council at 31 March 2023 and the transactions for 2022/23.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2022/23 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Shetland Islands Council's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Shetland Islands Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Shetland Islands Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2023 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

11. I carried out an assessment at 31 March 2023 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2023.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2023 of which I am aware have been recognised in the annual accounts.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2023 of which I am aware where the conditions specified in the 2022/23 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2023. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2023 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The accrual recognised in the financial statements for holiday untaken by 31 March 2023 has been estimated on a reasonable basis.

19. The pension assumptions made by the actuary in the IAS 19 report for Shetland Islands Council have been reviewed and I confirm that they are consistent with management's own view.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent assets and liabilities

21. There are no significant contingent assets or liabilities, other than those disclosed in Notes 34 and 35 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent assets and liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2022/23 accounting code and IAS 37.

22. With specific reference to equal pay claims I can confirm that it is not possible to quantify the contingent liability.

Fraud

23. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

24. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

25. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2022/23 accounting code. I have made available to you the identity of all Shetland Islands Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

26. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

27. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

28. I confirm that Shetland Islands Council has undertaken a review of the system of internal control during 2022/23 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

29. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2023, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

30. All events subsequent to 31 March 2023 for which the 2022/23 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Paul Fraser

Executive Manager – Finance

APPENDIX C: Proposed Independent Auditor's Report for Zetland Educational Trust Schemes 1961 to 1965

Independent auditor's report to the trustees of Zetland Educational Trust Schemes 1961 to 1965 and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of Zetland Educational Trust Schemes 1961 to 1965 for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In my opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2023 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements that properly present the receipts and payments of the charity, and for such internal control as the trustees determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My 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 my 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector and charity sector to identify that the Local Government (Scotland) Act 1973, Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006 are significant in the context of the charity;
- inquiring of the Trustees as to other laws or regulations that may be expected to have a fundamental effect on the operations of the charity;
- inquiring of the Trustees concerning the charity's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the charity's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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 my auditor's report.

Reporting on other requirements

Other information

The trustees are responsible for the other information in the statement of accounts. The other information comprises the Trustees' Annual Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Trustees' Annual Report to the extent explicitly stated in the following opinion prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Trustees' Annual Report

In my opinion, based on the work undertaken in the course of the audit, the information given in the Trustees' Annual Report 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 Charity Accounts (Scotland) Regulations 2006.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Use of my 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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen O'Hagan CPFA
Senior Audit Manager
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

Stephen O'Hagan is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix D: Letter of Representation (ISA 580) for Zetland Educational Trust Schemes 1961 to 1965

<Signed copy of ISA 580 letter to be provided on headed paper with signed Annual Accounts>

Stephen O'Hagan
Senior Audit Manager
Audit Scotland
4th Floor, South Suite
8 Nelson Mandela Place
Glasgow
G2 1BT

21 November 2023

Dear Stephen

Zetland Educational Trust schemes 1961 to 1965

Annual Accounts 2022/23

This representation letter is provided in connection with your audit of the financial statements of Zetland Educational Trust Schemes 1961 to 1965 for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements properly presents the financial position of the Trust as at 31 March 2023 and their receipts and payments for the year then ended.

I confirm to the best of my knowledge and belief and having made appropriate enquiries of the trustees, the following representations given to you in connection with your audit for the year ended 31 March 2023.

General

I acknowledge my responsibility and that of the trustees, for the preparation of the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Trustees' Reports present a balanced picture of the Trusts and is consistent with the financial statements.

I confirm that there are no uncorrected misstatements.

Financial reporting framework

The financial statements have been prepared in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements. The financial statements also comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the Charities Accounts (Scotland)

Regulations 2006 and guidance issued by the Office of the Scottish Charity Regulator (OSCR).

Disclosure has been made in the financial statements of all matters necessary for them to properly present the transactions and state of affairs of each charity for the year ended 31 March 2023.

Accounting policies

The financial statements have been prepared on a receipts and payments basis or an accruals basis in accordance with the applicable regulations and the founding documents of the Trust.

Going Concern

The Trustees have assessed the ability of the Trust to carry on as a going concern, and have disclosed in the financial statements, any material uncertainties that have arisen as a result.

Related party transactions

There were no related party transactions with any party other than Shetland Islands Council as administering agent.

Events subsequent to the balance sheet date

There have been no material events since the date of the statement of balances which necessitate revision of the figures in the financial statements or notes thereto, including contingent assets and liabilities.

Since the date of the statement of balances no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate governance

The business of the Trusts is recorded in the systems of Shetland Islands Council. As section 95 officer for Shetland Islands Council, I confirm that there are no issues or deficiencies in internal control that require to be disclosed within the financial statements of the Trusts.

Fraud

I have considered the risk that the financial statements may be materially misstated as a result of fraud or irregularity. There have been no actual or alleged frauds or irregularities involving trustees or staff of Shetland Islands Council that could affect the financial statements of the Trust.

Assets

The assets shown in the statement of balances or balance sheet at 31 March 2023 were owned by the Trust. Assets are free from any lien, encumbrance or charge. There are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

Liabilities

All liabilities at 31 March 2023 of which I am aware have been recognised in the annual accounts.

Yours sincerely

Paul Fraser

Executive Manager - Finance, Shetland Islands Council, for and on behalf of the trustees of the Zetland Educational Trust Schemes 1961 to 1965 administered by Shetland Islands Council

Shetland Islands Council

2022/23 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

Prepared for the Members of Shetland Islands Council and the Controller of Audit
November 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts of Shetland Islands Council and the section 106 charity administered by the Council are unmodified.
- 2 Significant adjustments of £32 million were made in the audited financial statements reflecting changes in housing and pension valuations.

Financial management and sustainability

- 3 The Council has appropriate and effective financial management and reported an underspend of £2 million in 2022/23.
- 4 Useable reserves have decreased for the first time in eight years, due to reductions in investment valuations.
- 5 Total capital expenditure in 2022/23 was £15 million against an approved budget of £25 million and a wider review of capital planning is required,
- 6 The Council budget for 2023/24 has a budget gap of £3.2 million which is to be funded through general fund reserves.
- 7 The Council has a medium-term financial outlook with a projected cumulative budget gap of £106 million over 3 years.

Other wider code work

- 8 The Council continues to have a clear vision based on challenges facing the Islands. These are contained in “Our Ambition”, the Council’s corporate plan.
- 9 The Council has established a clear reporting framework and performance indicators which align to its Council plan priorities, but annual progress reporting should be more focused and balanced.
- 10 The Council has made progress with the recommendations in the 2022 BVAR. There is evidence of progress in almost all areas, but no area is fully complete yet.
- 11 The Council does not demonstrate full compliance with the Statutory Performance Information (SPI) Direction.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Shetland Islands Council (the Council). The scope of the audit was set out in an annual audit plan presented to the 15 May 2023 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Shetland Islands Council's annual accounts
- conclusions on Shetland Islands Council's performance in meeting its Best Value duties
- conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), covering financial management, financial sustainability, vision, leadership, and use of resources to improve outcomes.

2. This report is addressed to Shetland Islands Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. We would like to thank elected members, management and staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

4. Shetland Islands Council has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Shetland Islands Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £252,590 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to Shetland Islands Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts of the Council and the section 106 charity administered by the Council are unmodified.

The audit resulted in the value of council dwellings being decreased by £7 million and the pension liability being restated by £25 million.

Audit opinions on the annual accounts are unmodified

9. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. The Council approved the annual accounts for Shetland Islands Council for the year ended 31 March 2023 on 21 November 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £5.8 million

10. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£5.8 million
Performance materiality	£2.9 million
Reporting threshold	£250,000

12. The overall materiality threshold for the audit of the annual accounts of Shetland Islands Council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50% of overall materiality, reflecting previous year errors, a high level of estimation and several complex systems with a high volume of transactions.

Significant findings and key audit matters

14. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the body's accounting practices.

15. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

16. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2**Significant findings and key audit matters from the audit of the annual accounts**

Issue	Resolution
<p>1. Carrying value of council dwellings</p> <p>The Code of Practice on Local Authority Accounting (the Code) requires bodies to revalue assets with sufficient regularity to ensure the carrying value does not differ materially from the current value. Council dwellings were last revalued at 31 March 2019, with a full revaluation planned for 2023/24.</p> <p>Desk top exercises were undertaken by the in-house valuer, covering a sample of assets not subject to valuation during the year. These exercises identified that the beacon values for the representative sample had decreased by 9.41% since the last valuation, a reduction of over £7 million on the carrying value of £75.7 million in the unaudited accounts.</p>	<p>The audited financial statements have been updated to reduce the carrying value of council dwellings by £7.4 million. A full revaluation exercise on council dwellings will be undertaken in 2023/24.</p>
<p>2. Valuation of pension asset</p> <p>The 2022/23 unaudited annual accounts included a pension asset of £2.9 million.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p> <p>This is the position with the Council and a pensions asset should have been reduced to zero for the funded pension scheme, with unfunded liabilities remaining as a pensions liability in the balance sheet.</p>	<p>The audited annual financial statements have been amended to reflect a pension asset of zero for the Council's funded obligations, with a pension liability of £22.3 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.</p>

Our audit identified and addressed the risks of material misstatement

17. [Exhibit 3](#) sets out the significant and non-significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant and Non-Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
Significant risks of misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Test accounting accruals and prepayments focusing on significant risk areas. 	<p>No material misstatements were identified caused by management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Estimation in the valuation of council dwellings</p> <p>The Council's housing stock was last revalued in 2019/20.</p> <p>Valuations are based on specialist assumptions including the discount factor to apply for social housing. Changes in these assumptions can result in material changes to valuations.</p> <p>There has been limited adjustment to the valuation of council dwellings since the 2019/20 valuation exercise.</p> <p>There is a risk that the carrying amount in the accounts on 31 March 2023 does not appropriately reflect movements and changes in assumptions since the last revaluation.</p>	<ul style="list-style-type: none"> • Examine management's assessment of fair value of council dwellings not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions • If undertaken, we will review the information provided to the valuer and complete a walkthrough of the valuation process for council dwellings to obtain an understanding of the process, including the methodologies and assumptions applied. • Test the reconciliation between the financial ledger and the property asset register and any valuation report to check asset valuations and useful lives. 	<p>A £7.380 million decrease to the carrying value of council dwellings was agreed.</p> <p>Refer to issue 1 in Exhibit 2</p>
<p>3. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist assumptions and changes in these can result in material changes to valuations.</p> <p>Other land and buildings are revalued on a five-year rolling basis with a valuation date of 31 March. There is a risk of material movement between the date of valuation and the balance sheet date.</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the methodologies and assumptions applied. • Review reports from the valuer to confirm overall asset valuation. • Obtain an understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred. 	<p>We concluded that land and buildings are not materially misstated.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Examine management's assessment of fair value of OLB assets not revalued at 31 March 2023. We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions. • Test the reconciliation between the financial ledger and the property asset register and any valuation report. • Check asset valuations and useful lives. 	
<p>4. Presumed risk of fraud over harbour income recognition.</p> <p>Harbour income in 2021/22 amounted to £36 million.</p> <p>There is a rebuttable risk that fraud over income could lead to material misstatement of income.</p>	<ul style="list-style-type: none"> • Analytical review procedures • Reviewing the controls in place around recognition and accounting of harbour income • Examination of monthly/year-end reconciliations • Sample testing of harbour income transactions • Review of any unusual transactions 	<p>We conclude that harbour income is not materially misstated.</p>
Non-significant risks of misstatement		
<p>5. Estimation in the valuation of pension assets and liabilities</p> <p>Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth and discounting (based on corporate bond rates).</p> <p>Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.</p>	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. • Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole. • Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the Council. 	<p>Following adjustments of £25.2 million, we conclude that the pension liability is not materially misstated.</p> <p>Refer to issue 2 in Exhibit 2</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.</p>		
<p>6. Valuation of long-term investments</p> <p>The 2021/22 Accounts include long term investments of £411 million.</p> <p>Markets have been volatile over recent years and there is a risk that valuations are materially misstated</p>	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the fund managers. • Review reports from the fund managers to confirm overall asset valuation. • Sample testing of investment valuations. 	<p>We conclude that long-term investments disclosed in the 2022/23 accounts are not materially misstated.</p>
<p>7. Estimation in PFI models</p> <p>The Council has a PFI contract for Anderson High School with a fair value of £40 million at 31 March 2022. The accounts also include amounts due to contractors under this contract totalling £83 million.</p> <p>Unitary charge payments to contractors require to be divided into the service and construction elements using estimation techniques.</p> <p>There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices</p>	<ul style="list-style-type: none"> • Obtain the PFI model and assess for reasonableness, based on whether it has been updated to reflect current unitary charges. • Determine management's processes for updating the model to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms. 	<p>We conclude that the PFI liability is not materially misstated.</p>
<p>8. Estimation in the valuation of fishing quotas</p> <p>The 2021/22 Accounts include fishing quotas valued at £43 million.</p>	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the professional valuer. 	<p>We conclude that fishing quotas are not materially misstated.</p>

Audit risk	Assurance procedure	Results and conclusions
This investment requires annual assessment of its value and is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market.	<ul style="list-style-type: none"> • Complete a walkthrough of the valuation process for fishing quotas to obtain an understanding of the process, including the methodologies and assumptions applied. • Review reports from the valuer to confirm overall asset valuation. 	

We identified misstatements of £34 million within the unaudited financial statements and the majority was corrected

18. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

19. Total misstatements identified were £34 million which exceeds our performance materiality threshold. We considered whether further audit procedures were required and reviewed the nature and causes of these misstatements, which mainly related to non-current asset valuation adjustments and the reassessment of the IAS19 pension asset. We have concluded that most arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We considered whether other misstatements presented material risks of misstatement in the relevant account area and concluded they did not.

20. Other than the corrected material misstatement detailed as significant findings in [Exhibit 2](#), we also identified a misstatement of £1 million due to an under valuation of an investment. The accounts include a Blackrock SAIF investment product, which was valued at the end of December 2022. The valuation report to the 31 March 2023, which was received after the unaudited accounts had been prepared shows that the investment had increased by £971,000. This has not been corrected by management in the audited accounts.

Our audit opinions on the Section 106 charity were unmodified

21. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Shetland Islands Council are sole trustees, irrespective of the size of the charity.

22. Our audit opinions on the Section 106 charity were unmodified.

23. At the audit planning stage we identified one significant risk of material misstatement in relation to the charity audit. As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.

24. We undertook audit procedures designed to provide an appropriate level of assurance over the transactions relating to the charity and did not identify any material misstatements due to management override of controls.

25. The unaudited accounts disclosed the trust funds as unrestricted, meaning they could be used at the discretion of trustees to further the objectives of the charity. However, as restrictions do exist on how investment income is allocated to support specific educational purposes, the audited accounts have been amended to recognise the funds are restricted by nature.

Good progress was made on prior year recommendations

26. The Council has made good progress in implementing prior year audit recommendations identified by Deloitte LLP, the previous external auditor. Management actions taken to address the recommendations are set out in [Appendix 1](#).

Good practice

27. ISA540 requires auditors to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable. This includes requesting written representations from management regarding the reasonableness of methods, significant assumptions and the data used in determining the amounts in the estimates.

28. The Council's accounts include a number of complex estimates, including property valuations, pensions liabilities, investments and fishing quota valuations. These valuations are informed by a mix of internal and external advisors. Management has an established process for documenting their assessment of valuations, including their review of methodology and reasonableness of assumptions used by advisors. We consider the documentation of this review process as part of the financial statements closedown process an example of good practice.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

The Council has effective and appropriate financial management.

The Council reported an underspend of £2 million. This was mainly due to additional external funding which was not used in 2022/23.

Useable reserves have decreased for the first time in eight years, due to reductions in investment valuations.

Capital expenditure in 2022/23 was £15 million against an approved budget of £25 million, an underspend of £10 million and a wider review of capital planning should be undertaken.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

The Council's budget setting and financial management arrangements operated effectively during 2022/23

29. The 2022/23 budget was approved on 16th February 2022. The Council approved a balanced General Fund budget of £140 million for 2022/23. This incorporated an initial budget gap of £5.1 million which was to be met from reserves to achieve financial balance. The budget already incorporated "sustainable" use of reserves of £25 million (investment returns of £14.4 million and Harbour Account trading income of £10.6 million).

30. The proposed budget also included an assumed 3% increase in Council Tax. However, elected members decided to freeze Council Tax at the same level as 2021/22. So, the approved budget required an unsustainable draw on reserves of £5.5 million.

The 2022/23 outturn was an underspend of £2 million

31. Total General Fund net revenue expenditure for 2022/23 was £146 million against an approved revised budget of £148 million: an underspend of £2 million. The underspend was due to a combination of under and overspends in

services but mainly due to the Council not needing the contingency set aside to manage pay awards uncertainty.

32. The revenue element of the Harbour Account generated a surplus of £11 million, £2 million less than budget, mainly through decreased tanker income and increased cost prices.

33. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under/overspends against budget

Area	£m	Reason for variance
Underspends		
Development services	£2.090 million	Lower than anticipated grant applications due to other schemes being available, a relatively short period in which to apply for funding and the timing of grant claims received from third parties. This particularly affected the Coastal Communities Fund Scheme and the Winter Activities Fund Scheme.
Infrastructure services	£1.233 million	<p>Vacant posts across Environmental and Estates Operations (28 FTE) and Roads (12FTE) mainly due to delays in getting posts reconfigured and advertised or lack of applicants.</p> <p>No spend on planned external contractor surface treatment works due to contractor supply chain issues.</p> <p>Additional income for the sale of Bitumen to Sumburgh Airport and Viking Energy.</p> <p>Underspend offset by overspend in Ferry & Air Operations due to increased staff costs for the pay award, increased costs of marine fuel, use of agency workers to cover vacant posts and increased dry docking costs.</p> <p>Also increased costs of fuel and gritting salt and additional external contractor costs due to severe winter weather periods for Roads Services.</p>
Overspends		
Children's services	£1.009 million	<p>Teachers' pay award higher than budgeted.</p> <p>Higher cleaning employee costs from additional office space.</p> <p>Additional catering staff from increased uptake of school meals.</p>

Area	£m	Reason for variance
		Increased costs of school catering and cleaning supplies.

Source: Shetland Islands Council Draft Revenue and Capital Outturn 2022/23

34. Senior management and members receive regular and accurate financial information on the body's performance against budgets. The body has appropriate budget setting and monitoring arrangements.

An overspend of £0.6 million was reported against the housing revenue budget

35. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

36. The revenue element of the Housing Revenue Account generated a surplus of £1 million, which was £0.6 million less than budget. This was mainly due to higher than anticipated expenditure on repairs and maintenance, driven by increased prices for raw materials.

Useable reserves have decreased for the first time in eight years, due to reductions in investment valuations

37. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the body decreased from £430 million in 2021/22 to £390 million in 2022/23.

38. The decrease was mainly attributable to a decrease in the earmarked unrealised investment gains. These reduced from £132 million to £96 million. Unrealised investment gains can be very volatile based on investment movements and are not certain. The gain is "unrealised" because the underlying investments have not been sold.

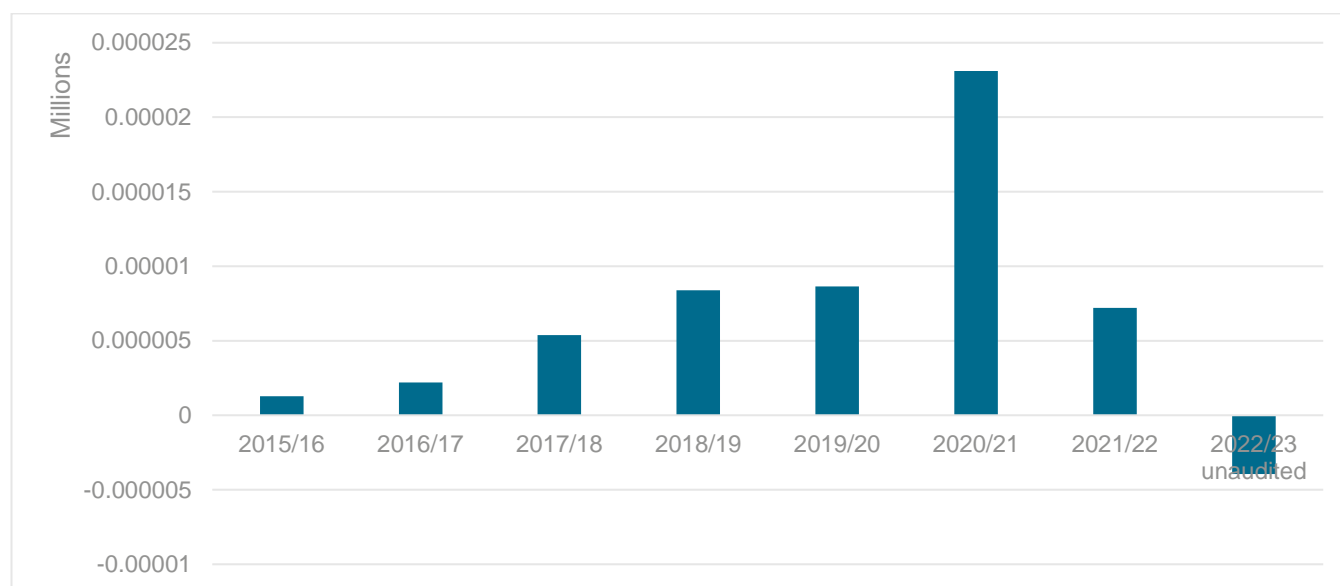
39. The uncommitted general fund balance has reduced by £8.5 million from £23.8 million in 2021/22 to £15.3 million in 2022/23. This represents 11% of the Council's annual budgeted net expenditure.

40. [Exhibit 5](#) provides an analysis of the movement in useable reserves over the last eight years which shows that reserves have decreased during 2022/23, for the first time over these eight years.

Exhibit 5

Movement in useable reserves (excluding unrealised gains) over the last 8 years.

Only in 2022/23 has the total useable reserves of the Council reduced.



Source: Shetland Islands annual accounts

Planned efficiency savings were achieved

41. The 2022/23 budget included planned savings and efficiencies of £3.3 million, which were achieved in the year. £2.4 million of savings were on a recurring basis (73%) with the remainder on a non-recurring basis (27%).

Capital expenditure slippage in 2022/23

42. Total capital expenditure in 2022/23 was £15 million of which £10.7 million related to general services, £0.3 million to the harbour account and £4 million to the housing revenue account. The approved budget was £25 million resulting in an underspend of £10 million. This was mainly caused by a lack of contractors, supply issues and the uncertainty over price rises. Works will continue into 2023/24 and £5.9 million will be carried forward to finance the continuation of those works.

43. The slippage or underspend in the capital programme is a recurring issue for the Council, with underspends noted in 2021/22 and 2020/21. This might indicate that capital plans are optimistic.

44. Planned capital investment for 2023/24 totals £22 million, of which more than 64 percent is allocated for the maintenance of existing assets. £7.7million has been provisionally included for new developments and potential projects, subject to approval of their respective business cases.

45. In line with recommendations made in our BVAR thematic report, a wider review of capital planning should be undertaken to determine if capital plans are

overly optimistic or whether more agile procedures are required to review projects experiencing slippage (see **recommendation BV6** in [Appendix 1](#)).

Appropriate financial control arrangements are in place in most areas, however deficiencies exist in procurement compliance and the commissioning of consultancy services

46. As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. Our objective was to gain assurance that it has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

47. We concluded that the key controls in the main financial systems were generally operating as specified. However, we did identify some scope to improve existing controls, shown in [Exhibit 6](#)

Exhibit 6

We identified some areas where a key control could be strengthened

Audit finding	Additional audit procedures and recommendation
<p>1. Review of Access</p> <p>A periodic review is not carried out on the list of employees with access to the Pay360 Income Management system.</p>	<p>Periodic reviews should be carried out to ensure that access is limited to appropriate users.</p> <p>Recommendation 1 in Appendix 1</p>
<p>2. Daily Reconciliations</p> <p>Automated daily reconciliation reports and exception reports are produced by the Pay360 Income Management system.</p> <p>These reports are reviewed and, if necessary, actioned. However, the review and any actions taken was not being evidenced.</p>	<p>The review of reconciliations and any actions taken should be evidenced.</p> <p>Recommendation 2 in Appendix 1</p>

48. The internal audit function is delivered by Audit Glasgow. We considered internal audit's annual report, presented to the June 2023 Audit Committee, as part of our review of the Annual Governance Statement included within the 2022/23 annual accounts. This disclosed internal audit's opinion that limited assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2022/23 in the Council, due to some 2022/23 audits having unsatisfactory and limited audit opinions and the volume of uncleared audit points from prior years. The Council has developed a procurement project action plan to address the issues identified relating to procurement compliance and the commissioning of consultancy services.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

49. Shetland Islands Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud, bribery and corruption policy and codes of conduct for councillors and officers.

National Fraud Initiative

50. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

51. The Council has made good progress in progressing matches in most areas. Of the 1,851 high level matches, investigation of 1,677 has been completed. Three errors, totalling £3,103, were identified relating to duplicate payments. In addition, 31 Blue Badges were cancelled preventing estimated fraud of £20,150.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

There are no short or medium-term issues with the Council's significant reserves, but these have reduced for the first time in eight years and reporting of the reserves projection is being reviewed.

The Council budget for 2023/24 has a budget gap of £3.2 million which will be funded through general fund reserves.

The Council has a medium-term financial outlook with a projected cumulative budget gap of £106 million over 3 years.

There are no short- or medium-term issues with the Council's significant reserves, but these have reduced for the first time in eight years

52. [Exhibit 7](#) sets out the wider scope risks relating to financial sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 7

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
Unsustainable use of reserves to balance the budget.	<ul style="list-style-type: none"> Assess the sustainability of using reserves to balance the budget. Monitoring trends and projections for movements in reserves Review of medium to long-term financial planning. 	<p>Review of financial sustainability was undertaken and reported as part of our Best Value thematic review and in the following paragraphs.</p> <p>The Council has 15 years of reserve left at the current rate of use – and this does not assume ongoing investment returns, so could be considerably longer.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Monitoring of the estimated future funding gap. 	There are no short- or medium-term issues with the financial sustainability of the Council. However, the Council does need to consider that in 2022/23 total usable reserves, excluding unrealised gains, did reduce for the first time in eight years (by 1% but remain at a level higher than 2020/21). The Council has agreed that it will review how it reports projections of income and expenditure and the reserves balance to make this clearer.

Recommendation 3

The Council should review and update the reporting of income and expenditure projections in the medium-term financial outlook, to ensure they include all reasonable assumptions and elements of the financial position and their impact on projected reserve balances.

The Council has a budget gap of £3.2 million in 2023/24 and this will be met from reserves

53. On 15 March 2023, the Council approved a balanced revenue budget for 2023/24, which reflected budget consultations with the community. The budget for 2023/24 had a gap of £3.2 million. This was after a council tax increase of 4.5 percent, “sustainable” use of reserves (investment returns of £15.4 million and Harbour Account trading income of £18.1 million), £4.2 million of savings and efficiencies and £2.6 million from service reviews. The remaining gap is to be met from general fund reserves. The budget included funding from the Scottish Government of £108 million.

54. The Harbour Account budget assumes similar levels of activity to recent years. The Harbour Account also expects to benefit from additional income from increased charges being applied and from the Shetland Gas Plant, (arising from the increased price of gas). The Council anticipates the Harbour Account will return a total surplus of £18.2 million in 2023/24 through ports and harbour trading activity.

55. The Housing Revenue Account (HRA) budget incorporates an approved increase of housing rent charges of 4.5 percent to generate sufficient revenue to meet day-to-day operating costs and to help finance planned capital investment. There is £9.1 million of planned capital investment in housing stock.

Recent budget reports indicate an overspend of £2.5 million in 2023/24

56. The most recent budget monitoring report projects an overspend of £2.5 million against a revised General Fund budget of £157.5 million. This is due to some vacancy factors, service reviews and 1% savings not yet being achieved.

The Council has a medium-term financial outlook with a projected cumulative budget gap of £106 million over 3 years

57. The Council has prepared a medium-term financial outlook (MTFO) 2022-2027, which is refreshed annually ahead of the budgeting cycle. The latest update was September 2022. The MTFO summarises the key financial planning assumptions and translates the assumptions and financial modelling into three different scenarios:

- An optimistic, upside scenario
- A central, most likely scenario, and
- A pessimistic, downside scenario.

58. Scenario planning and financial modelling indicates that the Council faces a significant challenge in being able to set balanced budgets in the future. The central scenario indicates a potential cumulative budgetary deficit of £106.4 million by 2026/27 (£20.8m 2023/24; £26.2m - 2024/25, £28.9 - 2025/26: £30.5m – 2026/27) should the Council not be proactive in managing and addressing the financial pressures it expects to face in the short- to medium-term. The MTFO is in the process of being updated.

4. Other wider scope audit work

During 2022/23 our other wider scope audit work included a Best Value thematic review of leadership and priorities, and consideration of the Council's performance management and reporting arrangements, governance, and its use of resources to improve outcomes.

Conclusions

The Council continues to have a clear vision based on challenges facing the Islands. These are contained in "Our Ambition", the Council's corporate plan.

The Council has established a clear reporting framework and performance indicators which align to its Council plan priorities, but annual progress reporting should be more focused and balanced.

The Council has made progress with the recommendations in the 2022 BVAR. There is evidence of progress in almost all areas, but no area is fully complete yet.

The Council does not demonstrate full compliance with the SPI Direction.

Best Value audit work is now fully integrated within our annual audit work

59. Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the [Best Value Revised Statutory Guidance 2020](#).

60. Over the previous external audit appointment period (2016/17-2021/22), each of the 32 councils in Scotland were the subject of a separate Best Value Assurance Report (BVAR) published by the Accounts Commission. [The Shetland Islands Council BVAR](#) was published in August 2022.

61. Under the [Code of Audit Practice 2021](#), the audit of Best Value in councils is now fully integrated within our annual audit work. Best Value at the Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the Council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement.

62. For 2022/23 the Accounts Commission directed auditors to report on the effectiveness of the Council's leadership and the development of the Council's strategic priorities. In carrying out the thematic work auditors considered the following questions:

- How clear is the new Council vision and its priorities?
- How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?
- How effectively do the Council priorities reflect the need to reduce inequalities and climate change?
- How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?

63. We also assessed the performance of the Council and its performance reporting and the council approach to climate change.

64. The results of this work were reported to elected members at the Audit Committee on 19 September 2023 and full council on [27 September 2023](#). This report will be published on the Audit Scotland website soon.

65. The key findings in this report are:

- The Council continues to have a clear vision based on challenges facing the Islands. These are contained in "Our Ambition": the Council's strategic plan.
- Performance measures are now aligned to "Our Ambition" but these are not focussed enough and lack medium or longer-term targets. The annual performance reporting lacks data to support its narrative, which is mainly positive and does not provide insight into areas where performance is poorer. The Council's "Performance Explorer" interactive website provides good, detailed performance information, but doesn't reflect the priorities and commitments in "Our Ambition" and links to data are not well-used in the progress update.
- Shetland has a relatively strong performance, based on LGBF data: 55 percent of indicators are in the top two quartiles with 51 percent of indicators in the top quartile compared to other councils, but this performance relative to other councils has decreased. Resident satisfaction scores remain high, except for housing.
- The Council's community engagement network is well-established and the Council plans to develop a community engagement strategy. Locality Plans are still not established, and the extent of participatory budgeting is unclear.
- The Council has a net zero target for 2045 and is developing a plan.
- Service plans and revenue budgets are up-to-date and consistent with "Our Ambition". Other plans, including workforce and asset investment plans, are not yet aligned with "Our Ambition".

- A Council General Fund revenue budget gap of £3.2 million for 2023/24 is part of a much larger planned use of reserves totalling £37 million. This includes £18m harbour income and investment returns of £15 million.
- The total useable reserves decreased last year (2022/23) (£40 million) and the projected reduction in 2023/24 is £24 million) with amounts being used to support services and capital investment. If this continues, then the council reserves could run out in 15 years.
- The Council has made progress on recommendations, reported one year ago, in the 2022 BVAR. There is evidence of progress in almost all areas, but no area is fully complete yet.

66. The audit recommendations made in the BV thematic report, with the management responses, are included in [Appendix 1](#) of this report.

The Council does not demonstrate full compliance with the SPI direction.

67. The Accounts Commission issued a new [Statutory Performance Information Direction](#) in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities)
- own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

68. We reviewed the performance against the SPI direction in our BV thematic report this year. We do not believe that the Council has fully complied with the Direction. Although data analysis is available on the Council's website; is reported to committee; is sufficiently detailed; includes comparison with other councils and over time, Our judgement is the Council is not doing well enough in balanced reporting. Performance indicators and outcome reporting lacks focus and doesn't reflect the priorities in Our Ambition.

The Council has made progress on implementing previous BVAR findings, but none are yet complete

69. Shetland Islands Council received a full Best Value Assurance report in August 2022. As part of our annual work programme, we followed up on agreed actions from that report.

70. Exhibit 4 summarises our assessment of each of the outstanding recommendations. This shows that some progress has been made on progressing previous BVAR findings, but none are yet complete. There has

been no significant progress on developing a “change” or transformation programme.

Governance arrangements are appropriate and operated effectively

71. Shetland Islands Council’s governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

72. Scrutiny arrangements appear to be working well in the Council.

The council is currently developing a Climate Change Strategy and Action Plan

73. In January 2020, Shetland Islands Council acknowledged a Climate Emergency and the Climate Change Programme was set up. The importance of climate change has been recognised in the corporate plan. “Sustainable future for Shetland” forms part of “Our Ambition” and tackling Climate Change is one of the ten priorities. “Our Ambition” includes eight actions linked to Climate Change.

74. The Council has set an organisational net zero target by 2045 and is currently developing a Climate Change Strategy and Action Plan to set out how they plan to achieve this. This is being done using the data and recommendations gathered through the net zero route map project. The Council intends to publish annual progress reports.

75. A climate change webpage has been created, which signposts users to more information on climate change: how they can get involved and details on available funding opportunities.

The Council is open and transparent

76. The Council continues to be open and transparent, with all agendas, reports and minutes published on the Council website. In addition, there is livestreaming of council meetings.

77. The Council’s website allows the public access to a wide range of information including the register of councillors’ interests, current consultations and service performance data. In addition, the home page provides updates on recent developments and links to useful information, including how to access cost of living support and advice.

78. The Council makes its annual accounts available on its website. These include a management commentary which adequately explains the Council’s financial performance for the year.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Review of Access <p>It was established that no periodic review is carried out on the list of employees with access to the Pay360 Information Management system.</p> <p>Risk – Those who shouldn't have access may have access.</p>	<p>Periodic reviews should be carried out to ensure that access is limited to appropriate users.</p> <p>Exhibit 6</p>	<p>In line with the recommendation, carry out periodic reviews on the list of employees with access to the system and action any changes as required.</p> <p>Executive Manager - Finance December 2023</p>
2. Daily reconciliations <p>Automated daily reconciliation reports and exception reports are produced by the PAY360 Income Management system.</p> <p>It was established that these reports are reviewed and, if necessary, actioned. However, the review and any actions taken was not being evidenced.</p> <p>Risk – Anomalies may not be identified and actioned correctly.</p>	<p>The review and any actions taken should be evidenced.</p> <p>Exhibit 6</p>	<p>In line with the recommendation, document the review of the daily reconciliation and exception reports.</p> <p>Executive Manager - Finance December 2023</p>
3. Reserves <p>The Council's reserves have reduced for the first time in eight years. While there are no short- or medium-term issues around the reserves</p>	<p>The Council should review and update the reporting of income and expenditure projections in the medium-term financial outlook, to ensure they include all reasonable assumptions and</p>	<p>As part of the development of the MTFP 2023-28 we will engage with external audit around good practice on the content and disclosure within medium term financial planning. This would be</p>

Issue/risk	Recommendation	Agreed management action/timing
position, there is scope to enhance reporting of current projections and clarify the elements of reserves available to support these plans.	elements of the financial position and their impact on projected reserve balances. Exhibit 7	reflected into the next MTFP, due in July 2024. Executive Manager - Finance July 2024

BVAR Thematic report recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>BV 1. Annual progress Reporting</p> <p>The Council performance is reported via the Our Ambition performance progress report dashboard but there is a positive focus on the narrative reporting without any insight to areas where performance is poorer.</p> <p>Links to data in the interactive dashboard should be made in addition to the narrative.</p> <p>Risk: Insight into the areas of poorer performance is not being given and the data is not being used to demonstrate performance in the dashboard narrative.</p>	<p>Annual Progress Reporting should present a balanced view of progress and demonstrate links to data in the interactive dashboard.</p>	<p>We will work with Services to present a more balanced view including both good performance and areas where performance could be improved. To be included in the Q2 Directorate Performance Reports.</p> <p>We will review how data is linked in the Dashboard by December 2023.</p> <p>The Annual Progress report 2023 will present a balanced view of progress and demonstrate links to data in the interactive dashboard</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: June 2024</p>
<p>BV 2. Performance indicators</p> <p>The performance indicators and actions are not clearly linked to the objectives or key to the commitments in the Our Ambition plan. Existing indicators have been aligned to priorities in the plan but more work is needed to reflect the priorities of the plan and a review of the</p>	<p>The framework of indicators and actions to support “Our Ambition” should be streamlined and reduced to enable focus on the areas that demonstrate progress on key priorities.</p>	<p>We will review the Performance Indicators with Services to ensure that they reflect the priorities in Our Ambition and that there is no overlap/duplication.</p> <p>Since Performance Indicators are approved by Council we would look to take a report to Council in the final quarter of 2023/24 in order to begin</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>number of indicators should be undertaken.</p> <p>Risk: Performance indicators are not reflective of the key commitments of Our Ambition.</p>		<p>2024/25 with the revised indicators.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: March 2024</p>
<p>BV 3. Resident participation in decision making</p> <p>The Council is bound by the charter to carry out a full tenant satisfaction survey at least every three years, with the latest taking place in Spring 2023. The opportunities to participate in council decision making 2023 results are showing 52.8% against a Scottish average of 74.8%, and a fall from the previous result of 59.8% in 2019.</p> <p>Risk: The decisions taken by the council may not be reflective of the priorities of local residents</p>	<p>Further engagement is required to encourage tenant participation in Council decision making.</p>	<p>The next Tenant Satisfaction Survey will be due in Spring 2026. Further development of our Tenant Participation Strategy is planned with refreshed engagement with tenants using a variety of methods.</p> <p>Responsible officer: Anita Jamieson</p> <p>Agreed date: Spring 2026</p>
<p>BV 4. Community engagement strategy</p> <p>The Council plans to complete a community engagement strategy, and it has a target date of 4 December 2023 for completion.</p> <p>Risk: The Community empowerment theme from our ambition is not being fully met.</p>	<p>A community engagement strategy should be completed</p>	<p>A community engagement policy is in development and will be reported to the Council for approval in December 2023</p> <p>Responsible officer: Vaila Simpson</p> <p>Agreed date: December 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>BV 5. Use of reserves</p> <p>There is an increased reliance on the use of reserves to balance their budget over the last two years. It is projected that £37million will be required for the General Fund for 2023/24.</p> <p>Risk: There is a long-term sustainability risk for the delivery of services given the increased reliance on reserves</p>	<p>The Council needs to address its significant increase in reliance on reserves, if it is to avoid impacts on services in the long-term as reserves run out.</p>	<p>The position is well understood and forms a key pillar of influence on Council decision making. However in common with most, if not all LAs, sustainability is an elusive target. An alternative approach will be agreed by Senior Managers for use in 2024/25 revenue budget setting, which seeks to establish balanced budgets, with a demonstrable reduction in reliance on reserves year on year.</p> <p>Responsible officer: Paul Fraser</p> <p>Agreed date: March 2024</p>
<p>BV 6. Capital programmes</p> <p>The slippage or underspend in the capital programme is a recurring issue for the Council, with underspends noted in 2021/22 and 2020/21.</p> <p>Risk: There is a risk that capital programmes are optimistic and not aligned to the Our Ambition plan.</p>	<p>The Council should assess whether capital programmes are optimistic and if an adjustment is required to plans. Capital and workforce plans should be aligned to Our Ambition plan.</p>	<p>Officers accept that the Capital Plan has seen a high level of underspend. An alternative approach will be agreed by Senior Managers for use in 2024/25 budget setting, which seeks to ensure that the approved capital plan reflects only projects that are certain to proceed, thus creating a more stable financial position.</p> <p>Responsible officer: Paul Fraser</p> <p>Agreed date: March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1 PPE	The property valuer should introduce as part of the annual valuations, similar to	This was incorporated in the Valuation Terms of Engagement sent to the

Issue/risk	Recommendation	Agreed management action/timing
	the exercise carried out as part of the audit to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	Councils internal valuer as part of the year end process. Closed
b/f 2 NFI	The Council should assess whether the team currently assigned responsibility for administering the NFI scheme locally have sufficient capacity and authority for seeking action across the whole of the Council	Internal Audit are now taking on the role of scrutiny of the NFI scheme with the support of the Finance and other services across the Council. Closed

Shetland Islands Council

Draft 2022/23 Annual Audit Report

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Audited Financial Statements **2022/23**



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Management Commentary

The purpose of the Management Commentary is to help readers understand our priorities and objectives, to provide an overview of our financial and non-financial performance during the year and to help readers understand our financial position as at 31 March 2023. It also sets out the main risks and uncertainties we are likely to face in the future.

Our Council Area

Councillors:



23 Elected Members:

- 20 Independent
- 1 Green Party
- 1 Labour
- 1 SNP

Population:

22,940

(mid-2021 population estimate NRS)



Ages 0-15: 18%
Ages 16-66: 63%
Ages 67+: 19%

Economy:

£584m

Gross Value Added

(Economic Accounts 2017)



Original 2022/23 Budget:



£126.2m

net revenue

£25.3m

capital

Council Workforce:



3,175



71%

female

29%

male



Infrastructure & Assets:

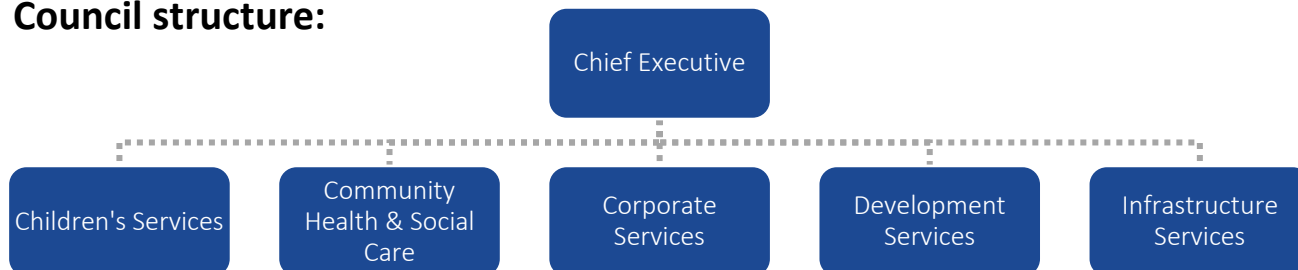


- 259 Council buildings
- 1,056 km road network
- 1,660 Council houses

Land area: **1,466 km²**

Coastline: **2,731 km**

Council structure:



Our Priorities

[Our Ambition](#) sets out our strategic political objectives and provides direction to help us focus on the things that can make the most difference in achieving long-term sustainability for Shetland. It sets out the priorities that we will work towards over a five-year period, up to 2026. Our Ambition is based on a vision of working together to create a positive, confident and sustainable future for Shetland, where the community's opportunities attract people of all ages to live, work, study and invest in Shetland. This includes an aim for more young people to remain in or relocate to Shetland to live, work, study and raise families, and to sustain current jobs and create new ones. The sustainability themes are:

- Community
- Environment
- Workforce
- Finance

Our Local Outcomes Improvement Plan is known as the [Shetland Partnership Plan](#), which identifies a vision and four priorities shared by all of our community planning partners, as we work towards reducing inequalities of outcomes in our community. The overarching focus of the Partnership's work is to improve the lives of everyone in Shetland, under four priority areas:

- Participation
- People
- Place
- Money

The Impact of COVID-19

The pandemic continued to disrupt some of our services and activity through the year, which has hampered our ability to deliver services at times. Throughout the year, we have acted in accordance with the restrictions in force at the time.

As restrictions have eased, staff that have largely worked at home for the past two years have returned to offices, as we embrace hybrid working and seek to capitalise on some of the positive benefits that remote working allows.

Our Change Programme

A [Change Programme Framework](#) was approved on 13 April 2021, which identified the key policies and strategic plans that collectively set out the context and drivers for the Change Programme starting with Our Ambition 2021-2026. The Change Programme is designed to be a key enabler for the delivery of Our Ambition, through a continuous cycle of resourcing, delivering and reviewing.

We acknowledge the scale of change that lies ahead and we are mindful that we cannot deliver everything at the same time within the confines of limited resources, both from a financial and workforce perspective. Detailed delivery plans, including timescales for each project, are currently being developed for each strand of the Change

Programme. We anticipate this will help us prioritise the use of our resources in the short and medium-term to deliver tangible progress in achieving *Our Ambition*. A 'Programme Management Office' has been established within the Corporate Services Directorate to facilitate change activity in the coming years. This function is led by an Executive Manager and will draw experience from across the Council using a range of secondments and graduate placements to help facilitate and co-ordinate change and transformational activity.

The alignment of all 'change' activity under one framework, the Islands Growth Deal and *Our Ambition*, will enable more regular reporting of progress against our stated objectives and priorities and create clear linkages to the refreshed Medium-Term Financial Outlook (MTFO), which sits alongside the updated change programme framework.

A Workforce Strategy has also been approved, which describes the way we plan to develop our current and future workforce to ensure our staff have the right skills, environment and values to deliver the priorities in *Our Ambition* over the next five years. The Workforce Strategy sits alongside the Change Programme Framework, Medium-Term Financial Outlook and *Our Ambition*. Collectively, these documents describe the aspiration we have for the long-term sustainability of our Community, and how we will go about delivering our objectives successfully.

Our Performance

Partnership performance

We regularly assess our progress in delivering the Shetland Partnership Plan and the latest [Annual Report](#) was published in November 2022, which documents what has been achieved in the past year and what activities we will focus on in the next year. The Annual Report also includes updated indicator information, which allows us to compare long-term outcome measures against the baseline indicators that were established in 2017.

Service Performance

We regularly report service performance to each of our functional committees: Education & Families, Development, Environment & Transport and Policy & Resources. Each committee receives a quarterly performance report, in which we summarise the performance of services during the previous quarter. Quarterly performance reports can be found on our [Council Committee Information](#) pages (COINS).

We are reviewing our performance management arrangements to ensure they are aligned with our needs and the needs of stakeholders who have an interest in how we perform as a Council. We have also recently adopted a set of indicators that will help us track our progress and performance in delivering *Our Ambition*.

How do we compare against other Councils?

Each year, our performance is compared against all other Scottish Councils through the Local Government Benchmarking Framework (LGBF). The data helps us compare our own performance against a suite of efficiency, output and outcome indicators that cover all areas of local government activity. LGBF data can act as a catalyst for improving services, targeting resources towards areas that make the greatest impact and enhancing public accountability.

The latest LGBF data relates to 2021/22 and was published in March 2023. From the latest data, 54% of our LGBF indicators were in the top two quartiles, with Shetland Islands Council being top for 16 of the indicators. The following table contains information from the latest set of data on how the Council has performed. The national dataset can be found [here](#), and our own results for 2021/22 can be found [here](#).

Directorate	2020/21	2021/22	% change	Future Improvement
Children's Services				
Cost per secondary school pupil	£11,831	£11,887	0.47%	Education delivery has been impacted by increased costs due to a number of external factors, namely food costs, energy costs and lack of availability of staff for vacant posts. The impact of the Covid-19 pandemic continues to be felt, particularly in the additional support required by an increased number of pupils. The completion of the 1140 hours expansion programme has resulted in an increased cost per pupil.
Cost per primary school pupil	£8,917	£9,256	3.80%	
Cost per pre-school pupil	£11,837	£15,503	30.97%	
Teacher sickness absence (working days)	3.77	4.59	21.75%	
Corporate Services				
Cost per home of Council Tax collection	£12.64	£11.17	-11.63%	We expect the cost of Council Tax collection to increase in 2022/23 to around £15 per dwelling, driven by pay inflation which is negotiated centrally and outwith the Council's control. We expect the removal/reduction of Covid safety measures to result in an increase in sickness absence. We are also expecting to see an increase in surgery related absences with hospitals tackling waiting lists.
Council Tax collection rate	96.80%	96.90%	0.10%	
Employee Sickness absence (working days)	8.56	10.39	21.38%	
Community Care Services				
Cost of residential care for older people (per person, per week)	£2,317	£2,778	19.90%	Care home occupancy is reduced due to staffing issues resulting in lower numbers of available beds. There is a strategic drive to have more people with more complex needs at home.
Occupancy of care homes	81.90%	77.00%	-5.98%	
Cost of providing care to support older people to live at home (£ per hour)	£58.74	£50.14	-14.64%	
What proportion of social care funding is allocated using personalised managed budgets	5.7%	6.8%	19.30%	
Development Services				
% of procurement spent on local small/medium enterprises	48.7%	51.9%	6.57%	The cost of a planning application depends on the size and nature of the development. The fees are set nationally and are a fraction of the costs incurred. There continues to be a high number of major planning applications. Three new planning officers have been appointed and agency staff have also been contracted which has resulted in reduction in time to deliver planning applications.
Number of weeks to deliver commercial planning application decision (on average)	20.7	19.5	-5.80%	
Cost per planning application	£10,488	£7,661	-26.96%	
Infrastructure Services				
Cost per premise on refuse collection	£62.00	£72.00	16.13%	Future efficiencies continue to be identified in our fleet and operations which will hopefully see our score continue to improve. The deposit return scheme was originally meant to be introduced in July 2022. This has been pushed back to March 2024, which should show a higher recycle figure for Shetland and also give us the opportunity to recycle more types of waste.
Quantity of household waste recycled (comparison is 2017/18 to 2018/19)	18%	17%	8.24%	
Cost of providing environmental health (£ per 1,000 people)	£37,473	£41,892	11.79%	

Financial Performance

We reported [our draft revenue and capital outturn report](#) to the Policy and Resources committee on 5 June 2023. This report summarises the end of year outturn for the Council for the year ended 31 March 2023. It sets out the overall level of revenue and capital expenditure incurred by services funded through the General Fund, Housing Revenue Account and Harbour Account.

The Council has had to manage:

- increased demand for services,
- difficulties in recruitment due to a competitive local labour market, and
- the impact of availability, and rising costs, of goods and services.

Our financial performance has been affected as a result of these factors, and therefore the end of year outturn position is inevitably different to the budget set in March 2023.

Overall, the Council has spent less than it anticipated on service delivery and capital expenditure, with an overall underspend of £10.6m. The General Fund underspent against budget by £10.4m. The Harbour Account did not meet its budgetary expectations and generated a reduced surplus by £1.1m. The Housing Revenue Account underspent against its budget by £1.3m. Information on the reasons for these variances are outlined on page 9.

Total capital expenditure across the General Fund, Harbour Account and HRA totals £15m against an approved budget of £25m, representing an underspend of £10m. This is mainly as a result of slippage encountered during the year. Works will continue into 2023/24.

Further information about our financial performance during 2022/23, including details of variances between actual expenditure and approved budgets, can be found in [our draft revenue and capital outturn report](#).

Our Highlights

Islands Growth Deal

An agreement to invest £100 million in the future economic prosperity of Orkney, Shetland and the Outer Hebrides was signed in January 2023 by UK and Scottish Government Ministers and the Council Leaders of the three island groups. The agreement commits both governments to work collaboratively with Islands Deal partners to deliver a deal focused on: placing the islands at the forefront of the transition to net zero; supporting growth in key sectors of opportunity such as tourism, food and drink, space and creative industries; and, supporting thriving, sustainable communities.

The Islands Growth Deal will capitalise on the Islands' unique assets with an investment of £50 million each from the Scottish and UK Governments and an anticipated £235 million from project partners. The 10-year programme of investment has the ambitious target of creating up to 1,300 jobs and tackling the depopulation concerns facing many parts of the three island archipelagos.

Council meetings

The Council chamber moved from the Town Hall to the former St Ringan's Church in March 2022. The project included the installation of conference equipment and broadcast technology to allow the live streaming of meetings. Meetings of the principal committees are now broadcast live, allowing the public to watch the debate on any desktop or mobile device.

Climate Festival

The first Shetland Climate Festival was held in June 2023, with a programme of events to raise awareness of climate change, and to explore solutions that mitigate and adapt to its impacts. Shetland Islands Council's Climate Change Programme team hosted the event alongside organisations finding ways to reduce the impact of climate change. Over 30 exhibitors were present, representing the six themes of the Climate Change Programme: Energy, Transport, Buildings, Business and Industry, Nature-based solutions, and Resource Use. Exhibitors showcased solutions for climate change challenges in Shetland, covering many topics from domestic energy efficiency to the circular economy and reuse.

Key Risks and Uncertainties

The Council maintains a Corporate Risk register and provides update reports on a regular basis to the Policy & Resources Committee. The latest report was presented on 5 June 2023 and can be found here:

[Risk Register update](#)

The Council's key risks and uncertainties, and associated mitigating actions can be summarised as follows:

Risk / Uncertainty	Mitigating actions
 <p>Staffing</p>	<p>The Council is facing a shortage of key staff and skills. Posts are remaining unfilled due to failure to recruit.</p> <p>The Council's HR department is continually reviewing policies and procedures to support the Council in becoming more responsive and flexible in the deployment of existing staff. The Council's workforce strategy provides a framework to focus attention and prioritise work streams that identify and develop talent as well as increase the number of ways young people can join the organisation.</p>
 <p>Revenue and Capital Budgeting</p>	<p>The Council is not yet in a financially sustainable position over the medium term and faces an anticipated cumulative budget deficit of £106.4m by 2026/27 as reported in the Council's latest Medium-Term Financial Outlook, presented in September 2022. The level of core revenue funding from the Scottish Government is expected to remain flat in cash terms between 2022/23 and 2025/26, which effectively translates into reduced funding, in real terms, over the next 3 years. Demand for services, particularly for health and social care, continue to increase while the cost of delivering services also continues to increase. Rising inflation, disruption to supply chains and shortages of raw materials, goods and labour are resulting in higher costs to deliver services. Likewise, the Council has substantial property, plant and equipment assets that require significant capital investment each year to maintain while core capital funding is expected to reduce year-on-year.</p> <p>The Council has a range of change projects underway, or planned, that vary in scale and scope. The aim of these projects is to transform the way services are delivered and to ensure services are delivered as cost effectively as possible. A Programme Management Office function within Corporate Services is intended to coordinate the Council's Change Programme activities and help facilitate the delivery of <i>Our Ambition</i>.</p> <p>The Council will develop its financial planning assumptions and both its Medium- and Long-Term Financial Plans in the next 12 months, to reflect the expected efficiencies and transformative changes that will be delivered through the Change Programme, plus any further actions required to bring core revenue and capital expenditure within sustainable levels.</p>



Investment in Shetland's Infrastructure

Shetland's infrastructure was invested heavily in when the oil industry was taking off. The infrastructure is now ageing and will need to be replaced.



Establishment of a National Care Service

An Independent Review of Adult Social Care was published in February 2021 which recommended reform of the health and social care sector. The Scottish Government undertook a consultation exercise during 2021 and subsequently published the National Care Service Bill in June 2022. This Bill, if passed by the Scottish Parliament, will establish a National Care Service that will be responsible for the delivery of social care across Scotland. The proposed legislation, if implemented, will have a wide-ranging impact on the services delivered locally by the Council and NHS which could ultimately be transferred to the National Care Service.

Implementation of the National Care Service Bill has the potential for significant changes in the way social work and social care services are delivered in Shetland, with a risk of reduced levels of service and quality, reduced investment and poorer outcomes than are currently delivered by the Council and NHS Shetland. The current proposals lack specific detail on the impact on local government, but have the potential to affect up to approximately one third of the Council's workforce and annual budget. The work required to engage on a change of this magnitude will be extensive affecting all areas of the Council in addition to the direct impact on the delivery of social care and social work services.



Withdrawal from the European Union

The Council still considers the UK's withdrawal from the European Union as a key risk to its operations. Difficulties in recruiting staff, particularly in social care, could jeopardise delivery of some services across Shetland in the future. Shetland was allocated c. £1.8m via the UK Shared Prosperity Fund. Priority areas of expenditure for this funding were identified as employability services, green skills transition, rural retail and place making, plus local delivery of the Multiply (adult numeracy) programme.



Climate Change

The Council recognised the global climate emergency in January 2020 and also approved a Strategic Outline Programme of distinct projects, activities and specific actions that the Council, businesses and individuals can undertake to help address climate change at the local level. The Council approved the 'Shetland Net Zero Route Map' in November 2022. The Route Map provides two possible pathways for Shetland to mitigate its emissions. It details the measures most appropriate for reducing Shetland's emissions and models their impacts, graphically showing how they change over time which will set out the tangible actions the Council will take in order to become a net-zero Council. The level of investment required for the Council to reach net-zero is currently unquantifiable.

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2023 and its cash flows for the year then ended. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

A description of the purpose of the primary statements has been included immediately prior to the four primary statements which are:

- the Comprehensive Income and Expenditure Statement
- the Movement in Reserves Statement,
- the Balance Sheet, and
- the Cash Flow Statement.

These four statements are accompanied by notes to the accounts which set out the accounting policies adopted by the Council and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

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

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2022/23. This differs from [our draft revenue and capital outturn report](#) which was reported to the Policy & Resources Committee on 5 June 2023.

The reasons for this difference are two-fold:

- the application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts, as

these costs are required to be met from local taxation; and

- the CIES includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers.

The final reporting position reflects only those costs that are required to be met from local taxation. Therefore, the difference between the CIES and the actual outturn position is as a result of necessary accounting adjustments.

The Loss on Provision of Services of £69m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £22.6m in the Expenditure and Funding Analysis (page 50).

The Council's day-to-day operations and the recording of its financial transactions (revenue income and expenditure) are charged to two primary reserves, which have been established by legislation: the General Fund and Harbour Account. There is also a legal requirement to separately identify expenditure and income that relates to the operation of the Council's housing stock; this is referred to as the Housing Revenue Account.

Capital investment expenditure is supported by a range of means including funding from revenue resources, external borrowing and use of retained reserves. Legislation enables the Council to retain capital reserves in order to support its long-term asset investment plans, an example being the Capital Fund.

The table that follows shows an overall budget underspend of £10m. To meet existing obligations, £8.7m is required to be carried forward into 2023/24 which effectively means the Council incurred an underspend of £1.3m in 2022/23.

Revised Budget v Actual Expenditure	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
2022/23					
General Fund Revenue (inc Spend to Save)	148.400	146.344	2.056	2.746	(0.690)
General Fund Capital (inc Spend to Save)	19.078	10.748	8.330	4.985	3.345
Housing Revenue Account (Revenue & Capital)	3.538	2.818	0.720	0.606	0.114
Harbour Account (Revenue & Capital)	(12.549)	(11.447)	(1.102)	0.347	(1.449)
Total	158.467	148.463	10.004	8.684	1.320

General Fund

The General Fund is the statutory fund into which all receipts are paid in and from which all liabilities are paid out, except to the extent that legislation may provide otherwise (for example, the Housing Revenue Account). The General Fund is financed by government grants, Council Tax receipts, National Non-Domestic Rates income and fees and charges. It is also supplemented by transfers from reserves. The Council is permitted to carry forward balances on the General Fund.

General Fund net revenue expenditure for 2022/23 totalled £146.3m (£118.1m 2021/22) against an approved budget of £148.4m. There are a variety of reasons behind the differences in actual and budgeted expenditure which are summarised in [our draft revenue and capital outturn report, however](#), the net revenue underspend of £2.1m is primarily attributed to additional external funding received for specific purposes which was not utilised, and requires to be carried forward into 2023/24.

In 2022/23 the Council's General Fund received the majority of its funding from the Scottish Government, which is made up of General Revenue Grant and National Non-Domestic Rates (NDR).

Funding of Net General Fund Expenditure	2022/23	
	£m	%
General Revenue Grant	47	32.3%
Non-Domestic Rates	35	24.0%
Specific Grants	21	14.4%
Council Tax	10	6.9%
Draw on Reserves*	33	22.4%

*Includes General Fund and Revenue Spend to Save

Council Tax represents 6.9% of the Council's overall annual external revenue funding. During 2022/23, the Council collected 97.6% (99.3% 2021/22) of the total billable Council Tax.

The remainder of funding comes from Council's own reserves. The Council holds a range of long-term investments, in line with an investment strategy that is designed to ensure the reserves increase in value over the long term. The Council is able to draw down some of the returns generated from these investments to support service delivery, while maintaining a robust asset base that continues to grow. This enables the Council to supplement government funding over the long term.

Harbour Account

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Harbour Reserve Fund. The Harbour Account budgeted for a surplus of £12.5m in 2022/23 (£10.6m in 2021/22), to be returned to the Harbour Reserve Fund.

The actual surplus generated was £11.4m (£13.0m 2021/22) due to a reduction in tanker income and reduced capital expenditure.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate ring-fenced account within the Council. The HRA budget for 2022/23 anticipated a requirement to utilise £3.5m from its reserves to achieve financial balance (£2.1m 2021/22). A total of £2.8m is required from reserves to balance the account.

The financial position of the HRA continues to be a challenge for the Council, due to a need to invest in current housing stock to meet national housing targets, as well as managing increased demand for new build housing.

A [five-year business plan](#) for the HRA was approved in 2016/17, underpinned by a 30-year financial model to ensure affordability and sustainability over the long term. Work to update the Business Plan for the next five-year period has been delayed as we have prioritised other work during the year. Work has now started and we expect to progress this during 2023/24.

At 31 March 2023, the HRA was responsible for 1,660 properties, an increase of 2 since 31 March 2022. Historically there has been a consistent reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme, however the right to request a council house purchase under the scheme ended on 31 July 2016.

The Council continues to support Hjaltland Housing Association in its building programme to secure increased provision of affordable housing within Shetland.

Asset Investment Plan

In 2022/23 Shetland Islands Council incurred total capital expenditure (across General Fund, Housing Revenue Account and Harbour Account) of £15.0m (£17.5m 2021/22) against a budget of £25.0m (£19.8m 2021/22) representing an underspend of £10.0m (£2.3m 2021/22), however, £5.9m will be carried forward into 2023/24 to enable delayed works to be completed.

Further detail about capital expenditure incurred under the General Fund, Housing Revenue Account and Harbour Account can be found in [our draft revenue and capital outturn report](#).

More information about how capital expenditure has been funded can be found in Note 33 Capital Expenditure and Capital Financing.

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the www.shetland.gov.uk

position as at 31 March 2023. When comparing this to the position as at 31 March 2022, there has been an overall increase in the net worth of the Council of £113.5m. This figure matches the total figure in the Comprehensive Income and Expenditure Statement, which captures all transactions during the financial year that led to the movement in the Council's net worth.

Material Transactions

Long-Term Investments

The long-term financial investments are covered by the Council's Investment Strategy 2018, which sets out the overarching investment approach to complement the Council's MTFO. The strategy aims to achieve investment returns that are sufficient to enable an annual sum to be withdrawn to support the revenue budget, while protecting the capital from the impact of inflation. The strategy also mitigates investment risk by the diversification of asset classes, global coverage and a number of fund managers.

The Investment Strategy is supported by a [Treasury Management and Annual Investment Strategy](#) report, which includes more detail on capital and treasury activities, including key treasury indicators.

As at 31 March 2023 the Council had £376.8m invested with three external Fund Managers (£415.2m at 31 March 2022). The Council's investments during 2022/23 have reduced in value by £38.4m. This reduction is a combination of Council withdrawals of £22.9m (£7.4m 2021/22) to meet its cash flow requirements, and an investment return of -3.3%. The negative investment return being mainly attributable to the steep rise in inflation driven by increasing energy and food supply costs along with concern over the conflict in Ukraine.

[The Fund Management Annual Investment Report 2022/23](#) was presented to the full Council on 21 June 2023 which summarised the performance of the Council's investments during the year.

External Borrowing

External borrowing is regulated by the Borrowing Policy, part of the Council's [Treasury Management](#)

[and Annual Investment Strategy](#), which aims to secure best value in the financing of capital expenditure.

The Council's Capital Financing Requirement (CFR) is £90.8m as at 31 March 2023 (£92.5m at 31 March 2022), of which £49.1m (£49.1m in 2021/22) relates to external borrowing. It represents the capital expenditure to be funded from borrowing. Whilst the CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need). More information is provided in Note 33: Capital Expenditure and Capital Financing.

Debt financing costs currently represent 3.2% of the Council's net revenue stream (2.9% 2021/22) from General Revenue Grant (including NDR), Council Tax, housing rents and harbour income. This provides an indication on the affordability of the Council's debt in terms of how much income can be directed to provide front-line service delivery rather than funding capital expenditure costs. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels and the estimated cost of debt for 2023/24 is 2.6% of the net revenue stream.

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The Pension Fund's Annual Report and Accounts for 2022/23 was presented to the Pension Fund Committee on 13 November 2023.

The impact of the Local Government Pension Scheme (LGPS) and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 28 and 29 to the accounts.

The overall pension asset of £71m as per the actuarial valuation has been disaggregated to distinguish between funded and unfunded obligations. The net asset position relating to funded obligations of

£93.3m has been adjusted for the asset ceiling calculation required by IAS19 / IFRIC 14 which limits the measurement of a net defined benefit scheme. There are no unconditional rights to reduced contributions or refunds from the scheme, therefore an asset ceiling has been calculated to bring the net value relating to funded obligations to £0 at 31 March 2023 (£134.2m liability as at 31 March 2022).

The debit balance on the Pensions Reserve reflects the net liability position relating to unfunded obligations of £22.3m as at 31 March 2023 (£27.8m liability as at 31 March 2022). This figure represents the estimated amount of pension benefits the Council will have to pay out in the future, as estimated by the Fund's Actuary. This shows a shortfall in the resources set aside by the Council 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. This estimate includes all pension entitlements earned by current and previous staff up to and including 31 March 2023.

During the year, the net pension liability has reduced by £139.7m, mainly due to a result of changes in financial assumptions. This is the result of the net discount rate significantly increasing compared to the prior year, leading to a large gain.

The effects on the scheme obligations of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase of £9.9m. The assumptions interact in complex ways, however, and are established for particular reasons. Further information can be found in Note 28: Defined Benefit Pension Schemes.

Membership of the LGPS is dynamic and constantly changing so the Council will monitor the position regularly so sufficient resource is set aside to meet future obligations.

Further detail about the latest formal valuation is contained in the [Actuarial Valuation Report](#).

Health and Social Care Partnership

The Public Bodies (Joint Working) (Scotland) Act 2014 introduced significant changes to the provision of health and social care across Scotland. The legislation means changes to the law that require health boards and local authorities to integrate their services, resulting in more joined up services and improved quality of health and social care provision.

The Shetland Islands Integration Joint Board (IJB) was formally constituted on 27 June 2015 with voting members from both the Council and the Health Board.

In 2022/23, the Council contributed £29.8m (£25.1m 2021/22) to the IJB and received income of £31.4m (£28.2m 2021/22) from the IJB, a result of some social care funding being channelled through the NHS Shetland financial settlement.

The annual accounts of the IJB can be found on the Council's website at:

<http://www.shetland.gov.uk/about/finances/>.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	As at 31 March 2022 £m	As at 31 March 2023 £m
General Fund	211.880	168.377
Housing Revenue	20.116	18.968
Harbour Reserve Funds	91.659	95.658
Capital Funds	65.269	70.134
Other Usable Funds	40.605	36.451
Total Usable Reserves	429.529	389.588

The overall level of usable reserves was £389.6m at 31 March 2023, a reduction of £39.9m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

The reserves of the Council reflect the historic financial performance of the Council and decisions that have been taken to provide a financial foundation upon which to plan for the future delivery and provision of Council services.

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve balance has decreased by £8.5m to £15.3m as at 31 March 2023 from the previous year (see Note 7: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 9.6% (18.9% 2021/22) of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

The Council uses its reserves on an annual basis to support delivery of frontline services. This is based on money being available from the anticipated income and growth achieved from the Council's long-term investments.

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is attributable to the recovery of market conditions from the start of the year and includes a cash withdrawal to meet the cash flow requirements of the Council. More information is outlined in the 'Long-Term Investments' section on page 10.

Usable reserves on the other hand reflect a level of resources that the Council has available to carry out its future business; these reserves can be applied to the provision of services.

Group Accounts

The Code requires the Council to prepare group accounts where the Council has material interests in subsidiaries, associates and / or jointly controlled entities.

The Council has interests in the Zetland Educational Trust (ZET), Orkney and Shetland Valuation Joint

Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board.

The net impact of the consolidation modifications to the financial statements are deemed to be not material and are therefore not consolidated in group accounts. More detail can be found in Note 38 Group Interests.

The accounts of the ZET, ZetTrans and the IJB can be found on the Council's website at:

<http://www.shetland.gov.uk/about/finances/>.

The accounts of the O&SVJB can be found at:

<http://www.orkney.gov.uk>

Looking Ahead

There is no doubt the outlook for Local Government is challenging. As we recover from the pandemic, and support others with their own recovery efforts, we now see significant challenges on the horizon. We can expect to see increasing poverty across our communities as a result of spiralling inflation, rising energy costs and increased food prices. Global inflationary pressures have intensified following the reintroduction of COVID-19 restrictions in China and the Russian invasion of Ukraine, driving up the costs of procuring goods and services. The global supply chain is suffering from sustained disruption which is hampering our ability to deliver key projects.

Closer to home, the local economy has showed significant signs of recovery, but with local contractors struggling to satisfy demand for goods, labour and services. The Viking Energy Wind Farm is a major development which has gathered pace in the year, with many businesses working to support the construction phase. The outlook is relatively positive, with a number of planned new developments in and around Shetland (including a mix of residential and commercial developments) which should come to fruition in the coming years. The availability of contracted labour required to support those developments will most likely act as a limiting factor.

Shetland is seeing the progression of a space port and this will create demands for new types of employment skills, and businesses are hoped to start to develop around this.

The ongoing discussion around fixed links (tunnels etc) is developing momentum and an emerging view across many areas that this is a way to connect with smaller islands to ensure their prosperous future.

For a long time Shetland, and the Council, have benefited from a model of income generation build around oil and gas. As the major players in these industries realign to move into alternative energy the Council must also ensure that it keeps abreast of these changes and seeks to recreate a similarly advantageous financial position.

The Pension fund appears to be moving to a fully funded position, creating opportunities to revisit the contribution levels of employers, whilst maintaining an asset that contributes to generations of Shetlanders wellbeing, as they move into retirement in the future. Well-funded pensioners bringing money into the local economy is a positive future community benefit. Generally financial settlements are challenging, with rounds of pay awards creating substantial financial pressures, and a snowball effect with increases for one group potentially creating misalignments with other staff groups. This in turn creates addition inflationary pressures in the overall system, contributing to the very issue the pay awards seek to address.

Proposals on visitor levies, council tax banding adjustments etc. provide the opportunity for welcome fund raising powers but the meaningful implementation of the Verity House agreement would potentially represent a major milestone in smoothing and simplifying funding mechanisms allowing staff to focus on provision of service and not searching out new sources of funds.

We continue to experience increasing demand for services across the Council at a time when we are struggling to recruit and retain staff that are integral to the delivery of services. At the same time, we are also trying to deliver an ambitious programme of activity in *Our Ambition*, which includes significant capital investments in housing, infrastructure and measures to tackle climate change.

And amidst all of that, the recent Resource Spending Reviews indicated that Local Government funding is to be frozen in cash terms for the next three years. The establishment of a National Care Service, if implemented, will likely result in the diversion of staff and resources to work through the implications of a significant restructuring of public services.

2023/24 Budget

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Outlook*, presented in September 2022. We have refined our budget proposals to take into account changes planned by each directorate that are required to ensure a more sustainable provision and delivery of services in 2023/24 and beyond.

The Settlement indicated the Scottish Government will provide total revenue funding of £107.6m, inclusive of £24.9m of ring-fenced revenue funding in 2023/24, of which £23.1m is provided for the operational costs of inter-island ferry services.

Our budget proposals included an assumption that Council Tax would increase by 4.5% in 2023/24 and would raise £10.8m in Council Tax (net of any discounts or exemptions) during the year, which is £0.46m more than last year. The average Band D Council Tax liability is £1,338, which is the lowest in Scotland.

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges, by using £38.4m from our reserves to meet our total planned revenue expenditure in 2023/24.

This amount includes:

- £15.4m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Plan*;
- £18.2m of trading income generated from the Harbour Account, including additional income from the Shetland Gas Plant, and the application of Crown Estate funding. This amount differs from *Our Medium-Term Financial Outlook*, by £3.10m.

We can therefore expect our total income to amount to £151.9m.

We expect to spend £156.7m delivering services funded through the General Fund in 2023/24. There is a remaining deficit of £4.8m that cannot be met from other sources of funding, and will need to be met from reserves in order to set a balanced General Fund budget.

Our planned capital investment for the year amounts to £21.6m and largely relates to the maintenance of existing assets. Some £7.7m capital expenditure relates to new and potential capital expenditure, subject to business cases being approved. The Settlement provides a core capital grant of £6.1m, along with other capital grants of £7.25m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts or from revenue funding. Our financial planning assumptions did not anticipate a need to utilise the reserves to support capital expenditure in 2023/24.

For more detail about the 2023/24 budget can be found on the Council's website at:

<https://www.shetland.gov.uk/budget-finance/council-budget>.

Medium-Term Financial Outlook

Our Medium-Term Financial Outlook (MTFO) is a key document within a wider suite of plans and strategy documents that collectively seek to define our ambition, strategic priorities and operational plans over the next five years. An updated MTFO was presented to Elected Members in September 2022 and can be found here:

[Medium Term Financial Outlook 2022-2027](#)

The MTFO attempts to summarise, in one place, all the factors that may affect our Council's financial position over the next five years. It brings together a range of assumptions on future income and expenditure over a five-year period which allows us to identify where, and when, we can expect to face financial pressures. At a time when resources are scarce, and becoming scarcer, we will need to adapt to new ways of working and change the way we will deliver services.

The MTFO summarises our key financial planning assumptions and translated our assumptions and financial modelling into three different scenarios:

- An optimistic, upside scenario
- A central, most likely scenario, *and*
- A pessimistic, downside scenario

Our scenario planning and financial modelling indicates that the Council faces a significant challenge in being able to set balanced budgets in the future. Our central scenario indicates a potential cumulative budgetary

deficit of £106.4m by 2026/27 should the Council not be proactive in managing and addressing the financial pressures it expects to face in the short- to medium-term. The more optimistic scenario indicated a likely deficit of £50.6m while the pessimistic scenario indicated a likely deficit of £157.9m over the same time period.

- ‘Our Ambition’ contains the strategic corporate and political priorities that we will seek to deliver
- The Workforce Strategy which sets the framework for how we make changes to our organisation so that we deliver our key priorities effectively and at pace.
- The Change Programme will translate our corporate priorities and parts of the COVID-19 Recovery and Renewal Framework into a rolling five-year programme of change activity. The Programme will consist of distinct projects, organised in strands, which will focus on transformation of future service delivery.
- The Asset Investment Plan contains our capital expenditure plans for the next five years, and
- The Annual Budget is the tactical financial plan that sets out our spending priorities for the forthcoming financial year.

We recognise that our MTFO doesn’t provide all the answers. Effective financial management cannot be achieved in a vacuum and that is why the MTFO is part of a collection of planning documents that seek to define what we will do over the next five years, and how we will go about it. The wider suite of documents includes:

Conclusion

We have ended the financial year in a relatively positive position, which stands us in good stead for managing some of the headwinds we expect to face in the short term, such as continued inflation, the possible establishment of the National Care Services and pressures around public sector funding. In addition, Our Ambition sets out an ambitious agenda for change, which will require careful prioritisation given the medium and longer-term challenges we face. Despite these challenges, and whilst sustainability challenges continue, the Council remains financially sound with a strong balance sheet and is well placed to serve the Shetland community in the future.

.....
Emma Macdonald
Leader of the Council
21 November 2023

.....
Maggie Sandison
Chief Executive
21 November 2023

.....
Paul Fraser CPFA
Executive Manager - Finance
21 November 2023

Annual Governance Statement

Introduction

This Annual Governance Statement explains how the Council has complied with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' for the year ended 31 March 2023. It sets out the Council's governance arrangements and systems of internal control, and concludes on their effectiveness.

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging these overall responsibilities, the Council is responsible for establishing proper arrangements for the governance of its affairs, including the stewardship of resources at its disposal and arrangements for the management of risk.

The Council reviewed and updated its Code of Corporate Governance in August 2018 which sets out fundamental elements that govern how the Council conducts its business. The Code of Corporate Governance is consistent with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government', which was published in 2016.

The Council has a system of internal controls in place designed to manage risk to a reasonable level. Internal controls cannot completely eliminate the risk of failure to achieve strategic priorities and outcomes, but they can provide a reasonable level of assurance.

The system of internal controls is regularly reviewed to identify and prioritise the risks to the achievement of the Council's strategic priorities and outcomes, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled. It enables the Council to

monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

The Governance Framework

The governance framework adopted by the Council is consistent with the seven core principles of the CIPFA/SOLACE framework illustrated below:

A	<i>Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law.</i>
B	<i>Ensuring openness and comprehensive stakeholder engagement.</i>
C	<i>Defining outcomes in terms of sustainable economic, social and environmental benefits</i>
D	<i>Defining the interventions necessary to optimise achievement of intended outcomes.</i>
E	<i>Developing the entity's capacity, including the capability of its leadership and the individuals within it.</i>
F	<i>Managing risks and performance through robust internal control and strong public financial management.</i>
G	<i>Implementing good practices in transparency, reporting and audit to deliver effective accountability</i>

The governance framework has been in place for the year ended 31 March 2023 and up to the date of approval of the annual accounts.

The key elements of the Council's governance framework include:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- **Scheme of Administration and Delegations**, which detail the functions that the Council has asked officers to carry out on its behalf, and the conditions they must comply with in doing so;
- **Standing Orders**, which set out the rules around how committees are run and decisions are made;
- **Financial Regulations**, setting out how the Council manages its financial affairs in accordance with good practice and statute;

- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;
- the Council's **Performance Management Framework**, which sets out how the Council sets its objectives, monitors and reports on its performance against those objectives and identifies areas for improvement;
- **Compliance** with the CIPFA codes of practice, including Code of Practice on Local Authority Accounting, Service Reporting Code of Practice for Local Authorities, Prudential Code for Capital Finance in Local Authorities, and Treasury Management in the Public Services Code of Practice, and with the CIPFA statements on *the Role of the Head of Internal Audit* and *the Role of the Chief Financial Officer*
- A **comprehensive programme of internal audit reviews** across different service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

The Council's suite of governance documents, including the Scheme of Administration and Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's [website](#).

Review of Effectiveness

The Council conducts an annual review of the effectiveness of its overall governance framework. The review is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance framework, the Internal Audit Annual Report prepared by the Chief Internal Auditor, and also reports from external auditors and other external agencies.

The effectiveness of the Council's governance framework has been evaluated as follows:

- Each director has reviewed the arrangements in place for their respective portfolios and certified their effectiveness to the Executive Manager – Finance. These assurances include confirmation of compliance with internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2022/23, no areas of weakness or concern were identified.
- The Council has assessed its compliance with the CIPFA *Financial Management Code (2019)*, which became mandatory from 2021/22 onwards. The assessment indicated the Council was compliant with each of the requisite financial management standards during the 2022/23 financial year.
- The Council's financial management arrangements comply with the requirements of the CIPFA Statement on *the Role of the Chief Financial Officer in Local Government*.
- The annual review of the Code of Corporate Governance has followed a standard self-evaluation by Corporate Management Team, to score the level of council compliance with legislative and operational requirements, standards and controls, including the CIPFA/SOLACE Framework: "Delivering Good Governance in Local Government". The 2022/23 Corporate Governance self-evaluation has found that, based on the evidence presented, Shetland Islands Council is governed by sound and effective internal management controls, and continues to demonstrate compliance with the requirements of the framework. The self-evaluation has identified some additional improvement actions over and above those already included in the Best Value Assurance Report Improvement and Delivery Plan.
- The Council's committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The Council's Constitution promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services and for capital investments.
- The Audit Committee remains responsible for considering all reports prepared by internal and external auditors and ensuring the effectiveness of the system of internal controls. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.
- A significant induction and training programme for new and returning councillors is delivered after each local election, including the May 2022 election.
- The Council's internal audit function operates in accordance with the CIPFA Statement on *the Role of the Head of Internal Audit*. Furthermore, internal audit reviews are conducted in accordance with Public Sector Internal Audit Standards (PSIAS).
- The internal audit function followed the approved internal audit plan through the year and their work revealed a range of findings. Management are working to implement agreed recommendations. The Internal Audit Annual Report contains further detail.

- The Council's external auditor reports to the Audit Committee. Reports from the external auditor include annual external audit plan and audit reports of the financial statements and wider audit dimensions, such as financial management, financial sustainability, governance and transparency and value for money, as required by Audit Scotland's Code of Audit Practice.

Best Value Assurance Review

The Council has been subject to a Best Value Assurance Review to evaluate how effectively it is in delivering on its statutory duty to deliver Best Value. The audit fieldwork, undertaken jointly by Audit Scotland and the Council's external auditor, Deloitte LLP, took place between March and April 2022.

The Best Value Assurance Report was published in August 2022 and can be found on our website:
<https://www.shetland.gov.uk/performance/best-value>.

The Council has developed a Strategic Action Plan to address the recommendations within the report. This detailed works continues and is reported regularly to the Best Value Sounding Board. The position will be subject to review and update following discussion with our new External auditors, Audit Scotland.

Significant Governance Issues

During the year, the Audit Committee received a range of reports produced by Internal Audit that enabled scrutiny and questioning of officers, such that the Committee gained assurance about any weaknesses identified as well as the actions being taken to address them.

The following issues and related action plans are highlighted for specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Finance procedures at ports and harbours An internal audit review highlighted serious control deficiencies with regard to financial monitoring and reconciliations, and significant use of manual documentation and processes.	Executive Manager – Finance and Executive Manager Ferry & Airport Operations & Port	Significant operational, financial and reputational risk exposure, which may ultimately result in the Council's failure to demonstrate Best Value.	Ferry fares approaches implemented during COVID were ceased and updated arrangements were presented to Council. Existing processes are well established and immediate actions have been agreed to ensure month end processes flow smoothly.	New Ferry fares approaches will be re-reviewed to seek the opportunity to identify further improvements. Detailed work examining Finance processes is underway.	31 December 2023
Asset Management arrangements for inter-island ferries An internal audit review highlighted serious control deficiencies with regard to the lack of an asset management strategy and plan, formal review of the fleet, and records of maintenance.	Executive Manager – Ferry & Airport Operations & Port Infrastructure and Executive Manager – Transport Planning	Significant operational, financial and reputational risk exposure, which may ultimately result in the Council's failure to demonstrate Best Value.	The audit has led to improved levels of communication between Ferry Operations and Transport Planning. Recommendations in the main are longer term planning issues and do not impact on day to day operations.	Work is ongoing to develop the plans and approaches proposed in the recommendations.	31 December 2023 / 30 November 2024

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues that have been previously reported in a prior year's Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Current status and further action required
Health and Safety No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Executive Manager – Human Resources	A schedule of health and safety audits and inspection has been agreed, but the process to monitor completion of planned activity and any associated recommendations remains in development. This has been significantly delayed initially due to COVID and then by lack of resources. New team members are progressing well with training and it is anticipated that inspections can resume in the autumn following completion of the training.	Ongoing Progress will be monitored by Internal Audit with further updates to be provided to the Audit Committee.
Business Continuity Some services also identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Executive Manager – Governance & Law	Although options have been identified for BCP's these have not yet been taken forward. This was initially due to staff resources being diverted to responding to the COVID-19 pandemic, however although there has now been some more progress recently, the recommendations remain outstanding	Ongoing Progress will be monitored by Internal Audit with further updates to be provided to the Audit Committee.
EU Funding compliance There is no formal framework to specifically mitigate the risks associated with EU Funding compliance.	Corporate Management Team	This prior year audit recommendation related to European funding programmes, and in the absence of likely future EU funding has meant a broad framework is no longer required.	Complete
Compliance with Financial Regulations An internal audit review highlighted unsatisfactory internal controls and compliance with Financial Regulations with regard to cash handling in community health and social care settings.	Director of Community Health and Social Care	An action plan was developed to address the serious control deficiencies identified in the internal audit review. Work is ongoing to implement the recommendations made by internal auditors.	Ongoing Progress will be monitored by Internal Audit with further updates to be provided to the Audit Committee.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Current status and further action required
<p>Partnership working Orkney & Shetland Valuation Joint Board</p> <p>Serious flaws in the governance arrangements of the Orkney and Shetland Valuation Joint Board were identified in prior year external audit reports. Issues included unlawful decision-making and breaches of the Procurement (Scotland) Regulations 2016, which occurred during the 2021/22 financial year. The external auditor concluded that the Board did not have appropriate arrangements in place to secure Best Value.</p>	Chief Executive / Executive Manager - Finance	<p>The Board has committed to making improvements and addressing the weaknesses in the Board's governance arrangements.</p> <p>An Action Plan was prepared to address the external audit recommendations which was approved by the Board in March 2021.</p> <p>All actions are now considered complete.</p>	<p>Complete</p> <p>All recommendations for improvement have been implemented.</p>
<p>Procurement and Use of Consultants</p> <p>An internal audit review highlighted serious control deficiencies with regard to procurement compliance and the commissioning of consultancy services .</p>	Director of Corporate Services	<p>The Council has developed a Procurement Project action plan to address the serious deficiencies identified in the internal audit reviews.</p> <p>Progress on the action plan was reported to Audit Committee in May 2023, and in September 2023, the Council approved the revised Contract Standing Orders and updated Procurement Strategy.</p>	<p>Ongoing</p> <p>The remaining actions set out in the action plan will continue to be prioritised and a further update is due to be presented to Members at the next committee cycle.</p>

Internal Audit Opinion

The Council has a system of internal control designed to manage risk to a reasonable level and the Services Directors have provided assurances to this effect. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness

As part of our reviews we have identified improvements to the internal control environment, which have been accepted by management. As noted above, two audit reports had an unsatisfactory audit opinion and four had a limited opinion. We will monitor the implementation of these improvements through future follow up audits. Our follow up work in 2022/23 shows that management have found it challenging to implement agreed audit recommendations within reasonable timescales. This means that the original risks identified remained during the year.

Based on the audit work undertaken, and noting the issues above, it is my opinion that limited assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2022/23 in the Council.

External Audit

The Audit Dimensions and Best Value was considered by the Audit Committee in November 2022 as part of the [Annual Audit Report](#). The report included the external auditor's findings in the areas of:

- financial sustainability,
- financial management,
- governance and transparency, and,
- value for money.

The Audit Report made two new recommendations following the audit process.

In addition, the Council had 9 outstanding audit recommendations from financial years 2020/21 and 2021/22. Of these, three recommendations have been fully implemented. Six recommendations have not yet been fully implemented.

The Council is committed to take steps to address any new or outstanding matters to further enhance our governance arrangements. Corporate Management Team receive regular updates on the implementation of audit recommendations, collating evidence and revising target dates if required.

The Council will continue to monitor effectiveness of

the governance arrangements and will take on board any new recommendations into account as part of the next annual review.

Conclusion

The Council recognises that a directed focus on areas identified as problematic has led to a high level of recommendations and that clearance of these needs to be more targeted and high priority. Nonetheless, overall, we believe that reliance can be placed upon the adequacy and effectiveness of the governance and internal controls that operate across Shetland Islands Council throughout 2022/23. We consider that the arrangements and internal control environment allow us to identify any significant risks which may impact on the achievement of the Council's principal objectives, and to take action (or actions), to avoid or mitigate the impact of any such risks.

Emma Macdonald
Leader of the Council
21 November 2023

Maggie Sandison
Chief Executive
21 November 2023

Remuneration Report

The Remuneration Report is set out in accordance with the Local Government Accounts (Scotland) Regulations 2014. These Regulations require various disclosures on the remuneration and pension benefits of senior councillors and senior employees.

The Code of Practice on Local Authority Accounting in the UK (the Code) also requires the disclosure of exit packages.

All the information disclosed in the following tables in this Remuneration Report has been audited by external audit:

- Disclosure by Pay Band;
- Exit Packages;
- Remuneration of Senior Councillors;
- Remuneration of Senior Employees;
- Pension Benefits of Senior Councillors; and
- Pension Benefits of Senior Employees.

The other sections of the Remuneration Report have been reviewed by external audit to ensure 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) Regulations 2007 (SSI No. 2007/183) as most recently amended by the Local Government (Scotland) Act 2004 (Remuneration Regulations 2022 (SSI 2022/18)). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the convener of a council, leader of a council, senior councillors or councillors. A senior councillor is a councillor who holds a significant position of responsibility in a council's political management structure, usually referred to as the chair or vice-chair of a committee, sub-committee or board.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Leader and Convener of the Council is set out in the amended Regulations SSI 2022/18. For 2022/23 the level of remuneration for the Leader was £32,622 (£31,010k in 2021/22), and for the Convener was £24,467 (£23,257 in 2021/22).

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors a council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the leader of a council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £198k in 2022/23 (£188k in 2021/22).

The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The senior councillor positions are:

- Chair of Education and Families Committee;
- Chair / Vice Chair of IJB;
- Chair of Development Committee;
- Chair of Environment and Transport Committee;
- Chair of Audit Committee;
- Chair of Planning Committee;
- Chair of Licensing Committee; and
- Chair of Harbour Board.

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2022/23 was £192k (£186k in 2021/22).

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme, in respect of those Councillors who elect to become councillor members of the Local Government Pension Scheme.

All reports are available from the Council's [Committee Information](#) pages.

Remuneration of Conveners and Vice-Conveners for Joint Boards

In addition to the senior councillors of the Council, the Regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board, such as the OSVJB.

The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member.

The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.

The Vice-Convener of the OSVJB from May 2022 has been a senior councillor of Orkney Islands Council, who is reimbursed by the Joint Board for additional remuneration paid in respect of this role.

Remuneration of Senior Employees

Remuneration is the term used to describe the total payments made to employees and will include salary payments and allowances such as distant islands allowance and statutory duty allowances.

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/152 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2022/23.

The salaries of the directors are based on a fixed percentage of the Chief Executive's salary, namely 80% of the value of the Chief Executive's salary.

Executive managers fall into two bandings, the second reflecting the additional level of statutory responsibility held by the Monitoring Officer, the Section 95 Officer and the Chief Social Work Officer.

- Chief Executive
- Director - Children's Services
- Director - Community Health and Social Care
- Director - Corporate Services
- Director - Development
- Director – Infrastructure
- Executive Manager - Children and Families (Chief Social Work Officer)
- Executive Manager - Finance (Section 95 Officer)
- Executive Manager - Governance and Law (Monitoring Officer)

In order to ensure that recruitment of senior employees is properly managed, a protocol for chief officer appointments is in place. The protocol applies to appointments to the chief officer posts of Chief Executive and Director. The protocol is designed to ensure that:

- the appointment is widely known and the best available candidates are attracted to apply;
- best information is available to the Council about qualities, skills, experience and personal attributes of candidates; and
- information about candidates is assessed effectively and fairly during the assessment, selection and appointment process.

Allowances

Senior employees are entitled to claim mileage costs paid at rates approved by HM Revenue & Customs.

General Disclosure by Pay Band

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50k or more, disclosed in bands of £5k.

This table includes payments made in the year for salary, pension contributions, redundancy and compensatory added years of pension.

Bands that do not appear in the table had nil employees in both 2022/23 and 2021/22.

Number of Employees							
Total at 31 March 2022	Remuneration Bands	Children's Services	Infrastructure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2023
63	£50,000 - £54,999	34	36	7	6	12	95
69	£55,000 - £59,999	29	35	3	0	2	69
32	£60,000 - £64,999	21	19	0	2	3	45
35	£65,000 - £69,999	7	19	4	2	0	32
14	£70,000 - £74,999	8	10	1	3	3	25
8	£75,000 - £79,999	2	7	1	0	0	10
9	£80,000 - £84,999	1	7	0	0	0	8
3	£85,000 - £89,999	0	4	0	0	0	4
3	£90,000 - £94,999	1	2	1	0	1	5
4	£95,000 - £99,999	1	2	0	1	1	5
1	£100,000 - £104,999	0	1	0	0	0	1
0	£105,000 - £109,999	0	0	0	0	0	0
1	£110,000 - £114,999	0	0	0	0	0	0
2	£115,000 - £119,999	0	0	0	0	1	1
1	£120,000 - £124,999	0	1	0	0	0	1
2	£125,000 - £129,999	0	1	0	0	0	1
0	£130,000 - £134,999	0	2	0	0	0	2
0	£135,000 - £139,999	0	1	0	0	0	1
247	Total	104	147	17	14	23	305

Of the 104 staff (90 in 2021/22) in Children's Services noted above, 81 were head teachers or senior teaching staff (69 in 2021/22).

Of the 147 staff (120 in 2021/22) in Infrastructure Services noted above, 124 worked in Ports and Harbours Operations or Ferry Operations (106 in 2021/22).

Summary of Remuneration paid to Councillors

The Council paid the following salaries, additional allowances (for senior councillors) and expenses in respect of all elected members:

	2021/22 £000	2022/23 £000
Salaries	409	432
Expenses	6	26
Allowances	36	36
Total	451	494

The annual return of Councillors' salaries and expenses for 2022/23 is available for any member of the public to view on the Council's website [here](#).

Summary of Remuneration paid to Employees

The Council paid the following salaries, expenses and additional allowances in respect of all staff:

	2021/22 £000	2022/23 £000
Salaries	83,283	87,227
Overtime	3,816	4,188
Expenses	791	858
Allowances	1,150	1,126
Total	89,040	93,399

Note that the Distant Island Allowance, which is paid to all staff based in Shetland, is included within Salaries.

Exit Packages

The Regulations require the Remuneration Report to provide information on the number of exit packages awarded in bandings of £20k up to £100k, and thereafter in bandings of £50k, along with the total cost of the exit packages within each band.

The Regulations also require disclosure of the number of compulsory redundancies and other agreed departures. The cost of exit packages must pay back within three years, with ongoing salary savings realised thereafter.

There was one exit package awarded in 2022/23 (pay in lieu of notice relating to 2020/21 exit package of £3k paid out in 2021/22).

Exit package cost band (including special payments)	(a)		(b)		(a+b)			
	Number of compulsory		Number of other departures agreed		Total number of exit packages by cost		Total cost of exit packages in each	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22 £000	2022/23 £000
£0 - £19,999	0	0	0	1	0	1	0	8
£20,000 - £39,999	0	0	0	0	0	0	0	0
£40,000 - £59,999	0	0	0	0	0	0	0	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	3	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £199,999	0	0	0	0	0	0	0	0
Total	0	0	0	1	0	1	3	8

The table above details the number and cost of exit packages awarded in 2022/23 only. Included in the cost of the exit packages are:

- Any termination payment, such as a redundancy payment;
- Strain on the fund cost (the amount payable by the Council to the pension fund because the employee has retired before the assumed retirement age);
- Any enhanced payments, such as compensatory added years; and
- A capitalised value of the recurring compensatory added years' payment. This is paid annually by the Council once an employee has left and is therefore a notional capitalised cost is confirmed in the year it occurs.

Disclosure of Remuneration for Senior Councillors

2021/22	Name of Councillor	Designation	2022/23		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
Until 4 May 2022					
24,889	M Bell (c)	Convener	2,279	3,335	5,614
32,975	S Coutts (c)	Leader of the Council	3,039	108	3,147
21,565	A Cooper (c)	Chair - Development Committee	2,112	0	2,112
22,267	G Smith (c)	Chair - Education & Families Committee	2,112	176	2,288
21,565	R J Thomson (d)	Chair - Environment & Transport Committee	2,112	0	2,112
see below	A Manson	Chair - Harbour Board			see below
20,449	C Smith (e)	Chair - Licensing Committee	2,002	0	2,002
see below	E Macdonald	Chair - Planning Committee			see below
20,449	P Campbell (c) / (f)	Chair - Shetland College Board	2,002	0	2,002
19,194	T Smith (c)	Vice-Convenor - Orkney & Shetland Valuation Joint Board	1,823	135	1,958
Elected From 10 May 2022, appointed into role from 23 May 2022 unless otherwise stated in the Notes					
20,449	A Manson	Convener	23,681	2,064	25,745
20,935	E Macdonald	Leader of the Council	30,783	5,664	36,448
0	D Leask	Chair - Development Committee	20,139	1,947	22,086
18,619	D Sandison (g)	Chair - Education & Families Committee	21,962	525	22,487
18,619	M Lyall (g)	Chair - Environment & Transport Committee	21,962	3,829	25,791
0	J Leask (h)	Chair - Harbour Board	6,469	386	6,855
0	R W Thomson (i)	Chair - Harbour Board	13,893	2,794	16,686
0	N Pearson	Chair - Licensing Committee	19,132	13	19,144
19,325	R McGregor (g)	Chair - Planning Committee	20,955	1,662	22,617
18,970	S Leask (j)	Convenor - Orkney & Shetland Valuation Joint Board	19,303	1,947	21,250
Full year (excluding 4 -10 May 2022)					
20,449	A Duncan	Chair - Audit Committee	21,134	13	21,147

Notes:

- a) Taxable expenses include telephone line rental / broadband costs;
- b) Councillors are only paid one special responsibility allowance, irrespective of how many Chair/Vice Chair positions they hold;
- c) Councillors M Bell, S Coutts, A Cooper, G Smith, P Campbell and T Smith all stood down from being Councillors on 4 May 2022;
- d) R J Thomson was Chair – Environment & Transport Committee until 4 May 2022. Mr Thomson is still a Councillor, and his full year remuneration was £19,605;
- e) C Smith was Chair – Licensing Committee until 4 May 2022. Mr Smith is still a Councillor, and his full year remuneration was £19,495;
- f) The last meeting of the Shetland College Board was held on 2 March 2022;
- g) Councillors D Sandison, M Lyall and R McGregor were not senior councillors in 2021/22;
- h) J Leask was Chair – Harbour Board from 23 May 2022 until standing down as Councillor on 28 August 2022;
- i) R W Thomson was appointed Chair – Harbour Board from 29 September 2022;
- j) S Leask was appointed Convenor of Orkney & Shetland Valuation Joint Board from 30 June 2022; and
- k) Due to Local Election, there was a gap between 4 and 10 May 2022 where no Councillor remuneration was paid.

Remuneration of Senior Employees of the Council

2021/22	Name of Senior Employee	Designation	2022/23		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
113,840	M Sandison	Chief Executive	119,331	0	119,331
95,359	H Budge	Director - Children's Services	99,927	0	99,927
66,826	J Robinson (c)	Interim Depute Director - Community Health & Social Care	67,661	0	67,661
95,359	C Ferguson	Director - Corporate Services	99,927	0	99,927
95,359	N Grant	Director - Development Services	99,927	0	99,927
95,368	J Smith	Director - Infrastructure Services	99,927	0	99,927
92,904	D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	93,864	428	94,292
84,887	J Manson (d)	Executive Manager - Finance (Section 95 Officer)	58,702	0	58,702
0	P Fraser (d)	Executive Manager - Finance (Section 95 Officer)	19,046	0	19,046
85,320	J Riise (e)	Executive Manager - Governance & Law (Monitoring Officer)	94,748	0	94,748

Notes:

- Remuneration includes ad-hoc elements that are part of the normal duties of the post, i.e. call-out and stand-by allowances;
- Taxable expenses include taxable mileage and / or expenses out with HMRC's dispensation;
- J Robinson has continued to receive an honorarium payment in 2022/23 for providing the Interim Chief Officer of IJB with support. Ms Robinson's costs have been paid in full by Shetland Islands Council and funded by grant income received from the Scottish Government for IJB COVID-19 Costs. Ms Robinson continues to work a 34 hour week. The full time equivalent remuneration for Ms Robinson's substantive post in 2022/23 is £65,601.58. The Director of Community Health and Social Care role has been covered by B Chittick from 1 April 2022 to 31 March 2023. NHS Shetland pay the full cost, then Shetland Islands Council is recharged for 50%. The Council was recharged £76,618 in 2022/23. Mr Chittick's full time equivalent remuneration for 2022/23 was £113,910..
- J Manson held the post of Executive Manager – Finance (Section 95 Officer) until 6 November 2022. The post remained vacant until P Fraser was appointed on 9 January 2023. The full-time equivalent remuneration for the post of Executive Manager – Finance (Section 95 Officer) in 2022/23 was £88,998; and
- The total remuneration includes Returning Officer (RO) fees. A RO is the person responsible for administering a parliamentary election. These duties are separate from any duties undertaken as a local government employee.

Pension Benefits – Senior Councillors

The pension entitlements for Senior Councillors are shown in the table below, together with the contribution made by the Council to each Senior Councillor during the year. Councillors can be members of the Pension Scheme until the eve of their 75th birthday and on the completion of their term can access the pension benefits that have accrued to them if they have attained / exceeded their normal pension age.

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
		31 March 2022 £000	31 March 2023 £000	As at 31 March 2023		Difference from 31 March 2022	
				Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell (a)	Convener	5	1	5	0	0	0
S Coutts (a)	Leader of the Council	6	1	4	0	0	0
A Duncan (b)	Chair - Audit Committee	3	0	0	0	(3)	0
A Cooper (a)	Chair - Development Committee	4	0	3	0	0	0
G Smith (a)	Chair - Education & Families Committee	4	0	4	0	0	0
R J Thomson (c)	Chair - Environment & Transport Committee	4	0	2	0	0	0
A Manson (d)	Chair - Harbour Board/ Convenor	4	5	5	0	1	0
C Smith (e)	Chair - Licensing Committee	2	0	0	0	(3)	0
E Macdonald (f)	Chair - Planning Committee/ Leader of the Council	4	7	3	0	1	0
P Campbell (a) / (g)	Chair - Shetland College Board	4	0	5	0	0	0
D Leask	Chair - Development Committee	0	4	0	0	0	0
D Sandison	Chair - Education & Families Committee	4	5	4	0	0	0
M Lyall	Chair - Environment & Transport Committee	4	5	1	0	0	0
J Leask (h)	Chair - Harbour Board	0	1	0	0	0	0
R W Thomson	Chair - Harbour Board	0	3	0	0	0	0
N Pearson	Chair - Licensing Committee	0	4	0	0	0	0

Notes:

- a) Councillors M Bell, S Coutts, A Cooper, G Smith and P Campbell all stood down from being Councillors on 4 May 2022;
- b) A Duncan ceased accruing pension benefits in November 2021;
- c) R J Thomson held the position of Chair – Environment & Transport Committee until 4 May 2022;
- d) A Manson was Chair – Harbour Board until 4 May 2022 and was appointed Convenor from 23 May 2022;
- e) C Smith held the position of Chair – Licencing Committee until 4 May 2022, and ceased accruing pension benefits in September 2021;
- f) E Macdonald was Chair – Planning Committee until 4 May 2022 and was appointed to Leader of the Council from 23 May 2022;
- g) The last meeting of the Shetland College Board was held on 2 March 2022; and
- h) J Leask ceased to be a Councillor from 28 August 2022, and their pension contributions were refunded.

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer		Accrued Pension Benefits			
		31 March 2022	31 March 2023	As at 31 March 2023		Difference from 31 March 2022	
				Pension	Lump Sum	Pension	Lump Sum
		£000	£000	£000	£000	£000	£000
M Sandison	Chief Executive	24	26	50	62	4	3
H Budge	Director - Children's Services	22	23	38	115	3	9
J Robinson	Interim Depute Director - Community Health & Social Care	14	15	26	27	2	1
C Ferguson	Director - Corporate Services	20	22	66	111	7	6
N Grant	Director - Development Services	20	22	34	24	3	1
J Smith	Director - Infrastructure Services	20	22	43	57	3	3
J Manson (a)	Executive Manager - Finance	18	12	7	0	1	0
P Fraser (b)	Executive Manager - Finance	0	4	0	0	0	0
D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	19	20	46	72	3	3
J Riise	Executive Manager - Governance & Law	18	21	49	77	4	5

Notes:

- a) J Manson figures for 2022/23 are reported up to the leave date of 6 November 2022; and
- b) P Fraser figures for 2022/23 are reported from the commencement date of 9 January 2023.

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), apart from teachers, whose pension benefits are provided through the Scottish Teachers Pension Scheme. The LGPS is a funded pension scheme that receives contribution payments from both Scheme members and participating employers.

Councillors' pension benefits to 31 March 2015 were based on career average pay. Councillors' pay for each year or part up to 31 March 2015 (other than the pay in the final year commencing 1 April 2014) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the Scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits up to 31 March 2015.

From 1 April 2015, the Pension Scheme moved to a career average related earnings scheme for all scheme members. Councillors and local government employees build up a pension at a rate of 1/49th of the amount of pensionable pay they receive in a scheme year. The amount of pension built up is increased in line with HM Treasury Orders at the end of each scheme year.

Benefits built up before 1 April 2015 will continue to be calculated on final pay for employees and average revalued pay for councillors.

The Scheme's normal retirement age for both councillors and employees is now linked to their own state pension age (with a minimum age 65).

From 1 April 2015 the five-tier employee pension contribution system still remains, with contributions from scheme members based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of Scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

Tiered contribution rates on whole time pay are as follows:	2021/22 %	Tiered contribution rates on whole time pay are as follows:	2022/23 %
On earnings up to and including £22,300	5.50	On earnings up to and including £23,000	5.50
On earnings above £22,301 and up to £27,300	7.25	On earnings above £23,201 and up to £28,100	7.25
On earnings above £27,301 and up to £37,400	8.50	On earnings above £28,101 and up to £38,600	8.50
On earnings above £37,401 and up to £49,900	9.50	On earnings above £38,601 and up to £51,400	9.50
On earnings above £49,901	12.00	On earnings above £51,401	12.00

From April 2015, if a person works part-time, their contribution rate is worked out on their actual pay rate for the job and contributions are paid on actual pay earned. Prior to April 2015, the contribution rate was worked out on their whole-time equivalent rate of pay, with contributions paid on actual pay earned.

From 1 April 2009, there was no longer automatic entitlement to a lump sum. Members may opt to give up (commute) up to 25% of their pension for lump sum, per the Finance Act 2004. From April 2015, pensions are built up at a rate of 1/49th of annual pensionable pay for that year. From 1 April 2009 to April 2015, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension

based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

The pension figures shown relate to the benefits that accrued as a consequence of an individual's total Local Government Service, not just their current appointment. The figures also reflect any transfer of pension benefits from another pension arrangement.

Trade Union Facility Time Report 2022/23

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employees to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation.

Facility Time Publication Requirements 2022/23	Central Function Employees	Education Function Employees
Table 1 - What was the total number of your employees who were relevant union officials during the relevant period?		
Number of employees	6	7
Full-time equivalent employee number	5.41	7
Table 2 - How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?		
Percentage of time	Number of employees	Number of employees
0%	2	2
1-50%	3	5
51-99%	1	0
100%	0	0
Table 3 - Percentage of pay bill spent on facility time: Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.		
	£000	£000
Total cost of facility time (A)	26,322	33,325
Total pay bill (B)	104,284,588	25,962,135
Percentage of the total pay bill spent on facility time (A ÷ B)	0.03%	0.13%
Table 4 - Paid trade union activities: As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?		
	%	%
Total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ Total paid facility time hours x 100	8.8%	9.60%

Emma Macdonald
Leader of the Council
21 November 2023

Maggie Sandison
Chief Executive
21 November 2023

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority the proper officer is the Executive Manager - Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the annual accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Shetland Islands Council at its meeting on 21 November 2023.

Signed on behalf of Shetland Islands Council.

Emma Macdonald
Leader of the Council
21 November 2023

The Executive Manager - Finance's Responsibilities

The Executive Manager - Finance is responsible for the preparation of the Authority's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Executive Manager - Finance has:

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

The Executive Manager - 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 financial statements give a true and fair view of the financial position of the Local Authority at the reporting date and the transactions of the Local Authority for the year ended 31 March 2023

Paul Fraser
Executive Manager - Finance
21 November 2023

Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Shetland Islands Council for the year ended 31 March 2023 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, Cash Flow Statement, Housing Revenue Account, Council Tax Income Account, Non-Domestic Rate Income Account and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council as at 31 March 2023 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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

I conducted my 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. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 02 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's

ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the council's current or future financial sustainability. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Manager – Finance and the Audit Committee 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 council'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 there is an intention to discontinue the council's operations.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My 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 my 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council;
- inquiring of the Executive Manager - Finance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council;
- inquiring of the Executive Manager - Finance concerning the council's policies and procedures regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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 my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Executive Manager - Finance is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my 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 I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my 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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2023

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and in Note 1: Expenditure and Funding Analysis.

2021/22 Gross Expenditure £000	2021/22 Gross Income £000	2021/22 Net Expenditure £000		Notes	2022/23 Gross Expenditure £000	2022/23 Gross Income £000	2022/23 Net Expenditure £000
2,381	(4)	2,377	Chief Executive and Cost of Democracy		2,536	(22)	2,514
63,408	(8,991)	54,417	Children's Services		68,228	(9,351)	58,877
66,265	(35,649)	30,616	Community Care Services		74,551	(40,920)	33,631
18,304	(6,348)	11,956	Corporate Services		18,444	(6,143)	12,301
21,192	(6,249)	14,943	Development Services		22,268	(3,129)	19,139
49,643	(18,722)	30,921	Infrastructure Services		50,760	(26,122)	24,638
6,971	(7,712)	(741)	Housing Revenue Account		8,492	(7,161)	1,331
24,151	(36,113)	(11,962)	Harbour Account		19,208	(28,076)	(8,868)
252,315	(119,788)	132,527	Net Cost of Services		264,487	(120,924)	143,563
5,009	(798)	4,211	Other operating income and expenditure	8	2,719	(222)	2,497
33,036	(22,749)	10,287	Financing and investment income and expenditure	9	46,091	(22,957)	23,134
0	(104,502)	(104,502)	Taxation and non-specific grant income	11	0	(100,165)	(100,165)
290,360	(247,837)	42,523	(Gain) / Loss on Provision of Services		313,297	(244,268)	69,029
			Items that will not be reclassified to the (surplus) or deficit on the provision of services				
		(21,497)	(Surplus) / Deficit on revaluation of property, plant and equipment assets			12	(20,841)
		(108,470)	Remeasurement of the net defined benefit liability/asset			28	(161,635)
		(129,967)	Other Comprehensive Income and Expenditure				(182,476)
		(87,444)	Total Comprehensive Income and Expenditure				(113,447)

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. This statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The Net Increase / Decrease line shows the statutory General Fund and Housing Revenue Account movements in the year following those adjustments.

2022/23	General Fund	Housing Revenue Account	Capital Funds	Other Revenue/ Statutory Funds	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	(211,880)	(20,116)	(65,269)	(132,264)	(429,529)	(260,349)	(689,878)
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	67,264	1,765	0	0	69,029	(182,476)	(113,447)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(28,813)	(617)	249	0	(29,181)	29,181	0
Net Decrease/(Increase) before transfers	38,451	1,148	249	0	39,848	(153,295)	(113,447)
Net Transfers to/(from) Other Statutory Reserves	5,052	0	(5,114)	155	93	(93)	0
Decrease/(Increase) in year	43,503	1,148	(4,865)	155	39,941	(153,388)	(113,447)
Balance at 31 March 2023	(168,377)	(18,968)	(70,134)	(132,109)	(389,588)	(413,737)	(803,325)

2021/22	General Fund	Housing Revenue Account	Capital Funds	Other Revenue/ Statutory Funds	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	(224,139)	(20,405)	(66,096)	(133,654)	(444,294)	(158,140)	(602,434)
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	43,889	(1,366)	0	0	42,523	(129,967)	(87,444)
Adjustments between accounting basis & funding	(35,785)	1,655	6,270	0	(27,860)	27,860	0
Net (Increase)/Decrease before transfers	8,104	289	6,270	0	14,663	(102,107)	(87,444)
Net Transfers to/(from) Other Statutory Reserves	4,154	0	(5,443)	1,390	102	(102)	0
(Increase)/Decrease in year	12,258	289	827	1,390	14,765	(102,209)	(87,444)
Balance at 31 March 2022	(211,880)	(20,116)	(65,269)	(132,264)	(429,529)	(260,349)	(689,878)

Balance Sheet as at 31 March 2023

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories. Usable reserves may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations or earmarking on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt and the Unrealised Investment Gains which is earmarked and not available to fund the delivery of services). Unusable reserves are those that are not able to be used to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

As at 31 March 2022 £000		Notes	As at 31 March 2023 £000
468,525	Property, Plant and Equipment	13	478,642
1,678	Investment Property	14	1,515
4,412	Heritage Assets	15	4,401
43,623	Intangible Assets	16	47,484
411,438	Long-term Investments	18	376,787
965	Long-term Debtors	22	965
0	Pension Asset - Funded Obligations	28	0
930,641	Long-Term Assets		909,794
82	Assets held for Sale	21	83
5,248	Inventories	25	5,571
19,771	Short-term Debtors	23	19,450
20,436	Cash and Cash equivalents	20	9,113
45,537	Current Assets		34,217
(34,174)	Short-term Creditors	24	(29,556)
(214)	Short-term Provisions	26	(50)
0	Grant Receipts in Advance - Revenue	11	(212)
(34,388)	Current Liabilities		(29,818)
(49,072)	Long-term Borrowing	18	(49,048)
(134,179)	Pension Liability - Funded Obligations	28	0
(27,760)	Pension Liability - Unfunded Obligations	28	(22,279)
(649)	Long-term Provisions	26	(822)
(39,219)	PFI and Similar Contracts	17	(37,746)
(1,033)	Other Long-term Liabilities	18	(973)
(251,912)	Long-Term Liabilities		(110,868)
689,878	Net Assets		803,325
429,529	Usable Reserves	7	389,588
260,349	Unusable Reserves	12	413,737
689,878	Total Reserves		803,325

The unaudited financial statements were issued on 28 June 2023 and the audited financial statements were authorised for issue on 21 November 2023.

Paul Fraser CPFA
Executive Manager – Finance
21 November 2023

Cash Flow Statement for year ended 31 March 2023

This statement shows the changes in cash and cash equivalents of the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2021/22 £000		Notes	2022/23 £000
	Operating activities		
42,523	Net (surplus)/deficit on the provision of services (CIES)		69,029
(54,572)	Adjustment to net surplus or deficit on the provision of services for non-cash movements		(39,319)
6,492	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		7,463
(5,557)	Net cash flows from Operating Activities		37,173
(7,331)	Investing activities		(27,319)
1,425	Financing activities		1,469
(11,463)	Net increase in cash and cash equivalents		11,323
8,973	Opening Cash and Cash Equivalents	20	20,436
11,463	Net movement of Cash and Cash Equivalents during the year		(11,323)
20,436	Closing Cash & Cash Equivalents	20	9,113

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

2021/22 £000		Notes	2022/23 £000
(3,212)	Interest received	9	(3,523)
5,983	Interest paid		3,842
(5,931)	Dividends received	9	(6,228)
(3,160)	Total		(5,909)

The Surplus or Deficit on the Provision of Services has been adjusted for these non-cash movements:

2021/22 £000		Notes	2022/23 £000
(16,329)	Depreciation, impairment and revaluations		(17,163)
(1,816)	Amortisation		(2,315)
(283)	(Increase) in impairment for bad debts		47
(12,594)	(Increase) in creditors		4,309
(2,359)	Increase/(Decrease) in debtors		(66)
135	(Decrease)/Increase in inventories	25	323
(26,567)	Movement in pension liability	28	(21,975)
(4,970)	Carrying amount of non-current assets sold or de-recognised		(2,524)
10,211	Other non-cash items charged to the net surplus or deficit on the provision of services		45
(54,572)	Total		(39,319)

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

2021/22 £000		2022/23 £000
760	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	27
5,732	Any other items for which the cash effects are investing or financing cash flows	7,436
6,492	Total	7,463

Investing Activities

2021/22 £000		Notes	2022/23 £000
17,714	Purchase of property, plant and equipment, investment property and intangible assets		14,967
(18,190)	Purchase of short-term and long-term investments	18	(34,651)
(760)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(27)
(363)	Proceeds from short-term and long-term investments		(172)
(5,732)	Other receipts from investing activities		(7,436)
(7,331)	Total		(27,319)

Financing Activities

2021/22 £000		2022/23 £000
1,394	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,441
31	Repayments of short and long-term borrowing	28
1,425	Total	1,469

Housing Revenue Account

Introduction and Statutory Background

The Housing (Scotland) Act 1987 provides the statutory framework for the housing accounts of Scottish local authorities. Part X of the 1987 Act requires a local authority to keep a Housing Revenue Account of the income and expenditure for each year in respect of the houses, buildings and land specified in Part I of Schedule 15.

Part X of the 1987 Act and Schedule 15 thereto make significant provisions relevant to the preparation of the financial statements:

Section 203(1) – housing authorities have a duty to keep an HRA;

Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions;

Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA;

Schedule 15 – housing authorities have a duty to avoid a deficit in the HRA but if there is a deficit, a General Fund contribution must be made equal to the deficit;

Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA;

Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA; and

Schedule 15 – the Scottish Government may direct rectification of the account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

The operation of the HRA in terms of statutory debits and credits is governed by Part II of Schedule 15 of the 1987 Act and will include income (dwelling rents, services and other charges) and expenditure (repairs, maintenance and management, capital financing costs, bad debts and voids).

In parallel with the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

the HRA Income and Expenditure Statement;

the Movement on the HRA Statement.

The HRA Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account Income and Expenditure Statement

2021/22 £000		2022/23 £000
	Expenditure	
3,371	Repairs and maintenance	4,038
894	Supervision and management	765
1,862	Depreciation and impairment of non-current assets	3,363
159	Movement in the allowance for bad debts	137
295	Other expenditure	150
6,581	Total expenditure	8,453
	Income	
(7,078)	Dwelling rents	(6,920)
(230)	Non-Dwelling rents	(217)
(14)	Other Income	(24)
(7,322)	Total income	(7,161)
(741)	Net (Income)/Expenditure of HRA services as included in the CIES	1,292
0	HRA services' share of Corporate and Democratic Core	39
(741)	Net (Income)/Expenditure of HRA Services	1,331
	HRA share of operating income and expenditure included in the CIES	
586	(Gain) or Loss on sale of HRA non-current assets	1,599
497	Interest payable and similar charges	464
(1,789)	Interest and investment income	(1,617)
81	Pension interest cost and expected return on pension assets	71
0	Capital Grants and Contributions	(83)
(625)	Net HRA share of operating expenditure	434
(1,366)	(Surplus)/Deficit for the year on HRA services	1,765

Movement on the Housing Revenue Account Statement

2021/22 £000		2022/23 £000
(20,405)	Opening balance on the HRA	(20,116)
(1,366)	(Surplus) / Deficit on the HRA Income and Expenditure Statement	1,765
1,655	Adjustment between accounting basis and funding basis under statute	(617)
289	Increase in year on the HRA	1,148
0	Transfers to reserves	0
(20,116)	Closing balance on the HRA	(18,968)

The adjustments between accounting basis and funding basis for the HRA are shown in disclosure Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations and transfers to or from reserves are shown in Note 7: Transfers to / (from) Earmarked Reserves.

Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2021/22 Number	Housing Stock	2022/23 Number
75	1 Apartment	75
412	2 Apartment	412
524	3 Apartment	525
611	4 Apartment	611
33	5 Apartment	33
1	6 Apartment	2
2	8 Apartment	2
1,658	Total	1,660

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. There are 12 less properties in arrears as at 31 March 2023. The total value of rent arrears has decreased by £38k in 2022/23, to £343k. This compares to a total value of arrears of £381k in 2021/22.

2021/22 £000		2022/23 £000
381	Total value of rent arrears	343

2021/22		2022/23
533	Number of properties in arrears	521
32.1%	Properties in arrears as share of total stock	31.4%
£715	Average amount per property in arrears	£658

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The value of housing debt written off in 2022/23 was £89k (£55k 2021/22). The housing bad and doubtful debt provision included within the Council's accounts at 31 March 2023 is £183k (£161k 2021/22).

Void Rents

The following table summarises the income lost due to voids in 2022/23. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2021/22 £000		2022/23 £000
133	General needs void rents and charges	120
32	Sheltered housing void rents and charges	44
165	Total	164

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Council's Comprehensive Income and Expenditure Statement.

Council Tax Income Account

2021/22 £000		2022/23 £000
(12,662)	Gross Council Tax levied and contributions in lieu	(12,751)
716	Council Tax Reduction Scheme	729
1,578	Other discounts and reductions	1,632
64	Write-offs of uncollectable debts and allowance for impairment	73
18	Adjustment to previous years' Community Charge and Council Tax	63
(10,286)	Transfer to General Fund	(10,254)

Council Tax Base

The table below shows the Council Tax base used to set the 2022/23 charges. The amount of Council Tax payable depends on the valuation band of the dwelling. The following analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

2022/23	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2022/23 Band D equivalents	2021/22 Band D equivalents
Band A*			10	(1)	(2)	7	0.56	4	3
Band A	2,948	(133)	7	(488)	(267)	2,067	0.67	1,385	1,557
Band B	1,844	(69)	10	(260)	(168)	1,357	0.78	1,058	1,191
Band C	2,878	(103)	14	(359)	(230)	2,200	0.89	1,958	2,146
Band D	1,884	(41)	7	(153)	(57)	1,640	1.00	1,640	1,685
Band E	1,481	(15)	1	(86)	(14)	1,367	1.31	1,791	1,788
Band F	309	(3)	1	(13)	(2)	292	1.63	476	468
Band G	66	(3)	0	(4)	0	59	1.96	116	118
Band H	2	(1)	0	(1)	0	0	2.45	0	0
Sub-total								8,428	8,956
Less Bad Debt provision								(59)	(58)
Council Tax Base								8,369	8,898

* Relates to Band A properties subject to disabled relief

The gross charge to a given property may be affected by the following deductions:

Council Tax Reduction Scheme:

This is a scheme that reduces the Council Tax liability of low income households in Scotland.

Exemptions:

Houses where all the residents are students, or under 18 years old, or are persons with a severe mental impairment will be exempt. Some classes of empty property, in many cases only for a limited period, will also be exempt.

Discounts:

If only one adult lives in a property, the bill may be cut by 25%. If the property is unoccupied and is no-one's sole or main residence, the bill may be cut by up to 50%. If the property is a second home or long-term empty, the discount will only be 10%.

Reliefs:

If a house has been structurally altered for a disabled person, the Council Tax bill may be set at the next band lower in value than that shown in the Valuation List (Band A* shown above). A reduction is also offered for properties in Band A.

Non-Domestic Rate Income Account

Statutory Background

The Non-Domestic Rate Account (Scotland) is a statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

Non-Domestic Rate Income Account

2021/22 £000		2022/23 £000
28,828	Gross rates levied and contributions in lieu	28,892
(6,185)	Reliefs and other deductions	(4,810)
(15)	Write-offs of uncollectable debts	(22)
22,628	Net non-domestic rate income	24,060
(6,105)	Adjustment to previous years' national non-domestic rates	(1,479)
10,167	Net contribution (to) / from National Non-Domestic Rate pool	12,741
26,690	Net NDR Income transferred to General Fund	35,322

Analysis of Rateable Value

The amount paid for non-domestic rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Government.

The national non-domestic rate poundage set for 2022/23 is 49.8p (49p in 2021/22).

From 1 April 2020, the Scottish Government introduced an additional Intermediate Property Rate of 1.3p for all subjects with a rateable value between £51,000 and £95,000, and an additional Higher Property Rate of 2.6p for all subjects with a rateable value above £95,000.

The table below sets out the number of subjects liable for General Rates and the rateable values at the start of the year.

Rateable values at 1 April 2022	Number of Subjects	Rateable Value £000
Commercial	590	8,045
Industrial	493	33,637
Other	1,313	14,907
Total	2,396	56,589

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the Council (i.e. government grants, rents, Council Tax and business rates) for the year has been used in providing services, in comparison with those resources consumed or earned in accordance with accounting practices. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2022/23	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,054	386	74	2,514
Children's Services	53,648	5,940	(712)	58,876
Community Care Services	27,224	6,033	374	33,631
Corporate Services	10,538	2,854	(1,091)	12,301
Development Services	15,467	3,534	138	19,139
Infrastructure Services	14,624	8,580	1,434	24,638
Housing Revenue Account	2,818	(969)	(518)	1,332
Harbour Account	(11,446)	3,244	(666)	(8,868)
Net Cost of Services	114,927	29,602	(967)	143,563
Other income and expenditure	(92,352)	(172)	17,992	(74,534)
Deficit or (Surplus)	22,575	29,430	17,025	69,029
Opening General Fund and HRA balance*		231,996		
Add (Surplus) / Deficit in the year		22,575		
Add other items not charged to the (Surplus) / Deficit		(67,226)		
Closing General Fund and HRA balance*		187,345		

2021/22	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	3,607	366	(1,596)	2,377
Children's Services	50,332	6,147	(2,062)	54,417
Community Care Services	23,403	7,195	18	30,616
Corporate Services	8,536	3,253	167	11,956
Development Services	11,591	3,368	(16)	14,943
Infrastructure Services	20,425	10,565	(69)	30,921
Housing Revenue Account	2,156	(2,179)	(718)	(741)
Harbour Account	(12,969)	4,857	(3,850)	(11,962)
Net Cost of Services	107,081	33,572	(8,126)	132,527
Other income and expenditure	(98,572)	558	8,010	(90,004)
Deficit or (Surplus)	8,509	34,130	(116)	42,523
Opening General Fund and HRA balance*		244,544		
Add (Surplus) / Deficit in the year*		8,509		
Add other items not charged to the (Surplus) / Deficit		(21,057)		
Closing General Fund and HRA balance*		231,996		

*For a split between General Fund and HRA balances, see the Movement in Reserves Statement.

The following table analyses the Adjustments between Funding and Accounting Basis figure outlined above:

2022/23	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	121	265	0	386
Children's Services	128	4,383	1,429	5,940
Community Care Services	661	5,092	280	6,033
Corporate Services	1,348	1,527	(21)	2,854
Development Services	2,496	1,013	25	3,534
Infrastructure Services	5,032	3,372	176	8,580
Housing Revenue Account	(1,246)	293	(16)	(969)
Harbour Account	1,858	1,426	(40)	3,244
Net Cost of Services	10,398	17,371	1,833	29,602
Other income and expenditure	(4,776)	4,604	0	(172)
Total adjustments between accounting basis and funding basis	5,622	21,975	1,833	29,430

2021/22	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	118	248	0	366
Children's Services	1,093	5,437	(383)	6,147
Community Care Services	716	6,363	116	7,195
Corporate Services	1,290	1,904	59	3,253
Development Services	2,071	1,409	(112)	3,368
Infrastructure Services	6,529	4,014	22	10,565
Housing Revenue Account	(2,647)	450	18	(2,179)
Harbour Account	3,099	1,736	22	4,857
Net Cost of Services	12,269	21,561	(258)	33,572
Other income and expenditure	(4,448)	5,006	0	558
Total adjustments between accounting basis and funding basis	7,821	26,567	(258)	34,130

Capital Adjustments

This column includes depreciation, impairment and revaluation gains and losses, income on disposal of assets and the amounts written off for those assets; statutory charges for capital financing and capital grants not chargeable under generally accepted accounting practices.

Pensions Adjustments

Employer pension contributions made by the Council are removed here and replaced with current service costs and past service costs according to IAS 19. Net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

Other differences between amounts charged to the CIES and amounts to be recognised under statute include the amount by which finance costs charged to the CIES are different from finance costs chargeable in the year and the amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year.

Presentational Adjustments

Further adjusting differences between amounts charged to the CIES and amounts reported internally to management. Some items of investment income and expenditure are not reported internally and therefore must also be presented here.

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 Council has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual reporting period that begins on 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Annual Improvements to IFRS Standards 2018 – 2020;
- Amendments to IAS 16 (Property Plant and Equipment) – amendments to Proceeds before Intended Use.

- b) 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 Council has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) – definition of Accounting Estimates – applicable for periods beginning on or after 1 April 2023;
- Amendments to IAS 1 (Presentation of Financial Statements) and IFRS Practice Statement 2 – disclosure of Accounting Policies – applicable for periods beginning on or after 1 April 2023;
- Amendments to IAS 12 (Income Taxes) - deferred Tax related to Assets and Liabilities arising from a Single Transaction – applicable for periods beginning on or after 1 April 2023;

- Amendments to IFRS 3 (Business Combinations) – updating a Reference to the Conceptual Framework – applicable for periods beginning on or after 1 April 2023.

The Council does not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods.

Note 4: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 39, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note, however a summary of those with the most significant effect is detailed below:

- There are a number of legal claims currently outstanding against the Council. Where a reliable estimate can be made and it's probable the Council will be required to settle the obligation, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate or the probability of settlement, the claims have been accounted for as contingent liabilities;
- There is a high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that its assets may be impaired as a result of (for example) reduced maintenance;
- The Council has classified the measurement basis of its available for sale financial instruments as fair value through profit or loss. This is due to the contractual terms of the asset which do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. During 2022/23 the unrealised loss recognised in the CIES was £36.0m;
- The Council is deemed to control the services provided under the PFI for the Anderson High School and also to control the residual value at the end of the agreement. The accounting policies for PFI have been applied to this arrangement (valued at net book value of £52.4m at 31 March 2023) which is

recognised as Property, Plant and Equipment on the Council's Balance Sheet;

- The Council has considered all entities in which it has an interest for consolidation in group accounts. The Council has assessed that the value of the financial results is considered not material for consolidation in group accounts. Further information can be found at Note 38: Group Interests.

Note 5: Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The annual accounts contain estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. Because balances cannot be determined with certainty, however, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	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 (see Note 28: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £10.0m; however, the assumptions interact in complex ways.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. The Council holds Financial Assets (Equity Investments and Financial Guarantees) at fair value.	This will be different in each case, but changes in any assumptions used in all asset valuation could affect the values disclosed in the accounts.
Fishing Quota	Fishing quota held by the Council was valued at £46.9m by an independent broker at 31 March 2023. In line with the Code and IFRS 13, the valuer determined the market valuation of the Council's holding with reference to the number of Fixed Quota Allocation (FQA) units held, offers made in the year in the active market, then adjusted for Council specific considerations. It is highly probable that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.

Item	Uncertainties	Effect if actual results differ from assumptions
Financial Instruments	At 31 March 2023, the Council had external investments with Fund Managers amounting to £377m. The value of the Council's investments can increase or decrease, from movements in the price of these investments. The Council is exposed to risk in terms of a loss arising if investments were sold at a point in time when the decrease in value of the investment showed the sale price to be lower than the original purchase price.	It is estimated that a general shift of 5% in the general price of shares (positive or negative) would result in a £12.2m gain or loss in value being recognised in the CIES. The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would result in an estimated gain or loss of £1.8m.
Property, Plant and Equipment: Valuations	Assets held at Fair Value are subject to valuation on a five year rolling programme, as set out in the Accounting Policies Note. Additional valuations are carried out outwith the rolling programme, for example where a need for impairment has been identified, or where there is a material change to the value due to external factors. The valuation report has been used to inform the measurement of the land and buildings portfolio in these financial statements. Following a desktop review performed on the HRA stock holding value, it has been recognised that there has been a material change to the Council Dwelling valuation and a decrease to the beacon values of 9.41% from the values stated at the last revaluation (31 March 2019) has been applied, resulting in a decrease in value of £7.4m. The valuer has continued to exercise professional judgement in preparing the valuation, therefore, this is the best information available to the Council as at 31 March 2023 and can be relied upon.	

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

This note details the adjustments that are made to the CIES, recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against:

General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.

These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises those resources that the Council is statutorily empowered to spend on its services

or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund Housing Revenue Account services.

Housing Revenue Account

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part X of the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Usable Reserves

This includes the Capital Receipts Reserve and Capital Grants Unapplied Account.

The former holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure.

The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which it can take place.

2022/23	Usable Reserves				Unusable Reserves £000
	General Fund	Housing Revenue Account	Capital Usable Reserves	Total Usable Reserves	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(16,594)	(1,855)	0	(18,449)	18,449
Charges for impairment of non-current assets	2,605	(1,482)	0	1,123	(1,123)
Movement in the fair value of Investment Properties	163	0	0	163	(163)
Amortisation of intangible assets	(2,289)	(26)	0	(2,315)	2,315
Capital grants and contributions applied	7,353	83	0	7,436	(7,436)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(918)	(1,606)	0	(2,524)	2,524
Capital repayment in respect of finance leases	109	0	0	109	(109)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,908	808	0	3,716	(3,716)
Capital expenditure charged against the General Fund and HRA balances	1,291	3,801	0	5,092	(5,092)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	(15)	(15)	15
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	0	0	0
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	20	7	0	27	(27)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	264	264	(264)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(38,361)	(603)	0	(38,964)	38,964
Employer's pensions contributions and direct payments to pensioners payable in the year	16,749	240	0	16,989	(16,989)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
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	(1,849)	16	0	(1,833)	1,833
Total Adjustments	(28,813)	(617)	249	(29,181)	29,181

2021/22	Usable Reserves				Unusable Reserves £000
	General Fund	Housing Revenue Account	Capital Usable Reserves	Total Usable Reserves	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(17,097)	(1,775)	0	(18,872)	18,872
Charges for impairment of non-current assets	2,650	(61)	0	2,589	(2,589)
Movement in the fair value of Investment Properties	(46)	0	0	(46)	46
Amortisation of intangible assets	(1,790)	(26)	0	(1,816)	1,816
Capital grants and contributions applied	5,732	0	0	5,732	(5,732)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(4,363)	(607)	0	(4,970)	4,970
Capital repayment in respect of finance leases	57	0	0	57	(57)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,889	808	0	3,697	(3,697)
Capital expenditure charged against the General Fund and HRA balances	1,285	3,763	0	5,048	(5,048)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	834	834	(834)
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	3,799	3,799	(3,799)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	739	21	0	760	(760)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,637	1,637	(1,637)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(41,361)	(673)	0	(42,034)	42,034
Employer's pensions contributions and direct payments to pensioners payable in the year	15,244	223	0	15,467	(15,467)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
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	276	(18)	0	258	(258)

Note 7: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2022/23.

	Balance at 1 April 2022 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2023 £000
General Fund Balance (unearmarked)	(23,844)	98,690	(90,189)	(15,343)
Unrealised Investment Gains (earmarked)	(132,385)	36,003	0	(96,382)
Equalisation Fund (unearmarked)	(25,494)	0	(2,037)	(27,531)
Revenue Spend to Save Fund	(1,705)	55	(136)	(1,786)
Council Tax Second Homes Receipts	(2,275)	63	(384)	(2,596)
Welfare Reform Fund	(330)	0	(26)	(356)
Hansel Funds	(199)	(15)	0	(214)
School Funds	(334)	(25)	0	(359)
Central Energy Efficiency Fund	(97)	30	(50)	(117)
Coastal Community Fund	(4,321)	1,487	0	(2,834)
Early Learning and Childcare (ELC)	(1,368)	222	0	(1,146)
Pupil Equity Funding (PEF)	(262)	0	(91)	(353)
Other Earmarked Reserves	(1,001)	1,001	(863)	(863)
Sustainable Transport	0	0	(36)	(36)
Local Investment Fund	(18,265)	0	(196)	(18,461)
Total General Fund	(211,880)	137,511	(94,008)	(168,377)
Capital Fund	(65,269)	288	(5,153)	(70,134)
Repairs & Renewals Fund	(36,577)	7,649	(2,923)	(31,851)
Housing Revenue Account	(20,116)	2,755	(1,607)	(18,968)
Harbour Reserve Fund	(91,659)	19,569	(23,568)	(95,658)
Insurance Fund	(4,028)	0	(572)	(4,600)
Total Statutory Reserves	(217,649)	30,261	(33,823)	(221,211)
Total Usable Reserves	(429,529)	167,772	(127,831)	(389,588)

General Fund Reserves

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund.

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2023 compared with their original cost. The net gain (increases less decreases) is 'unrealised' because the underlying investments have not been sold as at 31 March 2023. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are

readily converted to cash but the Council does not consider it prudent to use to fund services.

Equalisation Fund: realised returns that exceed the long-term average rate of return that can be released in future years.

Revenue Spend to Save Fund: to fund savings initiatives upfront, to be repaid when a saving is realised.

Council Tax Second Homes Receipts: to fund affordable housing expenditure from receipts from second homes' Council Tax.

Welfare Reform Fund: to earmark income received from Government grants to fund initiatives relating to

Welfare Reform and the introduction of Universal Credit.

Hansel Funds: held for the benefit of residents in care establishments.

School Funds: to contribute to the good of the schools of Shetland or enhance educational or social activities for children.

Central Energy Efficiency Fund: to fund the reduction in energy consumption and carbon emissions.

Coastal Community Fund: to fund projects intended to improve the economic development of coastal communities.

Early Learning and Childcare: to fund the expansion of Early Learning and Childcare facilities.

Pupil Equity Funding: to help fund initiatives to raise attainment in schools.

Other Earmarked Reserves: earmarked balances from grant income received in advance.

Local Investment Fund: income from Shetland Development Trust for investment in local businesses and distributing any investment income to Shetland Charities.

Other Statutory Reserves

The **Capital Fund** was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of loan principals. It also incorporates funds established to facilitate the capital costs associated with implementing future savings plans; and the holding of capital grants and receipts to finance subsequent capital expenditure.

The **Repairs and Renewals Fund** was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council. This now incorporates the former Quarry Repairs and Renewals Fund.

The **Housing Revenue Account** carries forward the accumulated surplus or deficit generated by the HRA each year. The fund is set aside to defray certain expenditure on the HRA, such as the future maintenance of housing stock.

The **Harbour Reserve Fund** was established under Section 67(i) of the Zetland County Council Act 1974. This Act empowers the Council to transfer to the fund surpluses arising on the Harbour Account. The fund may be used to defray certain expenditure on the harbour undertaking and for any other purpose that is solely in the interest of the County and its inhabitants. It now incorporates the former Harbour Contingency and Pilot Boat Renewal Funds.

The **Insurance Fund** may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk.

Note 8: Other Operating Income and Expenditure

2021/22 £000		2022/23 £000
4,211	Losses on the disposal of non-current assets	2,497
4,211	Total	2,497

Note 9: Financing and Investment Income and Expenditure

2021/22 £000		2022/23 £000
5,839	Interest payable and similar charges	5,343
0	Change in expected credit loss	(134)
(263)	Income and expenditure in relation to Investment properties	(263)
46	Changes in fair value of Investment Properties	163
5,087	Pensions interest cost and expected return on pensions assets	4,603
(3,212)	Interest receivable and similar income	(3,523)
(5,931)	Other investment income	(6,228)
(15,158)	Realised gains in relation to available for sale financial assets	(12,858)
21,978	Unrealised (gains)/losses in relation to available for sale	36,003
1,901	Losses arising from the derecognition of financial instruments	28
10,287	Total	23,134

Note 10: Revenue from Contracts with Service Recipients

The Council has recognised £48.0m in 2022/23 (£50.0m in 2021/22) from contracts with service recipients. The Council exercises judgement in recognising income from service recipients. Income is recognised as performance obligations are satisfied. The Council typically satisfies its performance obligations as services are rendered, or on delivery of goods. Revenue is recognised as (or when) the performance obligation is met.

The below table details how the timing of satisfaction of performance obligations relates to the typical timing of payment. Income received in advance is mainly from rental income and course fees. Income received at the point of use is mainly from ferry fare income and canteen sales. Of the income received in arrears, 64% (59% 2021/22) on average was within the standard 30 day payment terms.

Timing of Payment	Average % 2021/22	Average % 2022/23
Paid at point of use	1.4%	2.1%
Paid in advance	14.1%	13.6%
Paid in arrears	84.5%	84.3%

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are detailed in the tables shown below. The Council determines that the categories used in disclosing debtor balances can be used to meet the objective of the disaggregation disclosure requirements of IFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The tables below illustrate the disaggregation disclosure by type of service recipient.

2022/23	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	(85)	(26)	(467)	(1,190)	(1,768)
Care home fees	0	0	0	0	(1,050)	(1,050)
Course Fees	0	0	0	0	(8)	(8)
Other Income	(22)	(71)	(71)	(16)	(3,906)	(4,086)
Sale of materials / equipment	0	0	0	(1)	(1,802)	(1,803)
Sale of Meals	0	0	(3)	0	(972)	(975)
Transport Income	(87)	0	(15)	(17)	(2,067)	(2,186)
Waste disposal	(307)	(433)	(4)	(213)	(1,303)	(2,260)
General Fund	(416)	(589)	(119)	(714)	(12,298)	(14,136)
Dues	0	0	0	0	(1,798)	(1,798)
Jetty and Spur Booms Income	0	0	0	0	(2,394)	(2,394)
Other Income	0	0	0	0	(699)	(699)
Tanker Income	0	0	0	0	(21,411)	(21,411)
Harbour Account	0	0	0	0	(26,302)	(26,302)
Rental Income	0	0	0	0	(7,313)	(7,313)
Other Income	0	0	0	0	(31)	(31)
Housing Revenue Account	0	0	0	0	(7,344)	(7,344)
Total	(416)	(589)	(119)	(714)	(45,944)	(47,782)

2021/22	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	(137)	(41)	(948)	(515)	(1,641)
Care home fees	0	0	0	0	(763)	(763)
Course Fees	(1)	(4)	0	0	(322)	(327)
Other Income	(156)	(187)	(74)	(21)	(3,250)	(3,688)
Sale of materials / equipment	(22)	0	0	0	(1,079)	(1,101)
Sale of Meals	0	0	0	0	(897)	(897)
Transport Income	(102)	(20)	(14)	(18)	(1,920)	(2,074)
Waste disposal	(189)	(257)	(28)	(204)	(1,190)	(1,868)
General Fund	(470)	(605)	(157)	(1,191)	(9,936)	(12,359)
Dues	0	0	0	0	(2,163)	(2,163)
Jetty and Spur Booms Income	0	0	0	0	(4,993)	(4,993)
Other Income	0	0	0	0	(558)	(558)
Tanker Income	0	0	0	0	(22,580)	(22,580)
Harbour Account	0	0	0	0	(30,294)	(30,294)
Rental Income	0	0	0	0	(7,310)	(7,310)
Other Income	0	0	0	0	(32)	(32)
Housing Revenue Account	0	0	0	0	(7,342)	(7,342)
Total	(470)	(605)	(157)	(1,191)	(47,572)	(49,995)

Note 11: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2022/23:

2021/22 £000		2022/23 £000
	Credited to Taxation and Non-Specific Grant Income	
(61,795)	Revenue Support Grant	(47,153)
(26,690)	Non-domestic Rates	(35,322)
(10,286)	Council Tax	(10,254)
(5,732)	Capital Grants and Contributions	(7,436)
(104,503)	Total	(100,165)
	Credited to Services	
(10,784)	Support for Ferries	(17,496)
(3,220)	Scottish Government PFI Support	(3,237)
(3,085)	Housing Benefit funding	(3,057)
(3,363)	Expansion of early learning and childcare	(3,009)
(1,986)	Rural Care Model	(1,985)
(1,590)	Resource Transfer	(1,620)
(1,572)	Crown Estate	(1,608)
(1,006)	Energy grants	(981)
(381)	Employability funding	(586)
(342)	NHS grants	(426)
(270)	Educational attainment / Pupil equity funding	(414)
(351)	Criminal Justice grant	(364)
0	Islands Programme	(341)
0	Islands Emergency Cost Crisis Fund	(243)
0	UK Shared Prosperity Fund	(238)
0	Support for Ukrainian Displaced Persons	(194)
(192)	Active Schools funding	(192)
(124)	Place Based Investment Programme	(108)
(74)	Empowering Communities	(108)
(101)	Education Maintenance Allowance funding	(101)
0	Young People Mental Health Wellbeing	(84)
(53)	Youth Music funding	(72)
(2,285)	Grants for Economic Development	(71)
0	Active Travel	(64)
(19)	Shetland Energy Hub	(62)
(101)	Electric Vehicle funding	(60)
(1,070)	Other grants and contributions	(54)
(240)	Promise Funding	(40)
(48)	Sports Development and Facilities funding	(32)
(29)	Bikeability	(26)
(96)	Department of Work and Pensions funding	(20)
0	Transport Grants	(12)
(2,341)	COVID-19 Grants	0
(931)	FE and HE funding	0
(35,654)	Total	(36,905)
0	Value of grants received in advance not recognised	(212)

Note 12: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2021/22 £000		2022/23 £000
(150,317)	Revaluation Reserve	(166,300)
161,939	Pensions Reserve	22,279
(275,467)	Capital Adjustment Account	(275,045)
3,496	Employee Statutory Adjustment Account	5,329
(260,349)	Total Unusable Reserves	(413,737)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2021/22 £000		2022/23 £000
(133,054)	Opening balance	(150,317)
(21,297)	(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(20,821)
	Amounts written off to the Capital Adjustment Account:	
4,069	Difference between fair value depreciation and historical cost depreciation	4,750
165	Assets sold or scrapped	108
(200)	Decommissioning Obligation provision	(20)
(150,317)	Closing balance	(166,300)

Pensions 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 Council accounts for post-employment benefits in the CIES as the benefits 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 Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. For the current financial year, the overall pension asset of £71m as per the actuarial valuation, has been disaggregated to distinguish between funded and unfunded obligations. The net asset position relating to funded obligations of £93.3m has been adjusted for the asset ceiling calculation required by IAS19 / IFRIC14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction, resulting in a revised pension asset of £0. The debit balance on the Pensions Reserve reflects the net liability position relating to unfunded obligations of £22.3m which shows a shortfall in the resources set aside by the Council 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.

2021/22 £000		2022/23 £000
243,842	Opening balance	161,939
(108,470)	Actuarial (gains) and losses on pensions assets and liabilities	(254,897)
0	Asset ceiling adjustment	93,262
42,034	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	38,964
(15,467)	Employer's pensions contributions and direct payments to pensioners payable in the year	(16,989)
161,939	Closing balance	22,279

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis) and credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on investment properties, gains recognised on donated assets that have yet to be consumed by the Council, and revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Capital Adjustment Account

2021/22 £000		2022/23 £000
(272,682)	Opening balance	(275,467)
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
18,872	Charges for depreciation of non-current assets	18,449
(2,589)	Charges for revaluation gains/losses of non-current assets	(1,123)
46	Movement in the fair value of Investment Properties	(163)
1,816	Amortisation of intangible assets	2,315
(57)	Repayment of capital on finance leases	(59)
(1,260)	Repayment of capital on PFI contract	(1,332)
4,970	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	2,524
(4,234)	Adjustment amounts written out of the Revaluation Reserve	(4,858)
	Capital financing applied in the year:	
(2,397)	Use of the Capital Receipts Reserve to finance new capital expenditure	(291)
(5,732)	Capital grants and contributions credited to the CIES that have been applied to capital	(7,436)
(834)	Application of grants to capital financing from the Capital Grants Unapplied Account	15
(2,437)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,434)
(5,048)	Capital expenditure charged against the General Fund and HRA balances	(5,092)
(3,901)	Capital Fund / Other Reserves	(93)
(275,467)	Closing balance	(275,045)

Employee Statutory Adjustment Account

This Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Employee Statutory Adjustment Account

2021/22 £000		2022/23 £000
3,754	Opening balance	3,496
(3,754)	Settlement or cancellation of accrual made at the end of the preceding year	(3,496)
3,496	Amounts accrued at the end of the current year	5,329
3,496	Closing balance	5,329

Note 13: Property, Plant and Equipment

The Scottish Government on 29 August 2022 issued Local Government Finance Circular 9/2022 providing local authorities with temporary statutory override to the CIPFA/LASAAC Accounting Code of Practice requirements on areas of the accounting and disclosure of infrastructure assets for 2022/23. The following tables reflect that guidance, with Note 39, detailing the accounting policy applied. Gross historic cost and accumulated depreciation have not been disclosed.

Note 13: Property, Plant and Equipment

Movements in 2022/23	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation								
Opening Balance at 1 April 2022	73,552	241,234	66,828	7,459	2,671	3,374	395,118	41,968
Additions	3,681	1,273	3,270	31		4,671	12,926	0
Revaluation increases recognised in the Revaluation Reserve	(11,751)	12,645	0	6,066	258	0	7,218	8,701
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,006)	1,452	0	0	0	0	(554)	1,682
Derecognition – disposals	0	(124)	(43)	(9)	(22)	(24)	(222)	0
Derecognition – other	(1,591)	(371)	(351)	0	0	0	(2,313)	0
Other movements in cost or valuation	345	12	912	0	181	(1,539)	(89)	0
Closing Balance at 31 March 2023	62,230	256,121	70,616	13,547	3,088	6,482	412,084	52,351
Depreciation and Impairment								
Opening Balance at 1 April 2022	(4,352)	(1,977)	(30,478)	0	(87)	0	(36,894)	0
Depreciation charge	(1,762)	(8,104)	(3,882)	0	(57)	0	(13,805)	(1,340)
Depreciation written out to the Revaluation Reserve	5,694	1,918	0	0	11	0	7,623	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	434	1,479	0	0	0	0	1,913	1,340
Derecognition – disposals	0	7	39	0	14	0	60	0
Derecognition – other	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	(14)	(7)	0	0	21	0	0	0
Closing Balance at 31 March 2023	0	(6,684)	(34,321)	0	(98)	0	(41,103)	0
Net Book Value as at 31 March 2023	62,230	249,437	36,295	13,547	2,990	6,482	370,981	52,351
Net Book Value as at 31 March 2022	69,200	239,257	36,350	7,459	2,584	3,374	358,224	41,968

Movements in 2021/22	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total (restated) £000
Cost or Valuation								
Opening Balance at 1 April 2021	70,319	244,757	63,920	7,470	2,202	10,730	399,398	46,023
Additions	3,739	2,201	3,734	0	0	5,842	15,516	0
Revaluation increases recognised in the Revaluation Reserve	5	(4,809)	0	0	(37)	0	(4,841)	(685)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(61)	(3,961)	0	0	1	0	(4,021)	(3,370)
Derecognition – disposals	(2)	(69)	(1,585)	(11)	(2)	(1)	(1,670)	0
Derecognition – other	(524)	(2,846)	(427)	0	0	0	(3,797)	0
Assets reclassified (to) / from Assets Held for Sale	0	0	0	0	0	0	0	0
Other movements in cost or valuation	76	5,961	1,186	0	507	(13,197)	(5,467)	0
Closing Balance at 31 March 2022	73,552	241,234	66,828	7,459	2,671	3,374	395,118	41,968
Depreciation and Impairment								
Opening Balance at 1 April 2021	(2,666)	(15,110)	(27,057)	0	(40)	0	(44,873)	(4,484)
Depreciation charge	(1,682)	(8,035)	(4,611)	0	(51)	0	(14,379)	(1,285)
Depreciation written out to the Revaluation Reserve	0	14,422	0	0	0	0	14,422	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	6,733	0	0	0	0	6,733	5,769
Derecognition – disposals	0	12	1,220	0	1	0	1,233	0
Derecognition – other	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	(4)	1	(30)	0	3	0	(30)	0
Closing Balance at 31 March 2022	(4,352)	(1,977)	(30,478)	0	(87)	0	(36,894)	-
Net Book Value as at 31 March 2022	69,200	239,257	36,350	7,459	2,584	3,374	358,224	41,968
Net Book Value as at 31 March 2021	67,653	229,646	36,863	7,470	2,161	10,730	354,523	41,539

PFI Assets has been restated to reflect the valuation uplift which was applied to the PFI asset in 2021/22, but was not correctly disclosed.

2021/22 £000	Infrastructure Assets	2022/23 £000
107,331	Net Book Value at 1 April	110,301
7,418	Expenditure	1,993
(4,448)	Depreciation charge	(4,633)
110,301	Infrastructure Assets Closing Net Book Value	107,661
358,224	Other PPE Assets (see table above)	370,981
468,525	Total PPE Assets	478,642

Capital Commitments

At 31 March 2023 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £8.3m. Similar commitments at 31 March 2022 were £5m. Major projects are detailed in the table below.

Major commitments at 31 March 2023	£m
Structural Remediation Works	2.488
Terminal Life Extension Works	1.447
Housing Quality Standard	1.364
Knab Site Redevelopment	1.341

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations in the year were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Surplus Assets were valued using fair value in accordance with the Code. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- the valuations are based on existing records, the accuracy of which could not be guaranteed and no inspection was undertaken. No liability can be held for any inaccuracies/errors arising as a result;
- where not part of a leasing arrangement, the property is feuhold and owned outright by the

Council, with no burdens or encumbrances on the title;

- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the property is not subject to any unusual or especially onerous restrictions, encumbrances, or outgoing and that good title can be demonstrated;
- that the property and its values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- that there are no outstanding Statutory Notices affecting any of the properties;
- that no account has been made of any debt liability held against the property valued;
- that no structural surveys of the properties have been made nor have the service installations been tested;
- that the value of plant and machinery has not been included in the valuation except to the extent that it forms part of the building services installations; and
- the valuations are exclusive of VAT and any other tax, which may arise on disposal.

The following table shows useful lives which have been used in the calculation of depreciation and also details of revaluation programmes. The basis of valuation is set out in Note 39: Accounting Policies.

Category of Asset	Useful Life	Average Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2019
Other Land and Buildings (including PFI Assets)	1-105 years	27 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	31 March 2019-23 across 5 Year Rolling Programme
Vehicles, Furniture, Plant & Equipment	1-40 years	7 years	Operational Manager	Existing Use Value	31 March 2021
Infrastructure Assets	5-60 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	1-40 years	21 years	Asset Services Manager	Fair Value (estimated at highest and best use)	31 March 2019-23 across 5 Year Rolling Programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 14: Investment Properties

During 2019/20 the Council purchased property interests in the Greenhead Base in Lerwick which are classified and accounted for as Investment Property. The property is considered an investment property as there is no specific service need for the Council to occupy it and is rented for investment purposes.

The following items of income and expense relating to the Greenhead Base have been accounted for in the financing and investment income and expenditure line in the CIES:

2021/22 £000		2022/23 £000
(349)	Rental income from investment property	(349)
86	Direct operating expenses arising from investment property	86
(263)	Net Gain	(263)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property, or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment property over the year:

2021/22 £000		2022/23 £000
1,724	Opening balance at 1 April	1,678
(46)	Net gains/(losses) from fair value adjustments	(163)
1,678	Closing balance at 31 March	1,515

Fair Value Hierarchy

Detail of the Council's investment properties and information about the fair value hierarchy as at 31 March 2023 are as follows:

Recurring fair value measurements using:	Other Significant observable inputs (Level 3)	
	2021/22 £000	2022/23 £000
Commercial Units	1,678	1,515
Total	1,678	1,515

Valuation techniques used to determine Level 3 fair values for investment properties

The fair value of the Council's investment property is measured annually at 31st March based on rental incomes. The rental incomes relate to commercial properties which are bound into lease agreements and index linked, not driven by market forces at review. The industry sector using this property is stable providing logistics and downstream services to the oil, gas, exploration, fishing and aquaculture sectors. Therefore the Council's investment property are categorised as Level 3 in the fair value hierarchy as the level of unobservable inputs are significant.

All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

Note 15: Heritage Assets

Net Value 2022/23	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2022	1,354	3,058	4,412
Revaluation Increases / (Decreases)	0	0	0
Depreciation	(11)	0	(11)
Closing Balance at 31 March 2023	1,343	3,058	4,401

Net Value 2021/22	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2021	1,529	3,058	4,587
Revaluation Increases / (Decreases)	(245)	0	(245)
Depreciation	70	0	70
Closing Balance at 31 March 2022	1,354	3,058	4,412

There were no additions, disposals or impairments during 2022/23.

Historic Buildings

The two historic buildings classified as heritage assets are the Dunrossness Crofthouse Museum and the Bod of Gremista.

The Dunrossness Crofthouse Museum is a restored 19th century crofthouse with thatched roof, outbuildings and a watermill. The property is open for public viewing during the months of May to September.

The Bod of Gremista is a two storey rectangular house built around 1790 to provide family accommodation and a store for fishing and fish curing activities. The property houses the Shetland Textile Museum and is open to the public from May to September.

The useful economic life of the Crofthouse Museum and the Bod of Gremista is 110 years.

Museum Collection

The Council's museum collections are on display at the Shetland Museum and Archives, open to the public all year. They are managed and curated by the Shetland Amenity Trust and any additions to the collection are treated as donated assets to the Council.

Note 16: Intangible Assets

The intangible assets disclosed on the Balance Sheet include fishing quota, fishing licences and software.

A fishing quota is the right to fish species over a defined period, usually one year. Quotas are held by Government and distributed to the fishing industry through Producer Organisations. The Fishing Quota was originally purchased by the Shetland Development Trust to enable long-term access to a strategically important resource. The quota was transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. The market value at 31 March 2023 is £46.9m (£43.0m in 2021/22). This is amortised on a straight-line basis over a 20 year period. The carrying amount that would have been recognised had the fishing quota been measured after recognition using the cost model would be £12.6m (£13.3m in 2021/22).

Software is accounted for to the extent that it is not an integral part of a particular IT system, rather part of the hardware item of property, plant and equipment. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £2.3m was charged directly to the Net Cost of Services in the CIES for 2022/23 (£1.8m in 2021/22).

There are no items of capitalised software that are individually material to the financial statements and there are no outstanding contractual commitments for the acquisition of intangible assets.

As at 31 March 2022 £000		As at 31 March 2023 £000
35,617	Cost or Valuation	
	Opening Balance	45,680
49	Additions	149
10,110	Revaluation increases recognised in the Revaluation Reserve	3,920
(96)	Derecognition - disposals	(169)
45,680	Closing Balance	49,580
	Depreciation and Impairment	
(1,885)	Opening Balance	(2,057)
(1,816)	Amortisation charge	(2,315)
1,644	Amortisation written out to the Revaluation Reserve	2,149
0	Derecognition - disposals	127
(2,057)	Closing Balance	(2,096)
43,623	Net Book Value	47,484

Note 17: Private Finance Initiatives and Similar Contracts

Anderson High School contract

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The contractor took on the obligation to construct the school and maintain it in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the school.

The buildings and any plant and equipment installed in them at the end of the contract will be transferred to Shetland Islands Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

Property, Plant and Equipment

The assets used to provide services at the school are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in Note 13: Property, Plant and Equipment.

Payments

The Council makes an agreed payment each year, which is adjusted each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contract at 31 March 2023 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Contingent Rent	Total £000
Payable in 2023/24	306	1,473	1,969	234	3,982
Payable within 2 to 5 years	2,569	5,701	7,140	224	15,634
Payable within 6 to 10 years	3,325	9,158	7,070	510	20,063
Payable within 11 to 15 years	6,032	10,406	4,516	(267)	20,687
Payable within 16 to 20 years	4,555	12,481	1,493	441	18,970
Total	16,787	39,219	22,188	1,142	79,336

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed.

The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

	2021/22 £000	2022/23 £000
Opening balance	41,810	40,551
Capital payments incurred in the year	(1,259)	(1,332)
Closing balance	40,551	39,219

Note 18: Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	Investments				Debtors				As at 31 March 2023
	As at 31 March 2022		As at 31 March 2023		As at 31 March 2022		As at 31 March 2023		
	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Total £000
Fair value through profit or loss	411,438	0	376,787	0	0	0	0	0	376,787
Amortised cost	0	0	0	0	965	139	965	117	1,082
Total Financial Assets	411,438	0	376,787	0	965	139	965	117	377,869

	Borrowings / Other Long Term Liabilities				Creditors				As at 31 March 2023
	As at 31 March 2022		As at 31 March 2023		As at 31 March 2022		As at 31 March 2023		
	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Total £000
Amortised cost	(88,291)	(1,360)	(86,794)	(1,496)	(1,033)	(59)	(973)	(60)	(89,323)
Total Financial	(88,291)	(1,360)	(86,794)	(1,496)	(1,033)	(59)	(973)	(60)	(89,323)

Income, expense, gains and losses

	2021/22	2022/23
	Surplus or Deficit on the Provision of Services £000	Surplus or Deficit on the Provision of Services £000
Net (gains)/losses on:		
Financial assets measured at fair value through profit or loss	8,721	23,145
Total net gains/losses	8,721	23,145
Interest revenue:		
Financial assets measured at amortised cost	(9,106)	(9,751)
Total interest revenue	(9,106)	(9,751)
Interest expense	3,856	3,842
Impairment Loss	171	(106)
Total interest expense	4,027	3,736
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(37)	0
Total fee income	(37)	0
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	1,680	1,374
Financial assets measured at amortised cost	132	127
Total fee expense	1,812	1,501

There were losses on available-for-sale financial assets on revaluation of £23.1m as at 31 March 2023 (losses of £8.7m at 31 March 2022).

Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans, receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

In terms of the fair value measurement hierarchy, financial instruments measured at fair value are considered to be Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

The Fair Value calculations have been made using the following assumptions and are shown in the table below:

- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

As at 31 March 2022			As at 31 March 2023	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,104	1,104	Loans and receivables	1,082	1,082
(90,743)	(102,043)	Financial liabilities at amortised cost	(89,323)	(89,423)

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Available for Sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classed as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered

to be active, or where valuation techniques are used to determine fair value based on observable market data.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

As at 31 March 2022 £000	Hierarchy Level	As at 31 March 2023 £000
3,774	Level 1	9
337,066	Level 2	302,358
74,372	Level 3	74,429
415,212	Net Investment assets	376,796

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Unquoted pooled fund investments, overseas unit trusts	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Unquoted equity, private debt / infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special valuation guidance (March 2020)	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiple-Revenue multiple-Discount for lack of marketability-Control premium	Valuations could be affected by material events occurring between the date of the financial statements and the Funds's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts
Strategic Alternative Income Fund	Level 3	Closing NAV supplied by fund manager	Net Asset Value (NAV) based pricing set on a forward pricing basis, cash flow modelling and discount rates	Changes in cash flow modelling and assumptions used

Note 19: Nature and Extent of Risks arising from Financial Instruments

The Council's investments and financial activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments; and
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Section, under policies approved by the Council in the Annual Investment and Treasury Strategy Statement.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's credit risk management practices are set out and minimised through the Treasury Management Strategy & Annual Investment Strategy report.

Credit Risk Management Practices

The Council has a policy of lending to local businesses to maximise the benefit to the Shetland economy. Lending assists in sustainable economic growth with good employment opportunities, making Shetland a good place to live and work. In pursuing this policy, the Shetland Investment Fund was established on 18 April 2016 to provide a sustainable lending service of up to £15.0m.

As at 31 March 2023, £0.5m of this balance was loaned to local businesses, leaving £14.5m available for future lending.

As at 31 March 2022 £000	Shetland Investment Fund	As at 31 March 2023 £000
139	Less than 1 year	115
476	2-5 years	336
11	6-10 years	6
626	Total	457

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default. External factors such as inflation and rising material prices continue to have an impact on local businesses, with uncertainty anticipated in the future, in light of this an impairment loss of £28k has been established using the probability of default approach as per IFRS 9.

Trade Receivables

A simplified approach as per IFRS 9 has been used to determine the impairment loss based on lifetime expected credit losses. A provision matrix has been used to calculate the impairment based on the number of days the receivable is past due, assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions.

Amounts Arising from Expected Credit Losses

The changes in the loss allowance for Trade Receivables during the year are as follows:

Lifetime expected credit losses - simplified approach	2021/22 £000	2022/23 £000
Balance at 1 April	(658)	(829)
Other Changes	(171)	111
Amounts written off	0	23
Balance at 31 March	(829)	(695)

Liquidity Risk

The Council has external investments with Fund Managers amounting to £377m (£415.2m 2021/22) at 31 March 2023. The Council has ready access to these funds to ensure that cash is available as needed, so there is no significant risk that it will be unable to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to sell external investments at a time of unfavourable market conditions.

The Council has ready access to borrowings from the money markets and the Public Works Loan Board. At 31 March 2023 the Council had fixed rate borrowings

amounting to £49m from the Public Loan Board. The balance of £0.1m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2022 £000	Borrowing	As at 31 March 2023 £000
22,100	Less than 10 years	26,072
15,000	10-20 years	11,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
49,100	Total	49,072

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

The Council's investment strategy aims to manage interest rate risk within the Council's investments by having various investment portfolios managed by external Fund Managers.

The investment portfolios are also separated into different asset classes to minimise the overall exposure to interest rate movements. The entire investment portfolio is held in unitised funds which increases diversification.

As at 31 March 2023 the composition of these funds was diversified between the following asset classes:

- UK Equities;
- Overseas Equities;
- Diversified Growth Fund;
- Emerging Market Equities;
- Direct Lending; and
- Cash.

Not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would have resulted in a gain or loss in the region of £1.8m for 2022/23 (£2.2m for 2021/22). This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 18: Financial Instruments.

At 31 March 2023, the Council had external fixed rate borrowing amounting to £49.1m and no variable rate borrowing. Borrowings are not valued at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The Council uses the services of Link Asset Services to advise on any borrowing requirements, including associated interest rate risks.

Price Risk

The Council had £377m (£415.2m 2021/22) of investments as at 31 March 2023 in the form of equity, diversified growth fund, direct loans and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external Fund Managers, asset classes, investment guidelines and benchmarks. The Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the CIES. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £12.2m gain or loss being recognised in the CIES for 2022/23.

Foreign Exchange Risk

The Council has £205m (£231.8m 2021/22) invested in overseas equities held within unitised products which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

Note 20: Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

As at 31 March 2022 £000		As at 31 March 2023 £000
32	Cash held by the Council	54
16,630	Bank current accounts	9,050
3,774	Cash equivalents	9
20,436	Total	9,113

Note 21: Assets Held for Sale

2021/22 £000		2022/23 £000
329	Opening balance	82
	Assets newly classified as held for sale:	
0	Property, plant and equipment	1
	Assets declassified as held for sale:	
(247)	Assets sold	0
82	Closing balance	83

Note 22: Long-term Debtors

As at 31 March 2022 £000		As at 31 March 2023 £000
393	Sub Debt Investment	388
487	Development loans	342
85	Other long-term debtors	235
965	Total	965

Note 23a: Short-term Debtors

As at 31 March 2022 £000		As at 31 March 2023 £000
4,171	Central Government Bodies	6,764
224	Other Local Authorities	64
3,192	NHS Bodies	1,168
1,155	Public Corporations and Trading Funds	1,173
11,029	Other Entities and Individuals	10,281
19,771	Total	19,450

Note 23b: Debtors for Local Taxation

Council Tax

As at 31 March 2022 £000		As at 31 March 2023 £000
426	1 year	337
712	2 to 5 years	746
177	More than 5 years	214
1,315	Total	1,297

NDR

As at 31 March 2022 £000		As at 31 March 2023 £000
161	1 year	317
138	2 to 5 years	178
36	More than 5 years	34
335	Total	529

Movements in impairment allowance

The Council has made an allowance for bad and doubtful debts. Debtor figures in the Balance Sheet are shown net of this allowance. The movement of the expected credit loss on the Council's Trade Receivables is shown in Note 19: Nature and Extent of Risks arising from Financial Instruments.

Note 24: Short-term Creditors

As at 31 March 2022 £000		As at 31 March 2023 £000
(10,518)	Central Government Bodies	(3,928)
(4,576)	Other Local Authorities	(1,705)
(1,101)	NHS Bodies	(2,768)
(1,057)	Public Corporations and Trading Funds	(710)
(16,922)	Other Entities and Individuals	(20,445)
(34,174)	Total	(29,556)

Note 25: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000	2022/23 £000
Balance at 1 April	3,201	3,173	1,723	1,904	189	171	5,113	5,248
Purchases	600	656	3,041	3,580	126	359	3,767	4,595
Recognised as an expense in the year	(600)	(570)	(2,851)	(3,380)	(106)	(306)	(3,557)	(4,256)
Balances written off	(28)	0	(9)	(16)	(38)	0	(75)	(16)
Balance at 31 March	3,173	3,259	1,904	2,088	171	224	5,248	5,571

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale) and items of ICT equipment.

Note 26: Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

There are two classes of provision – short and long term. The Council recognises one long-term provision – asset decommissioning.

Provisions for asset decommissioning costs reflect the Council's liability for restoration and ongoing maintenance in respect of the landfill site operated by the Council. These have been provided for based on the net present value of estimated future costs, which is expected to be incurred between 2023 and 2028.

Long-term Provisions	Decommissioning £000	Total £000
Balance at 1 April 2022	(649)	(649)
Additional provisions made in 2022/23	(35)	(35)
Unwinding of discounting in 2022/23	(77)	(77)
Transfer to Short-term Provisions	(61)	(61)
Balance at 31 March 2023	(822)	(822)

Short-term Provisions	Decommissioning £000	Other Provisions £000	Total £000
Balance at 1 April 2022	(214)	0	(214)
Amounts used in 2022/23	0	(50)	(50)
Unused amounts reversed in 2022/23	153	0	153
Transfer from Long-term Provisions	61	0	61
Balance at 31 March 2023	0	(50)	(50)

Note 27: Leases

The Council as a Lessee

Finance Leases

The Council previously acquired a music, cinema and creative industries centre under a finance lease. The asset acquired under the lease is carried as property, plant and equipment in the Balance Sheet at the following net amounts:

As at 31 March 2022 £000		As at 31 March 2023 £000
693	Property, plant and equipment	647
693		647

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding.

The present value of minimum lease payments is made up of the following amounts:

As at 31 March 2022 £000		As at 31 March 2023 £000
(46)	Current	(46)
(653)	Non-current	(607)
(166)	Finance costs payable in future years	(143)
(865)		(796)

The present value of minimum lease payments is payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2022 £000	As at 31 March 2023 £000	As at 31 March 2022 £000	As at 31 March 2023 £000
Not later than one year	(68)	(66)	(46)	(46)
Later than one year and not later than five years	(255)	(248)	(183)	(183)
Later than five years	(542)	(482)	(470)	(424)
	(865)	(796)	(699)	(653)

Operating Leases

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe Oil Terminal where the Council leases land from Shetland Charitable Trust for £0.5m per year and sub-leases it to Enquest for the same amount. This lease arrangement is due to run until 2025.

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

As at 31 March 2022 £000		As at 31 March 2023 £000
990	Not later than one year	923
2,214	Later than one year and not later than five years	1,605
3,828	Later than five years	3,630
7,032	Total	6,158

The expenditure charged to the CIES during the year in relation to these leases was:

As at 31 March 2022 £000		As at 31 March 2023 £000
1,013	Minimum lease payments	981
(589)	Sub-lease payments receivable	(577)
424	Total	404

The Council as a lessor

Operating Leases

The Council rents out land and property under operating leases for the following purposes:

- for the provision of community services, such as culture and arts, sports facilities, tourism services and community centres; and

- for economic development purposes to provide suitable affordable accommodation for local businesses.

The average length of operating leases is 8 years.

Extension and break options are included in some of the leases.

The minimum sub-lease payments expected to be received in future years are:

As at 31 March 2022 £000		As at 31 March 2023 £000
(582)	Not later than one year	(574)
(1,395)	Later than one year and not later than five years	(872)
(335)	Later than five years	(293)
(2,312)	Total	(1,739)

The total value of rental income, excluding sub-leases, recognised in 2022/23 was £2.8m (£2.6m in 2021/22).

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

As at 31 March 2022 £000		As at 31 March 2023 £000
(2,444)	Not later than one year	(2,779)
(8,798)	Later than one year and not later than five years	(9,783)
(27,049)	Later than five years	(28,800)
(38,291)	Total	(41,362)

Note 28: Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Shetland Islands Council. It is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

From April 2015 the pensions accrual rate guarantees a pension based on 1/49th of pensionable pay. From 1 April 2009 to April 2015 the pension accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service.

There is no automatic entitlement to a lump sum in respect of post-2009 service. Members may however opt to give up (commute) up to 25% of their pension for a lump sum per the Finance Act 2004. The Scheme's Normal Retirement Age is now linked to the member's State Pension Age (the minimum age being 65). Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

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

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

Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund.

The Pension Fund Committee is made up of the councillors who currently sit on the Policy & Resources Committee.

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

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

Under the regulations, employers fall into three categories: scheme employers (also known as scheduled bodies), community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended; however, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

The principal risks to the Council of the Scheme are the longevity assumptions, statutory changes to the Scheme, structural changes or curtailments to the Scheme (i.e. large-scale withdrawals from the Scheme, including employers ceasing to participate in 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 General Fund and Housing Revenue Account the amounts required by statute as described in the Note 39: Accounting Policies.

The McCloud Judgement

The LGPS benefit structure has been reviewed following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to members who were within 10 years of normal retirement age in 2012 when the scheme was reformed on 1 April 2015 were unlawful on the grounds of age discrimination. On 1 October 2023, it is expected that the retrospective remedy to address these age inequalities will come into force.

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary included an allowance in the Fund's liabilities in line with SPPA's instructions.

No further adjustments to the financial statements have been made in 2022/23.

The Goodwin Case

An employment tribunal case (Mrs. Goodwin v Department for Education) concluded on 30 June 2020 that a female member in an opposite sex marriage is treated less favourably than a female in a same-sex marriage or civil partnership, and that treatment

The amount included in the Balance Sheet arising from the Council's obligation in respect of the Pension Fund is as follows:

For the current financial year, the overall pension asset of £71m as per the actuarial valuation, has been disaggregated to distinguish between funded and unfunded obligations. The net asset position relating to funded obligations of £93.3m has been adjusted for the asset ceiling calculation required by IAS19 / IFRIC14 which limits the measurement of a net defined benefit scheme. There are no unconditional rights to reduced contributions or refunds from the scheme, therefore an asset ceiling has been calculated to bring the net value to £0. The net liability position reflected in the table below relates to the unfunded obligations of £22.3m.

2021/22 £000		2022/23 £000
(745,378)	Present value of the defined benefit obligation	(515,080)
583,439	Fair value of assets in the Local Government Pension Scheme	586,063
0	Asset ceiling calculation	(93,262)
(161,939)	Net liability arising from Defined Benefit Obligation	(22,279)
(134,178)	Local Government Pension Scheme	93,262
0	Remeasurement of Net Defined Benefit Asset	(93,262)
(13,467)	Unfunded liabilities for Pension Fund	(10,670)
(14,294)	Unfunded liabilities for Teachers	(11,609)
(161,939)	Total	(22,279)

amounts to direct discrimination on grounds of sexual orientation. Where schemes contain provisions deemed discriminatory, those provisions must be dis-applied as being contrary to the non-discrimination rule set out in section 61 of the Equality Act 2010.

Regulations have now been made which change the rules for calculating pre-April 15 survivor pensions in response to this case. Principally, for deaths on or after 5 December 2005, the amendments place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

The Regulations were made on 29 April 2022 and came into force on 1 June 2022. As calculations still require to be performed, there is insufficient data available to estimate reliably the impact this will have on scheme liabilities however the impact is thought to be minimal.

Transactions Relating to Post-Employment Benefits

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

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2021/22 £000	Local Government Pension Scheme	2022/23 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
36,947	Current service cost	34,361
	Financing and Investment Income and Expenditure:	
5,087	Net interest expense	4,603
42,034	Total pension benefit charged to the Surplus/Deficit on the Provision of Services	38,964
	Other pension benefit charged to the CIES	
49,803	Return on plan assets (excluding the amount included in the net interest expense)	(18,678)
4,059	Actuarial (gains) and losses arising from changes in demographic assumptions	5,905
54,842	Actuarial (gains) and losses arising on changes in financial assumptions	303,427
(234)	Actuarial (gains) and losses arising from other experience	(35,757)
0	Remeasurement of Net Defined Benefit Asset	(93,262)
150,504	Total pension benefit charged to the CIES	200,599
	Movement in Reserves Statement	
(26,567)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(21,975)
15,467	Employer's contributions and direct payments to pensioners payable in the year	16,989

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2021/22 £000		2022/23 £000
519,177	Opening balance	583,439
10,417	Interest income	15,815
	Re-measurement gains and (losses):	
49,803	Return on assets excluding amounts included in net interest	(18,678)
15,467	Employer contributions	16,989
4,126	Contributions by scheme participants	4,369
(15,551)	Benefits paid	(15,871)
583,439	Closing balance	586,063

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

2021/22 £000		2022/23 £000
763,019	Opening balance	745,378
36,947	Current service cost	34,361
15,504	Interest cost	20,418
4,126	Contributions by scheme participants	4,369
	Remeasurement (gains) and losses:	
(4,059)	Actuarial (gains) and losses from changes in demographic assumptions	(5,905)
(54,842)	Actuarial (gains) and losses from changes in financial assumptions	(303,427)
234	Actuarial (gains) and losses from other experience	35,757
(15,551)	Benefits paid	(15,871)
745,378	Closing balance	515,080

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2023 comprised:

2021/22 £000	Quoted Prices not in Active Markets	2022/23 £000
3,399	Cash and cash equivalents	4,145
	Property:	
58,108	UK property	51,853
90	Overseas property	21
58,198	Sub-total Property	51,874
	Investment Funds and Unit Trusts:	
391,418	Equities	451,812
40,312	Bonds	0
84,834	Other	54,861
516,564	Sub-total Investment Funds and Unit Trusts	506,673
	Debt Securities:	
5,278	Other	23,371
583,439	Total Assets	586,063

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed both the Local Government Pension Scheme and Discretionary Benefits liabilities.

Estimates for the Shetland Islands Council's Pension Fund are based on the latest full valuation of the Scheme as at 31 March 2020, extrapolated to 31 March 2023.

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

The principal assumptions used by the actuary have been:

2021/22		2022/23
	Long-term expected rate of return on assets in the Scheme:	
1.8%	Investment Funds and Unit Trusts	2.7%
	Mortality Assumptions:	
	<i>Longevity at 65 for current pensioners (in years):</i>	
20.7	Men	20.3
22.9	Women	22.7
	<i>Longevity at 65 for future pensioners (in years):</i>	
22.1	Men	21.6
25.1	Women	24.8
3.7%	Rate of inflation	3.2%
3.2%	Rate of increase in salaries	3.1%
3.2%	Rate of increase in pensions	3.0%
2.7%	Rate for discounting scheme liabilities	4.8%
50.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.0%
75.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the financial year and assumes for each change that the assumption analysed changes, while all the other assumptions remain constant. The principal demographic assumption is the longevity assumption (i.e. member life expectancy).

For sensitivity purposes, it is estimated that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). Please note the figures in the table below have been derived based on the membership profile of the employer as at the date of the most recent actuarial valuation. 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.

Impact of changes in assumptions	2022/23	
	%	£000
0.1% decrease in real discount rate	2.0%	9,974
0.1% increase in the salary increase rate	0.0%	1,008
0.1% increase in the pension increase rate	2.0%	9,117

Impact on the Council's Cash flows

The objectives of the Scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the Scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities.

The Pension Fund has been subject to a formal statutory valuation during 2020. The valuation process was delayed as a result of the COVID-19 pandemic, but was completed by the statutory deadline of 31 March 2021. The valuation revealed that the Fund had £461m of assets and £498m of liabilities at 31 March 2020, leaving an overall pension deficit of £38m. The reported funding level of the Fund is 92%. This compares positively to the previous valuation undertaken in 2017, when the Fund had a deficit of £51m and reported funding level of 90%.

The improved funding position is due to a combination of different factors. In summary, the Fund's assets have increased from £450m to £461m and liabilities have reduced from £501m to £498m since 2017. The valuation uses a variety of assumptions and different factors affect the Fund's assets and liabilities in different ways. Investment performance in the last 3 years has not met the Pension Fund's expectations, however this has been tempered by net inflows of cash from employer contributions and the impact of changes in the assumed rate of inflation in the future.

Each participating employer's contribution requirements have been determined following the valuation, with the aim of each employer achieving fully funded position within agreed parameters in terms of time horizon and probability. The methodology and assumptions used to derive employer contributions are set out in the [Pension Fund's Funding Strategy Statement \(FSS\)](#). Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 65-70% chance that the Fund will return to full funding over 20 years.

Employer contribution rates for all participating employers have been set following the formal valuation. The Council's contribution rate will stay 22.0% from 1 April 2023. Further detail, including the employer contribution rates for other participating employers is contained in the [Actuarial Valuation Report](#), which was approved by the Pension Fund Committee on 10 March 2021.

The actuary has estimated the total amount of contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2023 at £15.459m.

The assumed weighted average duration of the defined benefit obligation is 21 years.

Further Information

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The [Pension Fund's Audited Annual Report and Accounts for 2022/23](#) was presented to the Pension Fund Committee and Pension Board on 13 November 2023.

Note 29: Pension Schemes Accounted for as Defined Contribution Schemes

IAS 19 – Employee Benefits para 148 – Multi-employer plans

- (a) The Shetland Islands Council participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2016. This valuation informed an increase in the employer contribution rate from 17.2% to 23.0% of pensionable pay from September 2019 and an anticipated yield of 9.0% employees' contributions.
- (b) The Shetland Islands Council has no liability for other employers' obligations to the multi-employer scheme.
- (c) As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.
- (d) (i) The scheme is an unfunded multi-employer defined benefit scheme.
 - (i) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Shetland Islands Council is unable to identify its share of the underlying assets and liabilities of the scheme.
 - (ii) The employer contribution rate for the period from 1 April 2021 is 23% of pensionable pay. The employee rate applied is variable and is anticipated to provide a yield of 9.4% of pensionable pay.

(iii) While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme/Sargeant (Firefighters' Scheme) cases) that held the transitional protections provided as part of the 2015 reforms was unlawfully discriminated on the grounds of age. Following consultation and an announcement in February 2021 on proposals to remedy the discrimination, the UK Government has also asked the Government Actuary to review whether, and to what extent, the cost control mechanism is meeting its original objectives. The 2020 actuarial valuations will take the report's findings into account. The interim report is complete (restricted) and is currently being finalised with a consultation. Alongside these announcements, the UK Government confirmed that current employer contribution rates would stay in force until 1 April 2024.

(iv) Shetland Islands Council's level of participation in the scheme is 0.6% based on the proportion of employer contributions paid in 2020-21.

In 2022/23, the Council paid £4.1m to the SPPA in respect of teachers' pension costs, representing 23% of pensionable pay for 2022/23 (£4.0m and 23% for 2021/22). There were no contributions remaining payable at the year-end.

The estimated contribution for 2023/24 is £4.2m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2022/23 these amounted to £0.9m, representing 4.77% of teachers' pensionable pay (£0.9m and 5.06% for 2021/22). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligations.

Note 30: External Audit Costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice were as follows:

2021/22 £000		2022/23 £000
217	Fees payable with regard to external audit services carried out by the appointed auditor for the year	253
0	Rebate relating to prior year audits	(13)
217	Total	240

Note 31: Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2022/23 the Council collected £22.6m (£16.5m 2021/22) and received £35.3m (£26.7m 2021/22) contribution from the National Non-Domestic Rates pool.

The Council is required by legislation to provide a collection service for Scottish Water, involving the collection of £3.5m (£3.3m 2021/22) of Scottish Water charges. The legislation stipulates a minimum amount that Scottish Water must pay in commission for this service. The Council received £0.1m in 2022/23 for providing this service (£0.1m in 2021/22).

The Council acted as an agent in connection with the Northern Alliance Regional Improvement Collaborative between eight local authorities. A total of £0.9m was disbursed in 2022/23 (£0.9m in 2021/22).

The Council assisted in delivering the Cost of Living Award of £150 to every household that met certain criteria – persons in receipt of a Council Tax Reduction (CTR), persons not in receipt of CTR but living in Council Tax bands A to D or low income households exempt from Council Tax. A total of £1.3m was disbursed on behalf of the Scottish Government and a total amount of £0.02m was received to administer the scheme.

Note 32: Related Parties

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions sets out the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council because it:

- is responsible for providing the statutory framework within which the Council operates,
- provides the majority of its funding in the form of grants, and ,
- prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits).

Details of all grants received from Central Government and other public bodies can be found in Note 11: Grant Income.

Elected Members

Elected Members of the Council have direct control over the Council's financial and operating policies.

The Council holds a Register of Members' Interests, which is open to public inspection at the Office Headquarters, 8 North Ness, Lerwick, during office hours. It is also available to view on the Council's website at www.shetland.gov.uk. The Register contains details of external bodies which are represented by Elected Members and/or for which they have declared an interest. The Council made payments totalling £2.5m in 2022/23 (£1.8m in 2021/22) to these bodies. At 31 March 2023 £162k was outstanding (£22k outstanding at 31 March 2022).

Officers

There were no material related party transactions in 2022/23 (nil in 2021/22).

Local Government Pension Scheme

The Council is the administering authority for the Shetland Islands Council Pension Fund, for which the Council charged the Pension Fund £0.5m for this service (£0.4m in 2021/22).

During the year, the Council paid £17m of employer contributions for current and former employees to the Pension Fund as detailed in Note 28: Defined Benefit Pension Schemes (£15.5m in 2021/22).

Group Entities

The Council is deemed to have significant influence or control over the following Joint Boards and Regional Transport Partnership:

- The IJB is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board; it is a Joint Venture between the two bodies;
- OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils;
- ZetTrans is a Regional Transport Partnership set up to deliver transport services for Shetland. It is an associate of the Council, who provides deficit funding as the sole funding member of the partnership.

The following table shows the financial transactions with these entities.

For details of members' influence on these entities and the transactions between them and the Council, please refer to Note 38: Group Interests.

	2021/22			2022/23		
	Receipts £000	Payments £000	Debtor / (Creditor) £000	Receipts £000	Payments £000	Debtor / (Creditor) £000
Shetland Islands Integration Joint Board	0	25,112	(1,768)	0	29,750	(1,292)
Orkney & Shetland Valuation Joint Board	(7)	458	(14)	(10)	491	(1)
Zetland Transport Partnership	0	3,697	0	0	4,135	20

Note 33: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the

resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the CFR, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2021/22 £000		2022/23 £000
96,488	Opening Capital Financing Requirement	92,535
	Capital investment:	
17,664	Property, plant and equipment	14,818
49	Intangible assets	149
	Sources of finance:	
(2,398)	Capital receipts	(291)
(6,566)	Government grants and other contributions	(7,421)
(3,901)	Funding from reserves	(93)
	Sums set aside from revenue:	
(5,048)	Direct revenue contributions	(5,092)
(2,437)	Loans fund principal	(2,434)
(57)	Lease principal	(59)
(1,259)	PFI contract principal repayments	(1,332)
92,535	Closing Capital Financing Requirement	90,780
	Explanation of movements in year:	
(2,437)	Increase/(decrease) in underlying need to borrow	(345)
(57)	Assets acquired under finance leases	(59)
(1,259)	Assets acquired under PFI contracts	(1,332)
(200)	Assets acquired under Decommissioning Obligations	(20)
(3,953)	Increase in Capital Financing Requirement	(1,756)

Note 34: Contingent Liabilities

There are a number of current legal claims against the Council that are being contested. For cases where it has not been possible to establish a reliable estimate and where the probability of settlement is between 10% and 50%, no value has been disclosed in the accounts.

The Council has undertaken a job evaluation process for a group of staff. It has not yet been determined

whether this will result in any award of back pay. No value has been disclosed in the accounts, as this may prejudice the process.

Note 35: Contingent Assets

There is a current legal claim which is likely to result in the recovery of sums awarded to the Council following court action. There is a high degree of certainty that recovery will be successful, with a value of £120,000 attributed to the claim.

The Council is seeking recovery of sums relating to equipment unfit for purpose. The value attributed to the claim is £1.1m.

For cases where the legal claim has not yet been served, no value has been disclosed in the accounts.

Note 36: Trust Funds administered by the Council

The Council administers, as sole trustee, five trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over many years. Funds are held in deposit accounts with local banks and in bond and equity investments. The bond and equity investments are valued at market value. The funds do not represent assets of the Council and are not included in the Balance Sheet.

The Bare Trust was set up following the cessation of the Shetland Development Trust to hold a number of The financial position of the trust funds administered by the Council is shown below:

As at 31 March 2022 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2023 £000
(556)	Bare Trust	0	0	(580)	(580)
(681)	Zetland Educational Trust	(8)	(591)	0	(599)
(3)	Others	(3)	0	0	(3)
(1,240)	Total	(11)	(591)	(580)	(1,182)

Note 37: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 21 November 2023. 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 2023, the figures in the financial statements and notes to the accounts have been adjusted in all material respects to reflect the impact of this information.

Note 38: Group Interests

Introduction

The Code requires the Council to prepare group accounts where the Council has interests in www.shetland.gov.uk

loans and equity investments, which were not considered cost effective to transfer to the Council. All assets and income arising from the Bare Trust are paid or delivered to the Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees. As at 31 March 2023, the remaining assets held by the Bare Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2022/23, the ZET received receipts of £0.02m (£0.02m 2021/22) and made payments of £0.02m (£0.02m 2021/22).

The other trusts are essentially dormant due to their low annual income. The accounts of ZET can be found on the Council's website at:

<https://www.shetland.gov.uk/about/finances/>.

subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality. The Council has assessed that it has no material group entities, therefore no Group Accounts have been prepared. This assessment is based on the following considerations.

Shetland Leasing and Property Development Ltd (SLAP)

SLAP, a property investment and development company which the Council disclosed as an interest in prior years entered liquidation in 2021/22. The company affairs were fully wound up and the liquidation closed on 31 March 2023. The company is due to be dissolved on 3 July 2023.

Group Boundary

Shetland Islands Council has considered all entities in which it has an interest for consolidation into the group accounts. To determine whether an entity should be included in the Council's group accounts, the factors of control, significant influence and materiality are considered.

Subsidiaries

The Code defines a subsidiary as an entity that is controlled by another entity. The Zetland Educational Trust (ZET) meets the definition of a subsidiary.

Zetland Educational Trust

The ZET comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland. The purpose of the Trust is the advancement of education of people belonging to Shetland. The following table details the financial results for the year and is considered not material for consolidation in group accounts:

2021/22 £000	Zetland Educational Trust	2022/23 £000
(24)	Gross Income	(25)
19	Gross Expenditure	24
(5)	Total Comprehensive Income	(1)
7	Current Assets	8
674	Investments	591
681	Net Assets	599

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The IJB meets the definition of a joint venture.

Integration Joint Board

The IJB was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health

Board. It represents a Joint Venture between these two bodies.

The Council contributed 45.8% of the Board's operating costs in 2022/23 (47.7% in 2021/22). It has three out of six voting members on the board.

The Council's share of the net surplus of the IJB was £0.8m as at 31 March 2023 (£2.2m at 31 March 2022), which is considered not material for consolidation in group accounts.

The following table details Shetland Islands Council's share of the IJB's financial results for the year:

2021/22 £000	Integration Joint Board	2022/23 £000
(32,761)	Gross Income	(33,118)
31,702	Gross Expenditure	34,524
(1,059)	Net (Surplus)	1,406
2,158	Current Assets	752
0	Current Liabilities	0
2,158	Net Assets	752

Associates

The Code defines an associate as an entity for which the Council is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified two entities that meet the definition of an associate. These are:

- Orkney and Shetland Valuation Joint Board; and
- Zetland Transport Partnership (ZetTrans).

Orkney & Shetland Valuation Joint Board (O&SVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2022/23, the Council held five Board places out of ten and contributed 49.9% of the Board's operating costs (49.2% in 2021/22).

The Council's share of the year-end net liability is £0.04m as at 31 March 2023 (£0.9m at 31 March 2022), which is considered not material for consolidation in group accounts.

The following table details Shetland Islands Council's share of the OSVJB's financial results for the year:

2021/22 £000	Orkney and Shetland Valuation Joint Board	2022/23 £000
(584)	Gross Income	568
500	Gross Expenditure	(516)
(84)	Net (Surplus)	52
35	Current Assets	19
(50)	Current Liabilities	(35)
(902)	Non-current Liabilities	(22)
902	Capital and Reserves	38
(15)	Net Assets	0

Zetland Transport Partnership

Zetland Transport Partnership, known as ZetTrans, was formed in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005.

The Council contributed 96.7% of the Partnership's operating costs in 2022/23 (96.5% in 2021/22) and holds four out of six seats on the Partnership. The Council's share of the net asset is £0.05m at 31 March 2023 (£0.05m at 31 March 2022) and is therefore considered immaterial for consolidation in group accounts.

The table below details Shetland Islands Council's share of ZetTrans financial results for the year:

2021/22 £000	Zetland Transport Partnership	2022/23 £000
(2,977)	Gross Income	(3,383)
2,951	Gross Expenditure	3,388
(26)	Net (Surplus)	5
53	Non-current Assets	48
92	Current Assets	123
(92)	Current Liabilities	(123)
(53)	Capital and Reserves	(48)
0	Net Assets	0

Note 39: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council 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.

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These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments, which are consequently measured at fair value. The accounts have been prepared on a going concern basis.

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

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

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

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

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

C 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.

- supplies are recorded as expenditure when they are consumed, but where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- 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
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 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 revenue in financing and investment income and expenditure for the income that might not be collected.

D Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

E Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation or impairment losses, or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to the Statutory Repayment of Loans Fund Advances.

The General Fund is balanced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two sums.

F Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be fully 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, are recognised as an expense for services in the year incurred.

An accrual is made for the cost of leave entitlements 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 Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement arises.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service line in the CIES, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the

year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

Post-employment benefits

Employees of the Council may be members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government; or
- The Local Government Pension Scheme, administered by Shetland Islands Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) which are earned as employees work for the Council.

The arrangements for the teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Council. It is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the CIES is charged with the employer's contributions payable in respect of teachers' pensions in the year.

The Local Government Pension Scheme

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

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

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

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

- quoted securities – current bid price;

- unquoted securities – professional estimate; and
- unlisted securities – current bid price.

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked;
- **past service cost** – the increase in liabilities 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** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of 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 scheme assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **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, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within 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 General Fund Balance to be charged with the amount payable by the Council to the pension fund or 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 Pensions

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 General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

Discretionary benefits

The Council also 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 (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

G Events after the reporting period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the statement of accounts is authorised for issue.

Two types of events can be identified:

those that provide evidence of conditions that existed at the end of the financial year, whereby the annual accounts are adjusted to reflect such events; and

those that are indicative of conditions that arose after the financial year, whereby the annual accounts are not adjusted to reflect such events; where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the annual accounts.

H Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of

the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial guarantees are measured at fair value and are estimated by considering the probability of the guarantee being called.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measure at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument)

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

A soft loan is one granted at less than market rates. When a soft loan is made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the borrowing organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financial and Investment Income and Expenditure line in the CIES.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measure at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

Fair Value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price; and
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

The Council invests through three Fund Managers, Baillie Gifford, Blackrock and Partners. These Fund Managers all invest on behalf of the Council into unitised products. They record income and account for transactions relating to these units as follows:

- Both Baillie Gifford and Blackrock's equity investments receive and record income, which is reinvested into their unitised funds.
- Income from Partners is paid back to the Council apart from that which is used to cover their management fees.
- Income from Blackrock's non equity investments is transferred to their equity unitised funds, apart from any income which is used to cover their management fees.

I Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are

recognised in the Financing and Investment Income and Expenditure line in the CIES.

J Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Council and credited to the CIES when there is reasonable assurance that the Council will comply with any conditions attached to payment of the grants and that the grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached 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 relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

K Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical significance. Heritage assets include historical buildings and the museum collection.

Heritage assets are recognised on the Balance Sheet where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Balance Sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an

item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items will be accounted for in accordance with Council's provisions relating to the disposal of property, plant and equipment.

Historical buildings

These are held on the Balance Sheet at fair value, determined as the amount that would be paid for the asset in its existing use value but, where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value. They are depreciated on a straight-line basis over their remaining useful life.

Museum collection

The Council's museum collection is reported in the Balance Sheet at valuations based on specialist judgement. Assets are valued in the year of acquisition and reviewed periodically.

L Intangible Assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are revalued where the fair value of the assets held by the Council can be determined by reference to an active market. Fishing quota and fishing licences meets this criterion. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines in the CIES.

An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service lines in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the statutory Capital Fund or the Capital Grants and Receipts Unapplied Account.

M Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula, except for fuel which is calculated on a first in first out (FIFO) basis.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

N Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund

Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the statutory Capital Fund or Capital Grants and Receipts Unapplied Account.

O Leases

Operating leases

The Council as lessee

Rentals paid under operating leases are charged to the CIES as an expense to the services benefitting from use of the leased property, plant or equipment.

The Council as lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the CIES. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

The Council as lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as an expense in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability; and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council as lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property which is applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital

receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

P Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to, an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure assets are held at depreciated historical cost;
- community assets and assets under construction are held at historical cost;
- surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective;
- council dwellings are held at current value, determined using the basis of existing use value for social housing; and
- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Unrealised gains arise from notional changes in value that have not been converted into cash.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before this date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications exist and any possible differences

are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES; and
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community and heritage assets) and assets that are under construction.

The following useful lives and depreciation rates have been used in the calculation of depreciation (straight-line method):

- council dwellings: 30 years
- other land and buildings: 1 - 105 years
- vehicles, plant, furniture and equipment: 1 - 40 years
- infrastructure: 5 - 60 years

Surplus assets are depreciated on a straight-line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Where an item of property, plant and equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be classified as an asset held for sale, it is reclassified back to a non-current asset. It is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have been recognised if the asset had not been classified as an asset held for sale, and its recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts

are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Q Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and investment properties and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of the asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring fair value, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Council's accounts are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 – unobservable inputs for the asset.

R Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Anderson High School contract, there was no initial capital contribution by Shetland Islands Council.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are carried out.

S Provisions, Contingent Assets and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will likely require settlement by a transfer of

economic benefits and a reliable estimate can be made of the obligation's value.

Provisions are charged as an expense to the appropriate service lines in the CIES when the obligation arises and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Estimated values are reviewed at the end of each financial year. Where it becomes less likely that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Assets

A contingent asset is disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential not recognised in the Balance Sheet when an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent Liabilities

Contingent liabilities are disclosed in the accounts but not recognised in the Balance Sheet, in circumstances where:

- an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council; or
- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

T Reserves

Reserves are created by transferring amounts from the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year in the CIES. The value is then transferred to the General Fund so that there is no net charge against Council Tax.

The Council also operates a Harbour Reserve Fund, as permitted under statute by the Zetland County Council Act 1974. Only surpluses from the Harbour Account can be credited to this reserve.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council; these reserves are explained in the relevant policies.

U 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.

Zetland Educational Trust Schemes 1961 to 1965

Trustees' Annual Report and Audited Financial Statements

2023



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ZETLAND EDUCATIONAL TRUST

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

Introduction

The trustees present their annual report together with the financial statements for the year ended 31 March 2023.

Administration Information

Charity Name	Zetland Educational Trust Schemes 1961 to 1965, known as Zetland Educational Trust (ZET)
Charity Number	SC001146
Contact Address	Shetland Islands Council Office Headquarters 8 North Ness Business Park Lerwick Shetland ZE1 0LZ

Trustees

Duncan Anderson	Dennis Leask (elected May 2022)	Gary Robinson (elected May 2022)
Alex Armitage (elected May 2022)	Stephen Leask	Mark Robinson (elected November 2022)
Malcolm Bell (retired May 2022)	Moraig Lyall	Davie Sandison
Peter Campbell (retired May 2022)	Emma Macdonald	Ian Scott
Alastair Cooper (retired May 2022)	Tom Morton (elected May 2022)	Cecil Smith
Steven Coutts (retired May 2022)	Robbie McGregor	George Smith (retired May 2022)
Allison Duncan	Andrea Manson	Theo Smith (retired May 2022)
Stephen Flaws (retired May 2022)	Neil Pearson (elected May 2022)	Robert Thomson (elected May 2022)
John Fraser	Bryan Peterson (elected May 2022)	Ryan Thomson
Amanda Hawick (retired May 2022)	Liz Peterson (elected May 2022)	Arwed Wenger (elected May 2022)
Catherine Hughson	Alec Priest (retired May 2022)	

Auditor	Audit Scotland 4 th Floor 102 West Port Edinburgh EH3 9DN
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Structure, Governance and Management

Constitution

The ZET, as currently constituted, was formed in 1961 (amended in 1965) through the amalgamation of a number of bequests. It is registered with the Office of the Scottish Charity regulator (OSCR) and its governing document is a trust deed.

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

The ZET comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland.

Trustees

The trustees of ZET are the elected members of Shetland Islands Council and are appointed through their election to the Council.

The Executive Manager – Finance is the designated officer within Shetland Islands Council with responsibility for the proper administration of the trust's financial affairs and for keeping adequate and up to date accounting records.

The Executive Manager – Finance is responsible for ensuring that the financial statements of the trust are produced in accordance with the Charities Accounts (Scotland) Regulations 2006 (as amended), for making judgements and estimates that are both reasonable and prudent, and for taking steps to prevent and detect fraud and other irregularities.

The Executive Manager – Finance has considered and taken steps to address any risks to which the trust may be exposed, in particular those related to its operation and finances. The trustees are satisfied that adequate systems are in place to mitigate exposure to such risks.

Management

The elected members, as trustees, are responsible for all major decisions relating to the trust.

Authority to award grants has been delegated by the trustees to Shetland Islands Council Children's Services. The nominated officer is the Executive Manager – Quality Improvement.

The Executive Manager – Quality Improvement has the power to authorise expenditure within the limits of the trust's annual income. Designated staff within Children's Services are responsible for the day-to-day administration of the funds.

Objectives and Activities

Charitable purposes

The purpose of the trust is the advancement of education of people belonging to Shetland.

The trust generally provides grants amounting to 75% of total project costs, with the remainder of project costs to be met by fundraising activities or in-kind support. The trust does not give funds retrospectively. Applications are invited on an annual basis from individuals, schools and other educational organisations operating in Shetland.

The amount of funds available for disbursement will vary each year depending on interest received by the trust.

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

The trust will fund projects that fall under the following headings:

- **Educational excursions**

The trust may provide assistance to meet the costs of organised educational excursions for the benefit of pupils attending school centres in Shetland. The pupils should derive some educational benefit from attending the excursion.

- **Special equipment**

The trust may fund the enhancement of education by assisting the provision of special equipment additional to that which the local authority may reasonably be expected to supply.

- **Promotion of ability and skill in swimming**

The trust may fund the promotion and encouragement of swimming among pupils in Shetland through organised instruction by paying fees, travelling expenses and personal expenses of teams, instructors and any other appropriate costs.

- **Promotion of knowledge of Shetland**

The trust may fund the promotion of knowledge of Shetland: its character, its skills and its arts, among persons being educated in Shetland by, for example, assisting to meet the costs of museum provision, making films designed to develop the knowledge of Shetland and any other appropriate costs.

- **Educational experiments and research**

The trust may fund bodies, or other persons it approves, to undertake educational experiments and research, including archaeological research that, in its opinion, will be for the educational benefit of persons in Shetland.

Performance

For the year ended 31 March 2023, the trust received bank interest of £401 (2021/22: £12) and paid bank charges of £3 (2021/22: £12).

The Corporate Bond Fund generated investment income of £24,384 (2021/22: £24,053) and resulted in £1,892 of fund manager fees (2021/22: £2,137).

There were 10 bursaries (2021/22: 13) awarded to university students in support of their studies, totalling £2,000 (2021/22: £2,600). These bursaries are issued in the name of the original donors: E & M Gair 6 awards (2021/22: 7) and Arthur Anderson 4 awards (2021/22: 6). These bursaries will continue to be awarded as the students' progress through their degree programmes.

The trust also provides grants for projects in line with its objectives. There were 11 (2021/22: 9) grants awarded totalling £17,503 in the year to 31 March 2023 (2021/22: £13,853), which are detailed in note 3. The increase in grants paid is due to the relaxation of the restrictions imposed by the Scottish Government to deal with the Covid-19 pandemic, which has allowed greater numbers of activities and projects to be undertaken in the year.

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

Financial Review

Overview

In the year to 31 March 2023, the trust made a surplus of £387 (2021/22: £5,063).

At 31 March 2023 the trust held cash of £7,652 (2021/22: £7,265) and investments of £590,919 (2021/22: £674,200).

Reserves Policy

The Reserves policy is to maintain capital balances, with disbursements being made from investment income and bank interest earned.

Declaration

Approved by order of the Board of Trustees on 21 November 2023 and were signed on its behalf by:

.....
Emma Macdonald - Trustee

ZETLAND EDUCATIONAL TRUST

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2023

The Statement of Receipts and Payments, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), provides an analysis of the incoming and outgoing cash and bank transactions for the year.

	Note	Restricted Funds £	Unrestricted Funds £	2022/23 £	2021/22 £
Receipts					
Investment Income	5	24,384	0	24,384	24,053
Bank Interest		401	0	401	12
Total receipts		24,785	-	24,785	24,065
Payments					
Disbursements	3	19,503		19,503	16,453
Fund Manager Fees	5	1,892	0	1,892	2,137
Service Charges	6	3,003	0	3,003	412
Total payments		24,398	-	24,398	19,002
Surplus for the year		387	0	387	5,063

ZETLAND EDUCATIONAL TRUST
STATEMENT OF BALANCES AS AT 31 MARCH 2023

The Statement of Balances, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), reconciles the cash and bank balances at the start and end of the financial year with any surpluses shown in the Statement of Receipts and Payments.

Note	Restricted Funds £	Unrestricted Funds £	2022/23 £	2021/22 £
Cash and Bank				
Opening cash balance	7,265	0	7,265	42,202
Surplus for the year	387	0	387	5,063
Transfer to Investment	-	0	-	(40,000)
Closing cash balance	7,652	0	7,652	7,265

Note	2022/23 £	2021/22 £
Investments at market value		
Baillie Gifford Corporate Bond 5	590,919	674,200
Total Investments	590,919	674,200

The financial statements were approved by the Board of Trustees on 21 November 2023 and signed on its behalf by:

.....
 Emma Macdonald - Trustee

1. Basis of Accounting

The financial statements have been prepared on a receipts and payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Nature and purpose of funds

Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes.

3. Grants and Donations paid

Disbursements: bursaries	2022/23		2021/22	
	Number	£	Number	£
Disbursements				
E & M Gair student bursaries	6	1,200	7	1,400
Arthur Anderson student bursaries	4	800	6	1,200
Total	10	2,000	13	2,600

Disbursements: grants	2022/23		2021/22	
	Number	£	Number	£
Type of activity or project supported				
Educational excursions	3	2,000	1	1,857
Promotion of ability and skill in Swimming	2	3,750	1	2,000
Promotion of knowledge of Shetland	3	7,250	2	4,284
Special equipment	3	4,503	5	5,712
	11	17,503	9	13,853

All 11 grants awarded in the year were to local clubs and schools. No individuals were awarded grants.

4. Trustee Remuneration, Expenses and Related Party Transactions

- a) No remuneration or expenses were paid during the year to any trustee or persons connected to a trustee during 2022/23 or 2021/22;
- b) Shetland Islands Council has not charged the trust any fees for legal, financial or administrative services provided during the year; and
- c) There were no related party transactions during the year (2021/22: £0).

5. Cash and investments

Investment balances are held in a Baillie Gifford Corporate Bond Fund. Since the start of 2023 the Baillie Gifford Bond Fund has been falling in value. This is due to rising inflation becoming a major problem for governments and central banks with the attempted control of inflation the priority through increasing interest rates. The Russian invasion of Ukraine in February 2022 and its impact on energy prices has only exacerbated the inflationary situation. In a rising inflation and interest rate environment there is much uncertainty in investment markets, which has seen markets and investments fall. The reduction in the ZET's bond investments value is a direct result of the economic inflationary situation causing a fall in market valuations.

Fund manager fees of 0.3% on the daily market value of the fund are charged and invoiced quarterly in arrears.

The trust holds one bank account. In addition to receiving bank interest, income generated from the bond is received by the account. The bank account is used to make payments.

6. Governance Costs

Shetland Islands Council has an agreement with the trust whereby the audit fee is borne by the Council unless the trust earns a minimum income of £10,000 in the year. This income threshold was exceeded in 2022/23 and the trust has paid audit fees of £3,000 (2021/22: £400).

7. Taxation

The trust is not liable to income or capital gains tax on its activities. Irrecoverable VAT is included in any expense to which it relates.



Shetland Islands Council

Agenda Item

2

Meeting(s):	Audit Committee	14 November 2023
Report Title:	Internal Audit mid-year report	
Reference Number:	CRP-28-23 F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0 Decisions / Action required:

- 1.1 Audit Committee is asked to
1. NOTE the content of the report; and
 2. ADVISE the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

2.0 High Level Summary:

- 2.1 The attached Internal Audit update provides Members with details on the performance of the Internal Audit section during the first half of 2023/24. The report includes a balanced score card for the Internal Audit section. The report also includes an update on the work related to the National Fraud Initiative.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Council's Corporate Plan, "Our Ambition 2021-2026", states that: "We are committed to doing our best for Shetland and are proud to deliver public services that make a real difference to our community. We have to revisit what we do, try out new ideas and find new ways of approaching problems so that we remain excellent at meeting the changing needs of our community. Excellent stops being excellent if we stop improving – we have to innovate and change in order to stay relevant".
- 3.2 Internal audit reports provide an independent assessment of the effectiveness and integrity of the Council's systems; providing assurance to the Council in this regard and with regard to Best Value.

4.0 Key Issues:

- 4.1 Internal Audit is an independent appraisal function within the Council. Its work is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors and takes account of the work of the Council's external auditor.
- 4.2 The purpose of this report is to provide an overview of Internal Audit performance for the first half of the year ending 2023/24.

Table 1. Overall Audit Glasgow Team – Establishment

Analysis of staff	Oct 2022	Oct 2023
Number of Qualified staff (FTE*)	16.7	17.7
Number of staff with a recognised counter fraud qualification (FTE)	5.5	4.6
Number of Trainees (FTE)	7	5
Number of graduate apprentices (FTE)	4	3
Training Days (including professional qualification)	57	99.5
Training Days per Staff Member	1.7	3.2
Sickness absence per staff member (annual target 5 days)	1.0	2.1

* Full Time Equivalent

Table 2. Internal Audit targets

	Target	2022/23	2023/24
1	Complete all required fieldwork to prepare the Annual Opinion that is necessary to inform the Council's Annual Governance Statement	Compliant	Not yet due
2	Maintain British Standards Institute ISO 9001:2008 accreditation	Compliant	Not yet due
3	Internal and External quality assessments against Public Sector Internal Audit Standards	Compliant	Not yet due

Table 3. Audit Team – Work and Efficiency

	2022/23 (as at 31 October 2022)	2023/24 (as at 27 October 2023)
Percentage of audits with fieldwork complete	23%	18%
Percentage of audits with fieldwork ongoing	23%	37%
Percentage of audits due to start	54%	45%

- 4.3 In the period to 27th October 2023, the following reviews and work have been completed (18.2% of Audit Plan):
- Compliance with Cyber Principles for the Pension Fund
 - Revenues & Benefits – Council Tax Discounts and Exemptions
 - National Fraud Initiative Co-ordination

The following audits had fieldwork ongoing (36.5% of Audit Plan):

- Grants
- Committee Effectiveness
- ICT Threat and Vulnerability
- Risk and Control workshops

The remaining audits in the audit plan will commence in late Q3/Q4.

- 4.4 We have continued to make best use of MS Teams to allow meetings and the majority of fieldwork to be carried out efficiently. However, we are also scheduled to carry out a number of site visits later in the year and meetings in person with key senior officers at each visit to Shetland. We will continue to make best use of technology to deliver the audit plan however we recognise the sometimes added benefits of being on site.
- 4.5 To date there have been no changes to the audit plan as approved by the Audit Committee in March 2023. We will continue to maintain an agile approach to the Audit Plan and keep Committee updated of any other material changes.
- 4.6 Overall the assurance work for 2023/24 is progressing well and is expected to be completed to enable the Chief Auditor to provide his annual audit opinion for 2023/24.

National Fraud Initiative

- 4.7 We have taken over the responsibility for the management and co-ordination of the National Fraud Initiative (NFI) this year.
- 4.8 After submitting data in November 2022 for the 2022/23 National Fraud Initiative (NFI), the Council received 2,226 matches to investigate in early 2023. Further matches are expected in early 2024 as a result of non-domestic rates datasets being matched after 30 November 2023. A breakdown of matches received to date is shown in Table 4 below.

Table 4. National Fraud Initiative 2022/23

Priority	Match Type	Total Number of Matches Received	
High	Benefit	8	
	Council Tax Reduction Scheme	125	
	Housing Tenants	40	
	Pension	77	
	Payroll	150	
	Blue Badge / Residents Parking	35	
	Creditors	1,356	
	Procurement	60	
	Total High Priority Matches		1,851
Medium	Housing Tenants	2	
	Blue Badge / Residents Parking	1	
	Total Medium Priority Matches		3
Low	Council Tax Reduction Scheme	13	
	Procurement	118	
	Payroll	241	
	Total Low Priority Matches		372
	Total Matches		2,226

- 5.2 In total staff have investigated, or are in the process of investigating, 2,028 matches as detailed in Table 5 below.

Table 5. Summary of work undertaken

Investigation Details	Number of Cases		Value	
Total of on-going Investigations		59		
Errors Identified	3			
Fraud cases Identified	0			
Matches Cleared	1,966			
Total of Completed Investigations		1,969		
Blue Badge - estimated fraud prevented	31		£20,150	
Creditors – duplicate payments (actual)	2		£3,103	
Total Value of Errors / fraud identified				£23,253

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications:

6.1 Service Users, Patients and Communities:	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This provides assurance to the Council with regard to the efficiency, effectiveness and economy of the Council's services and Best Value.
6.2 Human Resources and Organisational Development:	None arising directly from this report
6.3 Equality, Diversity and Human Rights:	None arising directly from this report
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity, and best value in their stewardship of public funds.
6.5 Finance:	None 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>Internal Audit facilitates the reduction of risks identified during the audit process.</p> <p>The Internal Audit Plan 2023/24 takes a risk-based approach to the planned audit activities in 2023/24.</p>	
6.10 Policy and Delegated Authority:	<p>In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Audit Committee remit includes consideration of audit matters, overseeing and reviewing action taken on audit activity, and considering the performance of Internal and External Audit.</p>	
6.11 Previously considered by:	None	N/A

Contact Details:

Duncan Black, Chief Internal Auditor

duncan.black@glasgow.gov.uk

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Appendices

None

Background Documents

None



Shetland Islands Council

Agenda Item

3

Meeting(s):	Audit Committee	14 November 2023
Report Title:	Internal Audit Summary Report	
Reference Number:	CRP-29-23 F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0 Decisions / Action required:

- 1.1 Audit Committee is asked to
1. NOTE the content of the report,
 2. NOTE that the report format includes links to the full audit reports for further information,
 3. COMMENT on the outcome on the findings of the audit work completed, and
 4. ADVISE the Director of Corporate Services of their views and any recommendations for onward reporting to the Council.

2.0 High Level Summary:

- 2.1 The attached Internal Audit Update Summary provides Members of the Audit Committee with an overview of the work undertaken by Internal Audit during the period from 1 June 2023 and 31 October 2023 as part of the agreed Internal Audit Plan.
- 2.2 The report summarises the findings of each of the audits completed during that time, highlights any recommendations made and the audit opinion in light of the findings of the audit activity.
- 2.3 The detailed audit reports are available separately together with agreed plans for addressing the recommendations.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Council's Corporate Plan, "Our Ambition 2021-2026", states that: "We are committed to doing our best for Shetland and are proud to deliver public services that make a real difference to our community. We have to revisit what we do, try out new ideas and find new ways of approaching problems so that we remain excellent at meeting the changing needs of our community. Excellent stops being excellent if we stop improving – we have to innovate and change in order to stay relevant".
- 3.2 Internal audit reports provide an independent assessment of the effectiveness and integrity of the Council's systems: providing assurance to the Council in this regard and with regard to Best Value.

4.0 Key Issues:

4.1 Internal Audit is an independent appraisal function within the Council. Its work is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Service Directors and takes account of the work of the Council's external auditor.

4.2 During the period between 1 June 2023 and 31 October 2023, four reviews have been completed and summary information for each review is provided below. The full reports are provided as appendices to this report.

4.3 Payroll Verification: Community Health and Social Care Services

	High	Medium	Low	Service Improvement
Number of recommendations	0	1	0	0

We have carried out an employee payroll verification exercise to confirm that only current employees are recorded as active on the payroll system and that they are paid at the correct rate and for the correct number of hours.

The scope of the audit included ensuring:

- Effective checks are undertaken to verify (a) only current Council employees are being paid, and (b) the accuracy of the core pay, as well as the number of hours paid.
- Where inaccuracies are identified, appropriate steps are taken to correct payroll records and recover overpayments as necessary.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment.

The recommendation relates to reminding managers to submit HR/Payroll info on a timely basis, and to investigate the circumstances that led to the two discrepancies identified during the review.

This is the final Payroll Verification report for this corporate review; the other services' reports were presented to Audit Committee on 27 June 2023.

4.4 Grant Applications and Offers

	High	Medium	Low	Service Improvement
Number of recommendations	0	0	2	0

This audit was undertaken to gain assurance that there are sufficient and appropriate controls in place covering the treatment of grant applications made by the Council and any subsequent offers it receives

The scope of the audit included:

- Ensuring there is appropriate central oversight of grant applications made by all Council services and, if successful, the subsequent offers received.
- The process, including documented guidance, for scrutiny, evaluation, and approval of grant applications prior to submission.
- Ensuring that management and finance officers are aware of grant applications being made by the Council and are involved in the review and approval process.
- Confirming there is a central register of grant applications and subsequent offers, which includes details of any conditions attached to the grant.
- The arrangements to provide updates and documentation to grant funders in the timeframe allowed.

Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment.

The recommendations relate to updating (1) the existing procedures to ensure all expected areas are covered and (2) the grant register templates to clearly record match funding details (including for grants which are already active).

4.5 Pension Fund Compliance with Cyber Security Principles

	High	Medium	Low	Service Improvement
Number of recommendations	0	5	0	0

This audit was undertaken to gain assurance that there are suitable arrangements within the Pension Fund to ensure compliance with the Cyber Security Principles.

The scope the audit included reviewing:

- Reviewing governance structures, roles, responsibilities, and accountabilities for cyber risk.
- Ensuring appropriate incident response arrangements are in place, including a Cyber Incident Response Plan.
- Confirming if cyber risk is included in the Pension Fund's risk register, that appropriate controls are in place to mitigate the likelihood and/or impact of cyber-attack, and that cyber risk is reported to the Pension Fund Board and/or Pension Fund Committee.
- Ensuring there are sufficient training and awareness programmes for relevant officers and Committee/Board Members.

Based on the work carried out a reasonable level of assurance can be placed upon the control environment.

The recommendations relate to (1) reviewing, updating, and testing the Cyber Incident Response Plan, (2) reviewing and updating the Pension Fund's Business Continuity Plan and ensuring a hard copy is available, (3) updating the terms of reference for the Pension Fund's Board and Committee to ensure that risk responsibilities, including cyber and information security, are included and that the Board and Committee are kept apprised of relevant cyber/information security

risks/issues, (4) seeking assurances from external third-party providers, with which Pension Fund share sensitive information, in regards to its cyber security controls, and (5) considering if the information security course should be mandated for all Council staff, if a refresher course is required, and if the current training arrangements for Pension Fund Board and Committee members is sufficient.

4.6 Council Tax Discounts and Exemptions

	High	Medium	Low	Service Improvement
Total number of recommendations	4	1	0	0

This audit was undertaken to gain assurance that there are sufficient and appropriate controls in place covering Council Tax discounts and exemptions.

The scope of the audit included:

- Reviewing documented policy and procedures, including ensuring that they are up to date and available to all relevant parties.
- Ensuring there is a process for staff training and notifying staff of relevant legislative changes.
- Ensuring that ongoing quality checking processes and controls are in place to identify and correct instances of error or fraud.
- Reviewing a sample of discounts and exemptions to ensure they have been applied correctly.

Based on the audit work carried out a limited level of assurance can be placed upon the control environment.

The recommendations relate to (1) updating Council Tax information available on the Council's website to ensure that it is accurate and complete, and communicating details to Elected Members of the Council Tax Premiums available for use, (2) developing operational procedures and guidance for staff, (3) assigning responsibility for remaining up to date with Council Tax legislation and ensuring changes are implemented as required, and reviewing any 2023/24 discount/exemption applications which may have been assessed under 2022/23 legislation, (4) reviewing the results from our sample testing to ensure corrective action is taken on these accounts, along with additional work to attempt to identify other accounts (in the full population) which may have been impacted by the key areas of misunderstanding identified, and (5) ensuring that there is an ongoing programme of review for the relevant discount and exemption categories.

4.7 The full reports for the above reviews are appended to this report

- Payroll Verification – Appendix 1
- Grant Applications and Offers – Appendix 2
- Pension Fund: Compliance with Cyber Security Principles – Appendix 3
- Council Tax Discounts and Exemptions – Appendix 4

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications:	
6.1 Service Users, Patients and Communities:	The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This provides assurance to the Council regarding the efficiency, effectiveness and economy of the Council's services and Best Value.
6.2 Human Resources and Organisational Development:	Appendix 1 includes recommendations in relation to payroll verification exercise.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity, and best value in their stewardship of public funds.
6.5 Finance:	<p>Appendix 1 includes a recommendation relating to payroll verification.</p> <p>Appendix 2 includes a recommendation in relation to the monitoring of grant funding applications.</p> <p>Appendix 4 includes recommendations in relation to Council Tax discounts and exemptions.</p>
6.6 Assets and Property:	None arising directly from this report.
6.7 ICT and new technologies:	Appendix 3 includes recommendations relating to compliance with cyber security principles for the Pension Fund.
6.8 Environmental:	None arising directly from this report.
6.9 Risk Management:	<p>Internal Audit facilitates the reduction of risks identified during the audit process.</p> <p>The management responses to the recommendations made in the most recent audit reports can be seen in the appendices to this report.</p>

	Progress made by management to address the issues identified will be monitored and reported back to Audit Committee in due course.	
6.10 Policy and Delegated Authority:	The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on audit activity.	
6.11 Previously considered by:	None	N/A

Contact Details:

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Appendices

Appendix 1 – Payroll Verification

Appendix 2 – Grant Applications and Offers

Appendix 3 – Pension Fund: Compliance with Cyber Security Principles

Appendix 4 – Council Tax Discounts and Exemptions

Background Documents

None

Shetland Islands Council
Payroll Verification:
Community Health and Social
Care Services
Final Report
September 2023



FS 57095

1 Introduction

- 1.1 As part of the agreed Internal Audit Plan, we have carried out an employee verification exercise within Shetland Islands Council (the Council) to confirm that only current employees are recorded on the payroll system, and that they are being paid at the correct rate and hours. This exercise included all employees within the Community Health and Social Care Services.
- 1.2 Management within Community Health and Social Care Services reviewed all staff on a payroll extract provided by the Human Resources (HR) team. Management was required to identify any names on the report who are not current employees or do not have the correct core pay (e.g., employees who are recorded with the incorrect hours or pay grade).
- 1.3 We conducted sample checking of 20 employees to confirm with line managers that the employees were current members of staff at the time of the payroll extract and that the correct remuneration was being paid to those employees.
- 1.4 The purpose of the audit was to review the Council's payroll verification methods to validate their accuracy and effectiveness. The key controls examined were:
- Effective checks are undertaken to verify that only current employees are being paid.
 - Effective checks are undertaken to verify the accuracy of core pay and the number of hours paid.
 - Where inaccuracies are identified, appropriate steps are taken to correct payroll records and recover any overpayments as necessary.
- 1.5 Additionally, data analytics testing was undertaken to identify potential payroll inconsistencies across the whole Council employee population. The findings of this testing are being reviewed by HR with any significant outputs to be reported.

2 Audit Opinion

- 2.1 Based on the audit work carried out a **reasonable** level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and **one recommendation** which management should address.

3 Main Findings

- 3.1 The verification exercise undertaken for Community Health and Social Care Services identified one employee that had been overpaid a total of £5,443.71. The overpayment arose due to the late submission of leavers paperwork which led to a delay in the individual being removed from the payroll system. HR were aware of the overpayment, and, at the time of the audit, arrangements had already been put in place for this money to be recovered.

- 3.2 The verification exercise also identified an underpayment had been made for one employee. The underpayment arose due to relevant paperwork not being submitted to HR to advise them of a change in grade. The value of this underpayment is currently being quantified by the payroll team who have advised that that action will be taken to reimburse the employee as part of the next pay run.

- 3.3 For the sample of 20 employees whose details were confirmed as accurate, we obtained evidence from the Service that checks had taken place which confirmed that all individuals were found to be current employees at the time

of the selected payroll extract and that no errors were present which would result in an under/overpayment.

- 3.4 An action plan is provided at section four outlining our observations, risks, and recommendations. We have made one recommendation for improvement. The priority of the recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower-level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.5 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.6 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.7 It is recommended that the Chief Internal Auditor submits a further report to Committee on the implementation of the action contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Arrangements are in place to ensure that employee records are accurately maintained.				
1	<p>Community Health and Social Care Services identified an overpayment made to one of its employees through the payroll verification exercise. The overpayment of £5441.73, which covered the period November 2022 to February 2023, was due to a delay in the submission of relevant leavers paperwork to HR to remove the employee from the payroll system. Arrangements were put in place to recover this overpayment and we have confirmed that this has been repaid in full.</p> <p>An underpayment was also identified. The underpayment, which covered the period January 2023 to June 2023, arose due to relevant paperwork not being submitted to HR on a timely basis to advise them of the employee's change in grade. The value of the underpayment is still being calculated by the payroll team who have advised that corrective action will be taken to reimburse the employee within the July pay run.</p> <p>If payroll changes are not recorded correctly and timeously, there is an increased risk that the under/overpayments are not identified in a timely manner.</p>	<p>Community Health and Social Care Services management should:</p> <ul style="list-style-type: none"> Remind managers that the relevant HR paperwork should be submitted to HR and/or the Payroll Team on a timely basis. Investigate the circumstances which led to the discrepancies noted to identify whether there are wider issues which should be addressed. 	Medium	<p>Response: Accepted</p> <p>Managers have been reminded that the relevant HR paperwork should be submitted to HR and/or the Payroll Team on a timely basis.</p> <p>We have investigated the circumstances that led to the discrepancies noted to identify if wider issues exist. In one case, the circumstance is unlikely to reoccur. In the other, the key issue is for managers to ensure that they receive confirmation that forms have been submitted correctly. All managers will be reminded of this at the next Operational Management Meeting</p> <p>Officer Responsible for Implementation: Interim Director, Community Health and Social Care</p> <p>Timescales for Implementation: 30 September 2023</p>

Shetland Islands Council Grant Applications and Offers Final Report October 2023



FS 57095

1 Introduction

- 1.1 As part of the agreed Internal Audit plan, we have carried out a review of the arrangements for grant applications submitted, and the subsequent offers received, by Shetland Islands Council (the Council).
- 1.2 Each year the Council receives a Local Government Revenue Settlement grant from the Scottish Government, in addition to this, the Council may be eligible to apply for further grant income from various sources including the Scottish and UK Governments and other private, public, and charitable sector organisations.
- 1.3 Across the Council grant income is used to fund a wide variety of projects and initiatives. For example, in 2022/23 additional grant funding was received to specifically fund additional sport activities for children and enhanced financial guidance and support for the community (delivered through the Citizen's Advice Bureau). Grant funders may impose conditions on the grant, for example 'ring-fencing' expenditure, the requirement for matched funding and/or achievement of specific outputs. Most grant funders also require claims and reports to be submitted along with supporting evidence either for draw down of payment of the grant in arrears or to confirm that funds were spent in accordance with the specified conditions.
- 1.4 The purpose of the audit was to ensure there are sufficient and appropriate controls in place covering the treatment of grant applications made by the Council and any subsequent offers it receives. The scope of the audit included:
- Ensuring there is appropriate oversight centrally of grant applications made by all Council services and, if successful, the subsequent offers received.
 - The process, including documented guidance, for scrutiny, evaluation, and approval of grant applications prior to submission.
 - Ensuring that management and finance officers are aware of grant applications being made by the Council and are involved in the review and approval process.
 - Confirming there is a central register of grant applications and subsequent offers, which includes details of any conditions attached to the grant.
 - The arrangements to provide updates and documentation to grant funders in the timeframe allowed.

2 Audit Opinion

- 2.1 Based on the audit work carried out a **reasonable** level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and **two recommendations** which management should address.

3 Main Findings

- 3.1 We are pleased to report that the key controls are in place and generally operating effectively. The Financial Regulations were updated in October 2022 to include the requirement for review and approval of all grant applications by Senior Management within Finance prior to the application being submitted; this will allow increased co-ordination and oversight, particularly in relation to ensuring that the cost of applying for a grant, and then complying with its requirements, does not exceed the value gained from the grant. The updated Financial Regulations are available to all staff.
- 3.2 Each directorate has a dedicated accountant that provides guidance when needed and is responsible for monitoring the grants received by the directorate, including regular reconciliations to the financial ledger as well as review of reports for funders prior to submission.
- 3.3 The Finance Team regularly use budget monitoring reports, committee papers and monthly meetings with the directorate service areas as an opportunity to identify any ongoing grant applications that they have not been advised of, and to remind officers during these meetings of the requirements of the updated Financial Regulations.
- 3.4 We selected a sample of five grant payments from the financial ledger for review. Due to the timing of the audit fieldwork and lead-in time for applications these grants applications were submitted prior to the updated Financial Regulations coming into effect. We sought to confirm compliance with the arrangements at the time each application was submitted. We found that in all five cases the grant application had been approved at an appropriate level and an officer had been appointed to submit the required information throughout the duration of the grant.
- 3.5 Although not formally outlined in the Financial Regulations at the time the grants were applied for, we found that the Finance Team was aware of all five grants; four cases prior to the application being made, with the final case being identified during the Finance Team's regular review of committee papers.

- 3.6 However, our audit testing identified some opportunities for improvement in the current arrangements. Although there is some operational guidance available to staff it does not cover all expected areas, for example, evaluation criteria and management of matched funding.
- 3.7 The Finance Team maintains grant registers for each Directorate; these are based on a template and record details such as conditions and reporting requirements. However, it does not capture information regarding any matched funding.
- 3.8 An action plan is provided at section four outlining our observations, risks, and recommendations. We have made two recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	0
Low	Lower-level controls absent, not being operated as designed or could be improved.	2
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.9 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.10 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.11 It is recommended that the Chief Internal Auditor submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: There are documented procedures covering grant applications and offers received, and these are available to all relevant staff.				
1	<p>Existing operational guidance does not cover all expected elements of the grant application and offer process. From review and discussion, we identified the following gaps in the guidance:</p> <ul style="list-style-type: none"> The evaluation criteria to be applied when a grant application is considered. Treatment, including the approval, recording, monitoring, and reporting, of grants with matched funding elements. Definition of high value or complex grant applications and the additional work required for these, such as business cases and approval. How to identify the support required for the application e.g., advice from the Legal or Procurement Teams. Guidance should signpost staff to the relevant key contacts within these corporate areas. <p>The current arrangements increase the risk that staff are not fully aware of the processes required when deciding to apply for a grant and how the grant should subsequently be managed if offered.</p>	<p>Management should ensure that the existing procedures are updated or supplemented to include the areas noted in the observation.</p> <p>Once finalised the procedures should then be re-communicated and made available to all relevant staff.</p>	Low	<p>Response: Accepted.</p> <p>Procedure notes have been updated to address the issues raised and will be re-communicated and uploaded to Interact.</p> <p>Officer Responsible for Implementation: Team Leader Accountancy</p> <p>Timescales for Implementation: 31 October 2023</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: A central register of grant applications and offers is maintained, and this includes details of grant conditions and matched funding.				
2	<p>Some grants applied for may require the Council to match the funding awarded with the same value contribution from its own available finances. Where this is a condition of a grant, funding should be identified within the relevant service area budget, if this is not possible then the service area must present a request to the relevant Committee or Council meeting.</p> <p>The Finance Team maintains grant registers for each directorate based on a template; however, from review, we noted that there is no section within the register to record if match funding applies. Also, as noted in recommendation one, operational guidance does not provide any details on the management of grants with matched funding.</p> <p>Failure to adequately record and monitor matched funding requirements increases the risk that the Council is not fully compliant with grant conditions which may result in reclaim of grant funding and/or refusal of future grant funding requests.</p>	<p>Management should ensure that the:</p> <ul style="list-style-type: none"> Grant register templates are updated to record matched funding details. Existing registers are reviewed and, where appropriate, updated to include matched funding requirements for each grant. 	Low	<p>Response: Accepted.</p> <p>Procedure notes and registers have been updated to take account of match funding.</p> <p>Officer Responsible for Implementation: Team Leader Accountancy</p> <p>Timescales for Implementation: 31 October 2023</p>

Shetland Islands Council
Pension Fund: Compliance
with Cyber Security Principles
Final Report
October 2023



FS 57095

1 Introduction

- 1.1 As part of the agreed Internal Audit plan, we have carried out a review of the arrangements within the Shetland Islands Council Pension Fund (the Pension Fund) to ensure compliance with the Cyber Security Principles.
- 1.2 In April 2018, the Pensions Regulator issued its Cyber Security Principles for pension schemes as the large amounts of sensitive data held by pension funds could make them attractive targets for hackers and fraudsters. The Cyber Security Principles aim to provide good practice for pension funds to protect members against 'cyber risk'. The principles can be classed under the following categories: Governance; Incident Response; Access Controls; Risk Management and Training.
- 1.3 The Pension Fund is wholly managed and staffed by Shetland Islands Council (the Council). Consequently, the Pension Fund is governed by the corporate arrangements within the Council, including policies and procedures, risk management, and the management and control of Information Computer Technology (ICT) infrastructure. Therefore, when assessing compliance with the Cyber Security Principles, we have considered the relevant arrangements and controls for the wider Council as well as those specific to the Pension Fund.
- 1.4 The purpose of the audit was to gain assurance that there are suitable arrangements within the Pension Fund to ensure compliance with the Cyber Security Principles. The scope of the audit included:
- Reviewing governance structures, roles, responsibilities, and accountabilities for cyber risk.
 - Ensuring appropriate incident response arrangements are in place, including a Cyber Incident Response Plan.
 - Confirming if cyber risk is included in the Pension Fund's risk register, that appropriate controls are in place to mitigate the likelihood and/or impact of cyber-attack and that cyber risk is reported to the Pension Fund Board and/or Pension Fund Committee.
 - Ensuring there are sufficient training and awareness programmes for relevant officers and Committee/Board Members.

2 Audit Opinion

- 2.1 Based on the audit work carried out a **reasonable** level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and **five recommendations** which management should address.

3 Main Finding

Governance

- 3.1 The Cyber Security Principles state that it is important for pension funds to have appropriate governance structures and for the roles and responsibilities regarding cyber security to be clearly defined, documented, and communicated.
- 3.2 The Council has sufficient governance arrangements in operation, including documented arrangements for ICT acceptable use, home working, use of passwords and data protection which apply to all staff members, including those within the Pension Fund. Corporate responsibilities for managing cyber and information security within the Council has been clearly defined within the documentation in place.
- 3.3 The Council is a member of the Cyber Security Information Sharing Partnership (CiSP) from which it receives cyber threat intelligence, further supporting the existing governance arrangements.

Incident Response

- 3.4 The Cyber Security Principles state that pension funds should have systems and processes in place to ensure the safe and swift resumption of operations following an incident. Incidents should be documented, and major incidents should be followed by a post-incident review with plans being updated to consider lessons learnt.
- 3.5 Suitable recovery testing of system backups is now in place for Altair, the main pension system, following implementation of a previous Internal Audit recommendation.
- 3.6 The Council has a Cyber Security Incident Response Plan (CIRP) covering the arrangements to restore Council systems in the event of a cyber incident, including those systems used by the Pension Fund. However, we found that the CIRP is out of date, omits some key information in relation to roles and responsibilities and testing/update arrangements for the CIRP require improvement.
- 3.7 The Pension Fund has its own Business Continuity Plan (BCP) which documents the processes to be followed if a

significant and disruptive incident occurs, including in relation to cyber security, to ensure that the critical functions of the Pension Fund can still be delivered. However, the BCP does not provide any guidance on the reporting arrangements to be followed by the Pension Fund were a critical incident to occur and staff training does not cover the incident management processes expected to be followed in such circumstances.

- 3.8 We also found that hard copies of the BCP are not available to Pension Fund staff meaning that if the electronic copy was inaccessible there is no alternative available.

Access Controls

- 3.9 The Cyber Security Principles state that ICT infrastructure and security should be sufficient for the work undertaken and that physical and virtual access to systems and data should be controlled and monitored.
- 3.10 All systems used by the Pension Fund (Altair, payroll, and shared drives) are managed by the Council's ICT team who have responsibility for the recovery and restoration of these systems. Access to Altair and payroll is restricted with permission levels which are reviewed and updated regularly, access to the shared drive is also set on a permissions basis. Independent penetration testing and vulnerability scanning, aimed at identifying gaps in information security compliance and protecting the Council's ICT network from unauthorised access, has been undertaken within the last twelve months. The Council has also implemented controls to restrict staff from accessing unauthorised web content.

- 3.11 A review of ICT network monitoring and testing arrangements, including the recovery and restoration of Council systems, is part of our 2023/24 Threat and Vulnerability Management audit, therefore these areas have not been included as part of this review.

- 3.12 The Pension Fund shares sensitive data with several different partners through a range of data sharing portals. However, the Pension Fund does not receive assurances from these third parties regarding their cyber security controls to protect the security of any Pension Fund data held.

Risk Management

- 3.13 The Cyber Security Principles state that those with pension fund responsibilities should ensure they have sufficient understanding of the cyber risk and the potential impact of a cyber incident.
- 3.14 The Council's Corporate Management Team (CMT) Risk Board have responsibility for managing corporate risks, including those relating to cyber/information security for the full Council, including the Pension Fund. Whilst a separate Cyber-Risk Register is not maintained, cyber/information security risks are currently captured within the Council's Corporate Risk Register. These risks are scored, assigned a responsible officer, mitigating actions, and reported to the Council's Policy and Resources Committee.
- 3.15 However, the risk responsibilities of the Pension Fund's Board and Committee have not been defined and as cyber/information security risks are being managed at a

corporate level within the Council, these do not appear on the Pension Fund Risk Register. The Pension Fund's Board and Committee are not provided with any updates from the Council in relation to cyber/information security risks which may impact the Pension Fund. Similarly, the Board and Committee do not currently receive information on specific reports which may have cyber/information security implications for the Pension Fund from Internal Audit, however the Council's Audit Committee papers are usually publicly available.

Training

- 3.16 The Cyber Security Principles state that those with pension fund responsibilities should receive regular training and have access to the required skills and expertise to understand and monitor the risks from a cyber incident.
- 3.17 All Pension Fund staff are expected to complete the Council's online Information Security training course which provides guidance on password security, security of devices, internet, and email security. Management is provided with periodic updates detailing staff that are yet to complete the training; from review we found that all Pension Fund staff have completed the training and passed the course assessment.
- 3.18 However, within the Council as a whole, completion of the Information Security training course is recommended but not mandatory. Also, there are no refresher courses.
- 3.19 Cyber security training forms part of Elected Members' induction. However, this has not yet been completed by all

the Pension Fund's Board and Committee members and there is no process in place to refresh cyber security training during the term of an Elected Member.

- 3.20 An action plan is provided at section four outlining our observations, risks, and recommendations. We have made five recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	5
Low	Lower-level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.21 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.22 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.23 It is recommended that the Chief Internal Auditor submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate incident response arrangements are in place, including a Cyber Incident Response Plan (CIRP).				
1	<p>Although the Council has a CIRP in place, we identified the following issues:</p> <ul style="list-style-type: none"> It has not been reviewed since 2020 and the arrangements for reviewing the plan have not been formally documented. The incident response team details within the CIRP include two employees that have left the Council and a further two employees that are no longer employed in the positions recorded. Although it covers the expected stages of the incident response (detection, analysis, containment, eradication, and recovery), we found that some of the expected roles and responsibilities in relation to cyber risk are not recorded (for example, who has the authority to confiscate/disconnect equipment or the requirements and guidelines for information sharing during an incident). <p>Although expected to be completed annually, the most recent test of the CIRP was undertaken in April 2022 and is now overdue and the testing arrangements to be followed are not documented.</p>	<p>Management should:</p> <ul style="list-style-type: none"> Review and update the CIRP to ensure that this contains all necessary information and up to date details for the incident response team. Arrangements for the future review of the plan should be formally documented. Ensure that the overdue testing of the CIRP is completed as soon as possible and annually thereafter. Document the process to be followed for testing the CIRP and ensure that version control information is updated to record any changes made following testing. 	Medium	<p>Response: Accepted.</p> <p>The Cyber Incident Response Plan will be reviewed, updated, and tested. A schedule will be documented within ICT for regular review and testing.</p> <p>Officer Responsible for Implementation: Executive Manager, ICT</p> <p>Timescales for Implementation: 31 December 2023</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>A formal lesson learned log from the testing of the CIRP is not maintained. We were advised that any necessary updates arising from the testing process will be incorporated into an updated version of the CIRP or associated documents. Although version control information is included within the documentation to capture testing and changes made, this is not up to date.</p> <p>There is an increased risk that the CIRP is not fit for purpose and cyber and/or information security risks are not appropriately managed if a critical event were to take place.</p>			

No.	Observation and Risk	Recommendation	Priority	Management Response
2	<p>The Reporting arrangements to be followed by the council in the event of a cyber incident are set out within the Council's CIPR. However, this does not make any reference to the reporting arrangements expected to be followed by the Pension Fund were a critical incident to occur (for example, when they should report an incident to the Pension Regulator). This is also not detailed within the Pension Fund BCP. Pension Fund staff training does not currently cover the incident management processes expected to be followed in the event of a critical incident.</p> <p>We also identified the following issues:</p> <ul style="list-style-type: none"> The Pension Fund BCP is held on a corporate ICT shared drive and no hard copies are held. This means that details of the BCP arrangements expected to be followed may not be accessible to staff when needed. Staff names rather than job titles are captured in the Pension Fund BCP document, rendering it out of date when staff changes take place. <p>This increases the risk the staff are not aware of, or do not follow, the agreed processes.</p>	<p>Management should:</p> <ul style="list-style-type: none"> Review and update the Pension Fund BCP document to ensure that this documents the reporting arrangements to be followed by the Pension Fund in the event of a cyber incident taking place. Ensure that Pension Fund staff are provided with training on the process to be followed in the event of a cyber/information security event occurring. Ensure that a hard copy of the Pension Fund BCP is available to Pension Fund staff and any other relevant parties. Update the Pension Fund BCP to reflect, where possible, staff job titles rather than staff names. 	Medium	<p>Response: Accepted.</p> <p>In coordination with the Emergency Planning Office, we will review and update the BCP. We will also consider whether the Pension Fund should be more clearly identified within the Finance BCP to streamline the process.</p> <p>Officer Responsible for Implementation: Pensions Supervisor</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Cyber risks are appropriately managed within the Pension Fund.				
3	<p>Risk responsibilities (including those in relation to cyber/information security risks) are not set out in the Terms of Reference (ToR) for either the Pension Fund's Board or Committee. Risks in relation to information/cyber security are currently captured on the Council's Corporate Risk Register which is managed by the CMT Risk Board and reported to the Policy and Resources Committee. These risks are not on the Pension Fund Risk Register which is reported to the Pension Fund Committee.</p> <p>Senior Management from the Council and Pension Fund attend the Pension Fund's Board and Committee meetings and can provide updates on cyber/information security risk if required. However, the Board and Committee are not provided with any formal updates from the Council in relation to cyber/information security risks which may impact the Pension Fund. The Board and Committee do not currently receive information on specific reports which may have cyber/information security implications for the Pension Fund from Internal Audit, however the Council's Audit Committee papers are usually publicly available.</p> <p>This increases the risk that Pension Fund's Board and/or Committee members are not fully aware of information on cyber/information security risks and how they may impact the Pension Fund.</p>	<p>Management should:</p> <ul style="list-style-type: none"> Update the ToR for the Pension Fund's Board and Committee to ensure that these reflect the members' risk responsibilities, including those relating to cyber/information security. Liaise with the CMT Risk Board to agree a process to provide the Pension Fund's Board and Committee with updates on cyber/information security risks which may impact the Pension Fund. Review the current reporting arrangements in place to determine if any improvements should be made to ensure the Pension Fund's Board and Committee members are provided with updates on Internal Audit reviews undertaken which have cyber/information security or wider relevance to the Pension Fund. 	Medium	<p>Response: Accepted.</p> <p>We will implement these changes in coordination with Committee Services.</p> <p>Officer Responsible for Implementation: Executive Manager, Finance</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate arrangements exist to protect the security of Pension Fund data held by third parties.				
4	<p>The Pension Fund currently use the Altair system (developed by Heywood Pension Technologies (Heywood)) as its pension administration system. Pension Fund data is not held by Heywood and, as such, any cyber incident occurring within their organisation will not compromise Pension Fund data.</p> <p>However, the Pension Fund shares sensitive data with other third parties, such as appointed actuaries, through data sharing portals. Although data sharing arrangements are in place with each of these parties, they do not provide assurances regarding the third parties' cyber security controls.</p> <p>This increases the risk that Pension Fund data held by third parties is not adequately secured and protected.</p>	Management should ensure that assurances in relation to information/cyber security controls is sought from its third-party providers, where applicable. This can be a standalone request and does not need to impact on the existing data sharing agreements.	Medium	<p>Response: Accepted.</p> <p>The longer timeline for implementation of this recommendation is reflective of the fact we are reliant upon third parties responding to our request.</p> <p>We will undertake discussion with other funds who might be addressing these issues with the same external partners.</p> <p>Officer Responsible for Implementation: Pension Supervisor</p> <p>Timescales for Implementation: 30 June 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: There are sufficient training and awareness programmes for relevant officers and Committee/Board members.				
5	<p>Although new Pension Fund staff members are expected to complete the Information Security course as part of the induction process, we found that existing members of staff had last completed the training between 2020 and 2021. There is no requirement for Pension Fund staff to undertake an annual refresh of the training. Although cyber/data incidents can occur through any network connected device, not just those used by the Pension Fund, completion of the Information Security training course is not mandatory within the Council, nor are refresher courses available.</p> <p>Whilst we were informed that Elected Members are trained on cyber security as part of their induction, we note that this has not yet been completed in all cases. Cyber security training is not refreshed during the term of an Elected Member.</p> <p>This increases the risk that staff and the Pension Fund's Board/Committee members are not sufficiently equipped to understand the potential impact of cyber/information security risk on the Pension Fund or the process to be followed were a significant incident to occur.</p>	<p>Management should:</p> <ul style="list-style-type: none"> • Determine if completion of the Information Security course should be mandatory for all staff across the Council. • Consider introducing annual refresher courses, or a requirement to re-take the existing course (if still relevant) on an annual basis. • Consider if the current cyber/information security training arrangements are sufficient for the Pension Fund's Board and Committee members. 	Medium	<p>Response: Accepted</p> <p>The Executive Manager, Finance and the Executive Manager, ICT will review existing arrangements across the Council and report to CMT with proposals for members and officers.</p> <p>Officer Responsible for Implementation: Executive Manager, Finance</p> <p>Timescales for Implementation: 31 March 2024</p>

Shetland Islands Council
Council Tax Discounts and
Exemptions
Final Report
October 2023



FS 57095

1 Introduction

- 1.1 As part of the agreed Internal Audit plan, we have carried out a review of Council Tax Discounts and Exemptions within Shetland Islands Council (the Council).
- 1.2 The Council is responsible for the administration and collection of Council Tax, which includes the award of all discounts and exemptions. The Council Tax (Administration and Enforcement) Regulations 1992 state that for each financial year Local Authorities should take reasonable steps to ascertain whether any dwellings in their area will be entitled to a discount or exemption during that year. The processes to reach these decisions are not fully outlined in the legislation and each Council should set its own operational procedures, including whether an application and/or supporting evidence is required, in order to discharge its duties under the legislation.
- 1.3 From 01 April 2023 the Scottish Government introduced changes to the current legislation in relation to the qualifying criteria for the award of some Council Tax discounts and/or exemptions, including severely mentally impaired persons, apprentices, and persons from Ukraine.
- 1.4 Within the Shetland Islands there are approximately 11,500 dwellings for Council Tax purposes. At the time of the audit fieldwork, there were live discount and exemption awards of 5,446 and 382 respectively.
- 1.5 The purpose of the audit was to ensure there are sufficient and appropriate controls in place covering Council Tax discounts and exemptions. The scope of the audit included:
- Reviewing documented policy and procedures, including ensuring that they are up to date and available to all relevant parties.
 - Ensuring there is a process for staff training and notifying staff of relevant legislative changes.
 - Ensuring that ongoing quality checking processes and controls are in place to identify and correct instances of error or fraud.
 - Reviewing a sample of discounts and exemptions to ensure they have been applied correctly.

2 Audit Opinion

- 2.1 Based on the work carried out a **limited level** of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and **five recommendations** which management should address.

3 Main Findings

- 3.1 The Council has a small team for the administration of Council Tax (CT), including setting up and amending CT accounts, and award of discounts and/or exemptions. We were advised that a new post of Senior Revenues Officer has recently been created and filled; part of the remit of this role includes improving current arrangements in relation to processes, supporting guidance and checking of system input.
- 3.2 The Council has a dedicated CT section on its website which includes discount and exemption information and application forms. From review we found that the information available is not fully comprehensive as not all discount and exemption types are covered, and, in some cases the information is out of date/incorrect, for example in relation to apprentice income levels.
- 3.3 We were advised that there are no documented operational procedures for Council Tax staff; instead, they refer to the Child Poverty Action Group Council Tax Handbook (hard copy) which covers CT legislation for the whole of the UK. Some CT discounts and exemptions permit discretion by the Council, including the option to utilise CT premiums on empty properties, and much of the CT legislation allows Council's to individually determine the application method and evidence required; this is not covered in the handbook. Also, the guide for staff covering use of the Council's CT system (Civica Open Revenues) was last reviewed in 2012 and is not fully reflective of the current version of the system.
- 3.4 Amendments to CT legislation are not uncommon, and in 2023/24 there have been four changes in relation to the qualifying circumstances for some discounts and exemptions. We were advised that no one has been assigned responsibility for ensuring that the CT team remain up to date with CT legislation amendments or consequential changes to CT legislation due to amendments to other legislation such as the Welfare Reform (Scotland) Regulations 2017, and Disability Assistance for Working Age People (Scotland) Regulations 2022.
- 3.5 We were advised that there is no formal training for the CT team because the staff in the team are sufficiently

experienced and that should there be new members of staff, they will be trained primarily through job shadowing.

- 3.6 We selected a sample of 60 cases (30 discounts and 30 exemptions) for review and sought to confirm that the discount/exemption award and subsequent CT charge were correct and that a sufficient audit trail was maintained.

Award and Charge:

In 27 of the 60 cases (45%) reviewed the discount/exemption category used was either incorrect (2), not due (9), or there was insufficient evidence (16) to confirm its suitability.

Audit Trail:

In 22 of the cases (36%) reviewed there was no application form or review form held on the liable person's account and in 45 cases (75%) there were either no, or insufficient, notes on the system to detail the action taken by the CT processor.

Section five provides the sample testing results.

- 3.7 From the 60 cases selected in the sample 51 of these should be subject to review or the exemption should have been time limited. At the time of the audit only 11 of the 51 cases had been reviewed. We were advised that there is currently no agreed process for regular reviews but that there are plans to develop a timetable for these and work has commenced on a single person's discount review.

- 3.8 An action plan is provided at section four outlining our observations, risks, and recommendations. We have made five recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	4
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower-level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.9 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.10 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.11 It is recommended that the Chief Internal Auditor submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Accurate Council Tax information is available to the public.				
1	<p>The Council has a dedicated CT section on its website, which includes discount and exemption information and relevant application forms. From review we found that the information available is not fully comprehensive as not all types of discounts and exemptions are covered, and, in some cases the information is out of date/incorrect, for example in relation to apprentice income levels and CT premiums.</p> <p>Since April 2014, Scotland's local authorities have been permitted to charge 200% CT on properties that have been unoccupied for more than a year; to date this has not been adopted as policy within the Council. There are proposals to grant new powers to Councils from April 2024 to charge up to 200% for second homes (currently restricted to maximum of 100%) and up to 300% for properties that have been unoccupied for more than a year. We found that this information is currently misrepresented on the Council's website as it states that the ability to charge 200% on properties unoccupied for more than a year is also under consultation by Scottish Government but it has been available to use since 2014/15 and the website does not</p>	<p>(i) Management should ensure that the Council Tax information available on the website is reviewed for completeness and accuracy and corrections/updates made as soon possible.</p> <p>(ii) Senior management should ensure that they have a clear understanding of the Council Tax premiums available for current and proposed use, and that these are communicated accurately to Elected Members at the appropriate time(s) for decision making.</p>	Medium	<p>Response: Accepted.</p> <p>(i) Officers will review and update the website as soon as possible and ensure a regular program of updates.</p> <p>(ii) Officers will report to Elected Members regarding authority to charge 200% on long term empty properties and other relevant elements of current Council Tax authority.</p> <p>Officer Responsible for Implementation:</p> <p>(i) Principal Revenues & Benefits Officer</p> <p>(ii) Executive Manager - Finance</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>reference the 300% proposal for properties unoccupied for more than a year.</p> <p>Failure to ensure that the information available on the website is accurate increases the risk that both Council staff and the public are unclear on the correct rules and that incorrect information may be relayed to Elected Members for policy making decisions, all of which may result in CT being charged incorrectly and subsequent financial loss or reputational damage to the Council.</p>			

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: There are documented Council Tax procedures which are subject to regular review and available to all relevant staff.				
2	<p>We were advised that there are no documented Council Tax procedures for staff; instead, they refer to the Child Poverty Action Group Council Tax Handbook (hard copy) which covers CT legislation for the whole of the UK. Each member of staff has their own copy however, not all are the same and/or most recent edition. Some CT discounts and exemptions permit discretion by the Council, and these cases will not be covered in the handbook. Also, the guide for staff covering use of the Council's CT system was last reviewed in 2012 and is not fully reflective of the current version of the system.</p> <p>We were advised that there is no formal training plan for the CT team because the staff in the team are sufficiently experienced. A training plan would be beneficial as there may be a need for refresher training and training on legislation amendments for existing staff, and full training for new staff.</p> <p>Current arrangements increase the risk that staff are not clear on the processes to be followed and incorrectly award or refuse CT discounts or exemptions resulting in inaccurate CT bills being issued.</p>	<p>Management should ensure that operational procedures and guidance are developed for all discounts and exemptions which are, or may be, relevant to the Council's area.</p> <p>Once completed these should be made available to all relevant staff and subject to regular review (at least annual).</p> <p>Management should consider if training is required to complement the introduction of the documented procedures, and if a training programme for new staff should be developed.</p>	High	<p>Response: Accepted.</p> <p>Procedure notes are currently being developed and consideration will be given to developing a training plan as per the recommendation.</p> <p>Officer Responsible for Implementation: Senior Revenues Officer</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Responsibility for remaining up to date and compliant with Council Tax legislation has been assigned and procedures are updated.				
3	<p>Amendments to CT legislation are not uncommon, and in 2023/24 there have been four changes in relation to the qualifying circumstances for some discounts and exemptions. No changes were required to the system however, the assessment of entitlement has changed. When discussed with the CT team they were not aware of these changes, although we recognise that due to its demographics the impact for Shetland would be minimal there should still be awareness.</p> <p>We were advised that no one has been assigned responsibility for ensuring that the CT team remain up to date with legislation changes or consequential changes to CT legislation because of a change to other legislation such as the Welfare Reform (Scotland) Regulations 2017 and Disability Assistance for Working Age People (Scotland) Regulations 2022.</p> <p>This increases the risk that discounts and/or exemption are incorrectly awarded or refused resulting in incorrect Council Tax Bills and/or reputational damage.</p>	<p>Management should ensure that a suitable officer is assigned responsibility for staying up to date with relevant CT legislation changes.</p> <p>The responsible officer should ensure that changes required because of legislation amendments are communicated to the relevant staff and both the Council's website and documented procedures (recommendation two) are updated accordingly.</p> <p>Management should review applications received to identify any which may have been refused/granted in error due to lack of awareness of the legislation changes applicable from 01 April 2023 and action appropriately.</p>	High	<p>Response: Accepted.</p> <p>We will review applications received since 1 April 2023.</p> <p>Officer Responsible for Implementation: Senior Revenues Officer</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Council Tax Discounts and Exemptions have been awarded correctly and an adequate audit trail maintained.				
4	<p>In 27 of the 60 cases reviewed in our sample testing the discount or exemption was either not due, the incorrect type, or there was insufficient evidence to confirm its suitability. In 9 of the 27 cases the CT charge was deemed as incorrect as we did not agree with the award; in 16 cases there was insufficient information to determine if the award was due and therefore the charge correct; and in the final two cases the charge was assessed as correct even though the award category was incorrect (a different type of discount/exemption of the same amount was due).</p> <p>Examples of the errors identified include:</p> <ul style="list-style-type: none"> • Misunderstanding of the conditions for some discounts and exemptions, for example 'prohibited by law' and 'major repair' exemptions, and 'long term empty discount'. • Assumption that 'long term empty' 50% discount can be applied when time-limited unoccupied/unfurnished exemption ends. • No evidence that property is unoccupied and unfurnished and Doctors' letters to confirm health condition not stamped or on letter headed paper to confirm authenticity. • Exemptions running/over-running without end dates. • Up to date information, such as 'no longer a student', being missed. 	<p>Management should:</p> <ul style="list-style-type: none"> • Review the full sample findings provided by Internal Audit and ensure that appropriate corrective action is taken. • Share the findings from the sample with all staff and provide training if required to ensure that similar errors do not happen going forward. • Make the addition of account notes mandatory for all updates in the CT system and communicate this requirement to all processing staff. • Inform staff that where applications are completed online with a customer the declaration must be read to, and agreed by, the customer and a record of this held in the notes. • Ensure that the procedures created for recommendation two clearly outlines which discount and exemption form must have a completed application and, where applicable, the evidence required for each. <p>For key areas of misunderstanding (as opposed to isolated errors), such as in relation to 'prohibited by law' etc. work should be undertaken to identify and</p>	High	<p>Response: Accepted.</p> <p>We commenced an immediate review of the sample findings. Staff have already been notified to add notes accounts and the other recommendations made in this report will be implemented as soon as possible.</p> <p>Officer Responsible for Implementation: Principal Revenues & Benefits Officer</p> <p>Timescales for Implementation: 31 March 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>In 22 of the cases reviewed there was no application or review form held on the account. Application forms are available however, they are not always completed, or in some cases are so old that they were no longer retained. Since 2019 applications are now held electronically on the CT system meaning that an improved record is maintained. We found some cases where an application should have been held electronically but wasn't; this means there is no documentation to cross check details and that the liable person has not signed a declaration which covers the requirement to provide accurate information and update the Council with changes in circumstances. We were also advised that some applications are completed over the phone and the declaration is not read out to the customer; consequently, agreement to the declaration is not requested or recorded.</p> <p>In 45 cases there were either no, or insufficient, notes on the system explaining the action taken by the CT processor. This makes it difficult to determine the history of an account/property and the liabilities that were, or are, due. Future updates to the account may require the processor to piece together information and make assumptions.</p> <p>Sample results are in section five of this report and full details will be provided to the CT team for action.</p>	review all relevant CT accounts (not only those within the sample).		

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Where appropriate, Council Tax Discounts and Exemptions are populated with a future end date and/or are subject to regular review.				
5	<p>We were advised that there is no regular schedule of review for continued eligibility and that reviews are completed on an ad hoc basis; currently a single person's discount review is underway.</p> <p>The conditions to qualify for some discounts and exemptions are expected to be permanent and therefore not required to be reviewed, for example severely mentally impaired discount/exemption. However, there are some by which the qualifying conditions are time limited (i.e., full time students), or the exemption itself is time limited, (i.e., unoccupied and unfurnished properties) and there are others which are more likely to be subject to changes in the liability, (i.e., single person's discount); for these cases future end dates could be applied or regular reviews undertaken.</p> <p>We found that 51 of the 60 cases in the sample should be subject to review or that the discount/exemption should have been time limited. At the time of the audit only 11 of the 51 cases (22%) had been reviewed. In a further four cases a review form was issued to the liable person, not returned, and the discount or exemption was not ended.</p> <p>This increases the risk that discounts and exemptions awarded no longer apply, meaning CT is not billed and collected correctly.</p>	<p>Management should ensure that:</p> <ul style="list-style-type: none"> As part of the procedures at recommendation two, the types of discounts and exemptions which require future end dates or regular review are identified and documented. Staff are advised to use future end dates where appropriate. An ongoing programme of reviews is agreed and responsibility for co-ordinating the reviews assigned. The reviews should then be completed in line with the programme/timetable. 	High	<p>Response: Accepted.</p> <p>We have started to undertake a rolling programme of review, to ensure discount/exemption recipients are still eligible.</p> <p>Officer Responsible for Implementation: Principal Revenues & Benefits Officer.</p> <p>Timescales for Implementation: 31 March 2024</p>

5 Appendix

Sample testing results: 30 CT discounts and 30 CT exemptions awards

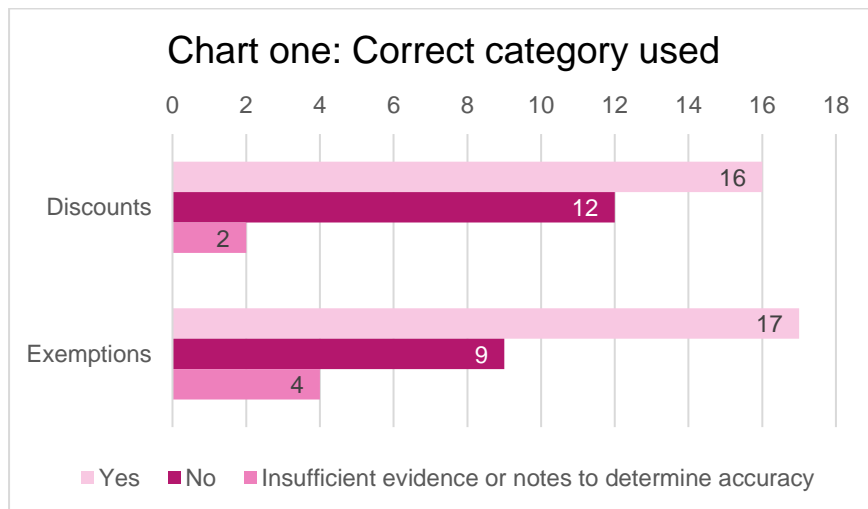


Chart one: Correct category of discount or exemption used based on evidence available and our assessment.

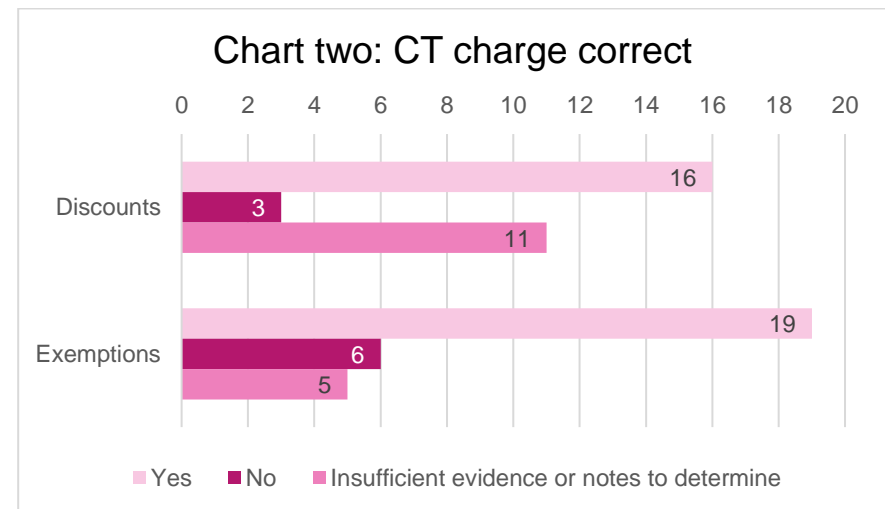


Chart two: CT charge was correct based on evidence available and our assessment of entitlement.

Chart three: Application or review form

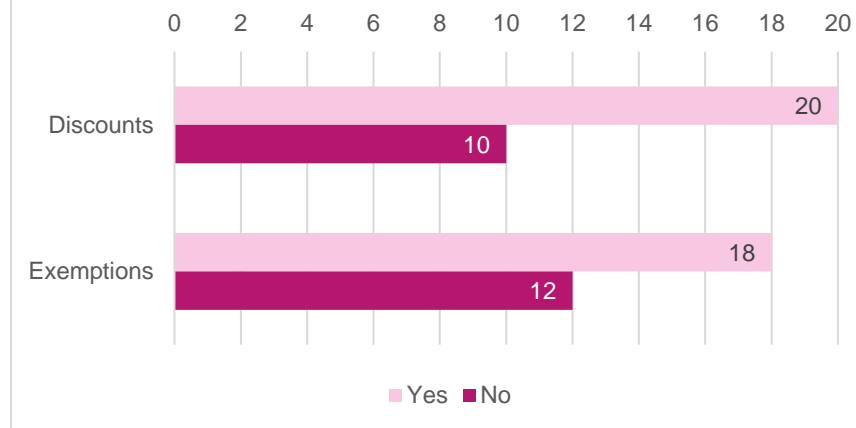


Chart three: Application and/or review form was available in the shared drive and/or CT system.

Chart four: Processor notes on system

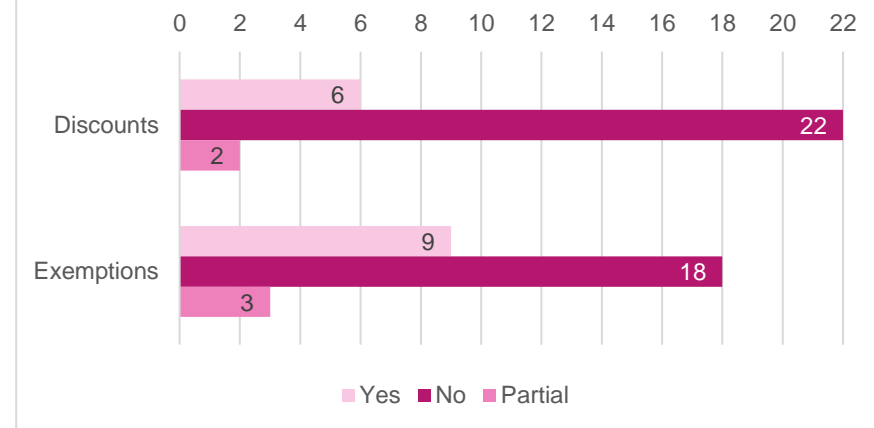


Chart four: Processor notes explaining action taken available on system.

Chart five: Review completed

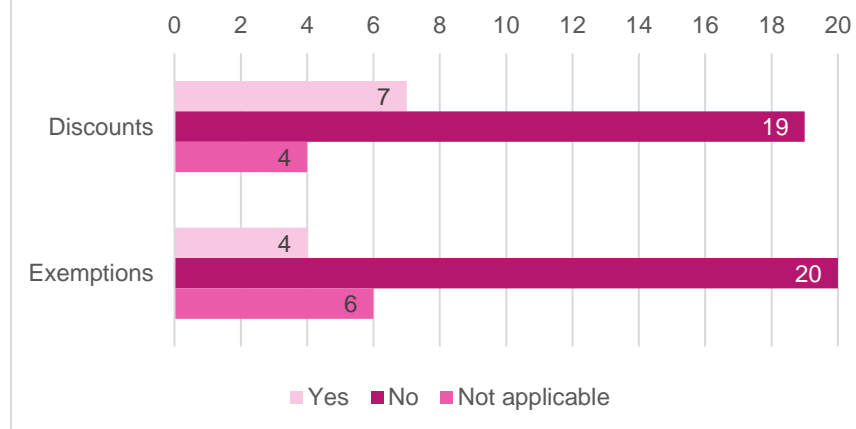


Chart five: Review of discount or exemption completed (only relevant for 50 cases reviewed).



Meeting(s):	Audit Committee	14 November 2023
Report Title:	Internal Audit - Follow-up Monitoring	
Reference Number:	CRP-31-23 F	
Author / Job Title:	Duncan Black Chief Internal Auditor	

1.0 Decisions / Action required:

1.1 Audit Committee is asked to

1. NOTE to content of the report;
2. NOTE the progress made in terms of the recommendations implemented;
3. ADVISE the Director of Corporate Services of its views and any recommendations for onward reporting to the Council; and
4. NOTE that the Chief Internal Auditor will submit further reports on the status of outstanding recommendations.

2.0 High Level Summary:

2.1 This report provides a summary of the status of Internal Audit recommendations previously reported to Committee. The report includes:

- A summary of the outstanding recommendations by Directorate;
- A summary of movement in the register; and
- A register of outstanding recommendations.

3.0 Corporate Priorities and Joint Working:

3.1 The Council's Corporate Plan, "Our Ambition 2021-2026", states that: "We are committed to doing our best for Shetland and are proud to deliver public services that make a real difference to our community. We have to revisit what we do, try out new ideas and find new ways of approaching problems so that we remain excellent at meeting the changing needs of our community. Excellent stops being excellent if we stop improving – we have to innovate and change in order to stay relevant".

3.2 Internal audit reports provide an independent assessment of the effectiveness and integrity of the Council's systems; providing assurance to the Council in this regard and with regard to Best Value.

4.0 Key Issues:




- 4.1 Services are responsible for implementing previously agreed audit recommendations. As of 31 October 2023, 73 of these recommendations remain outstanding. The table below outlines the split of outstanding recommendations and their priority across each Service.

Service	Priority of Recommendation			Total
	High	Medium	Low	
Children's Services	0	0	0	0
Children's Services and Community Health & Social Care Services (CHSCS)	1	0	0	1
Community Health & Social Care Services	1	1	1	3
Corporate Services	24	22	5	51
Development Services	4	3	2	9
Infrastructure Services	6	3	0	9
Total	36	29	8	73

- 4.2 During the period from 1 June 2023 (the previous follow up report date) to 31 October 2023, Services satisfactorily implemented 30 recommendations. The table below shows the progress made by each Service during the period, with further analysis at Appendix 1.

Service	Number of Recommendations				
	Outstanding or not yet due as of 01 June 2023	Added to the register during period	Implemented / superseded during the period	Out-standing as of 31 October 2023	Not yet due as of 31 October 2023
Children's Services	0	1	1	0	0
Children's Services and Community Health & Social Care Services	3	0	2	1	0
Community Health and Social Care Services	7	0	4	3	0
Corporate Services	62	6	10	51	7
Development Services	13	4	5	9	3
Infrastructure Services	24	0	8	9	7
Total	109	11	30	73	17

- 4.4 A register of all recommendations which have passed their original implementation date is included as Appendix 2. This register highlights the full text of the recommendation and the original due date for implementation.
- 4.5 The Responsible Officers have been asked to provide evidence of implementation, or progress updates for each outstanding recommendation, and, if required, a revised implementation date. Internal Audit has added updated assessments of the risks to the Council based on the progress to date of each recommendation. The risks are represented using a RAG (red, amber, green) status and a summary.

Risk Status	Description
	<p>Red indicates that Internal Audit has assessed the overall risk to the Council and its control environment to be high at this time.</p> <p>This may be due to lack of progress or other changes. Work to implement these recommendations should be prioritised and the relevant risk should be considered for inclusion in the appropriate risk register.</p>
	<p>Amber indicates that Internal Audit have assessed the overall risk to the Council to be moderate at this time.</p> <p>This may be due to progress that has been made, mitigating actions or other changes. It is unlikely that these risks will feature in the corporate risk register but should be considered at an operational level.</p>
	<p>Green indicates that Internal Audit have assessed the overall risk to the Council to be low at this time.</p> <p>This may be due to progress that has been made, mitigating actions or other changes.</p>

Housing Repairs and Compliance Checks

- 4.6 In June 2022 we made nine recommendations during the Housing Repairs and Compliance Checks audit. Three recommendations remain outstanding and two of these relate to safety concerns due to the failure to complete (1) the required five yearly electrical testing on all Council houses and (2) upgrades to interlinked smoke and heat alarms for all the Council's housing stock as is required by new legislation in 2022.
- 4.7 Development Services has provided information, however from review we found that 76 of the 280 properties identified as overdue for electrical testing during the audit have not yet been completed. Also, as of 31 October 2023, a further 394 properties are now due/overdue for testing, bringing the total due/overdue properties to 470.
- 4.8 We have been advised by management that 173 of these properties are due to be completed in the remainder of 2023/24, 24 properties will be picked up through the end of tenancy (void) process, and the remaining 273 are not planned to be tested until 2024/25 or 2025/26 due to capacity constraints both in-house and with contractors. Currently 27% of the Council's housing stock is overdue for electrical testing and even if the 2023/24 plan is achieved, at least 273 properties will remain overdue for testing, posing significant risk to the Council.

4.9	Currently 83.5% of the Council's housing stock is compliant with the legislative requirement for interlinked smoke and heat alarms to be fitted; this is an improvement from the June 2022 position of 50%, however the new requirements have been in force since February 2022 and 16.6% of the Council's housing stock does not currently have interlinked smoke and heat detectors.
4.10	While we recognise the constraints the Service faces, such as geographical and staffing challenges, as well as difficulties in securing external contractors to complete this work, the progress made to date is not sufficient and we have concerns around the planning of the work. Failure to adequately address these recommendations poses a serious risk to both the Council's housing tenants and the Council.
5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications:	
6.1 Service Users, Patients and Communities:	<p>The work of Internal Audit provides an opinion on the adequacy of the system of internal control and governance arrangements within the Council. This provides assurance to the Council with regard to the efficiency, effectiveness and economy of the Council's services and Best Value.</p> <p>There are several recommendations outstanding in relation to improvements in Business Continuity Planning.</p> <p>There are three recommendations outstanding in relation to improvements in housing repairs and compliance with safety checks.</p> <p>Several recommendations in relation to the management of services users' cash and belongings are included; improvements are required to the operational guidance for staff working in Community Health and Social Care settings.</p>
6.2 Human Resources and Organisational Development:	Several recommendations relate to improvements in health and safety arrangements; the new system is in the process of being implemented and progress is being made towards completion of the recommendations.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds.

6.5 Finance:	<p>There are a number of recommendations in relation to improvement in procurement arrangements; a project team has been established to address these.</p> <p>Several recommendations in relation to the management of services users' cash and belongings are included; improvements are required to the operational guidance for staff working in Community Health and Social Care settings.</p>	
6.6 Assets and Property:	None arising directly from this report.	
6.7 ICT and new technologies:	Several recommendations relate to improvements in information security arrangements	
6.8 Environmental:	None arising directly from this report.	
6.9 Risk Management:	<p>Internal Audit facilitates the reduction of risks identified during the audit process.</p> <p>Each internal audit review report includes recommendations for improvement, and these are given a priority rating of high, medium, or low.</p> <p>Progress made by management to address the issues identified are monitored and reported back to Audit Committee in due course.</p>	
6.10 Policy and Delegated Authority:	In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Audit Committee remit includes consideration of audit matters and to oversee and review action taken on audit activity.	
6.11 Previously considered by:	None.	N/a

Contact Details:

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Appendices:

Appendix 1 – [Movement since previous report](#)

Appendix 2 – [Register of Outstanding Audit Recommendations:](#)

- [Table 1: Children's Services and Community Health & Social Care Services](#)
- [Table 2: Community Health and Social Care Services](#)
- [Table 3: Corporate Services](#)
- [Table 4: Development Services](#)
- [Table 5: Infrastructure Services](#)

Background Documents:

None

END

APPENDIX 1 – Movement since previous report

Service, Audit Year and Title	Outstanding or not yet due as of 01 June 2023	Added to the Register during Period	Outstanding as of 31 October 2023	Not yet due as of 31 October 2023	Implemented in Period
Children's Services					
22/23 Payroll Verification	0	1	0	0	1
Children's Services <u>and</u> Community Health & Social Care Services					
21/22 Self Directed Support	3	0	1	0	2
Community Health & Social Care Services					
21/22 Management of Cash and Belongings in Community Health and Social Care Services	7	0	3	0	4
Corporate Services					
18/19 Business Continuity	3	0	3	0	0
19/20 Ledger Interfaces	1	0	0	0	1
19/20 Procurement	8	0	7	0	1
20/21 Health and Safety Arrangements	5	0	5	0	0
20/21 Business Continuity and Lessons Learned post COVID-19	1	0	1	0	0
21/22 Performance Management, including Statutory Performance Indicators	3	0	0	0	3
21/22 Information Security Management	4	0	4	0	0
21/22 Non-Domestic Rates and Council Tax	5	0	2	0	3
21/22 Change Programme	6	0	6	0	0
21/22 Use of Consultants	5	0	5	0	0
21/22 Procurement Arrangements	5	0	5	0	0
21/22 Pension Fund – Ad Hoc Payments	2	0	2	0	0
22/23 Gifts and Hospitality	3	0	3	0	0
22/23 Attendance Management	2	0	1	1	0
22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme	3	0	3	0	0
22/23 Complaints Handling	3	0	2	1	0
22/23 Accounts Payable	1	0	0	1	0
22/23 Succession and Workforce Planning Arrangements	2	0	2	0	0
22/23 Pension Fund Altair Application	0	5	0	3	2
22/23 Payroll Verification	0	1	0	1	0

Service, Audit Year and Title	Outstanding or not yet due as of 01 June 2023	Added to the Register during Period	Outstanding as of 31 October 2023	Not yet due as of 31 October 2023	Implemented in Period
Development Services					
20/21 Planning Application Process	3	0	1	0	2
21/22 Housing Repairs and Compliance Checks	6	0	3	0	3
21/22 Shetland Telecom	4	0	4	0	0
22/23 Community Asset Transfers	0	3	0	3	0
22/23 Payroll Verification	0	1	1	0	0
Infrastructure Services					
20/21 Fleet Management	1	0	1	0	0
22/23 Inter-Island Ferry Service: Asset Management Arrangements	7	0	3	4	0
22/23 Burial Ground Memorial Safety	5	0	0	0	5
22/23 Ports and Harbours: Finance Processes	5	0	5	0	0
22/23 Waste Management Arrangements	6	0	0	3	3
Total	109	11	73	17	30

APPENDIX 2 – Register of Outstanding Audit Recommendations as of 31 October 2023

Table 1: Children's Services and Community Health & Social Care Services





Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
Children's Services and Community Health & Social Care Services (CHSCS)							
21/22 Self Directed Support - Recommendation 3	ASW and CFSW management should ensure that reconciliations of payments made to service users are undertaken on at least a six-monthly basis. This should be completed by an officer that is not involved in the calculation or processing of payments.	High	30-Sept-22	Executive Manager – Adult Social Work and Executive Manager – Children and Families Social Work	<p>A process has been agreed within ASW (Adult Social Work) and this has been shared with CFSW (Children's and Families Social Work).</p> <p>Internal Audit have agreed the process and it will be implemented in the coming weeks.</p>	31-Dec-23	 <p>A process has been agreed and will be implemented in the coming weeks.</p> <p>Additional sample testing did not identify any issues or discrepancies.</p> <p>A revised implementation date has been agreed</p>



Table 2: Community Health & Social Care Services



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
Community Health & Social Care Services							
21/22 Management of Cash in Community Health and Social Care Services Recommendation 5	<p>Management should ensure that all access codes are changed on a regular basis, and as a minimum every time a code holder ceases to be employed (or based) at an establishment.</p> <p>This practice should be applied for all secure entry and safe codes across the Council estate.</p>	High	30-Jun-22	Executive Manager, Community Care Resources; and Executive Manager, Adult Services	<p>June 2023 Update: Work on this recommendation has progressed significantly and is expected to be completed by end July 2023.</p> <p>Management have advised that this has been completed at the location visited and that this is the only building with keypad entry. Documented guidance for changing door and safe codes will be created.</p> <p>We will continue to liaise with Internal Audit to achieve full implementation.</p>	31-Jul-23	 <p>Partially implemented. Access Codes at non-residential unit have been changed.</p> <p>No further update or evidence has been provided.</p> <p>A revised implementation date has not been provided.</p>
21/22 Management of Cash in Community Health and Social Care Services Recommendation 6	Management should ensure that service wide procedures for the robust management of service users' property under the custody of the Council are developed and issued to all relevant staff, this should include the requirement to maintain a log of all items held and a process for signing these in and out to the service user or their representatives.	Medium	31-Aug-22	Executive Manager, Community Care Resources; and Executive Manager, Adult Services.	<p>June 2023 Update: Work on this recommendation has progressed significantly and is expected to be completed by end July 2023.</p> <p>We will continue to liaise with Internal Audit to achieve full implementation.</p>	31-Jul-23	 <p>Internal Audit has not received an update or evidence.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Management of Cash in Community Health and Social Care Services Recommendation 7	Management should ensure that staff in care settings are made aware of the process to be followed upon receipt of gifts and/or hospitality, this should include guidance on the types of gifts which are acceptable, the process for recording them and what should happen to accepted gifts.	Low	31-Jul-22	Executive Manager, Community Care Resources; and Executive Manager, Adult Services	<p>June 2023 Update: Work on this recommendation has progressed significantly and is expected to be completed by end July 2023.</p> <p>We will continue to liaise with Internal Audit to achieve full implementation.</p>	31-Jul-23	 <p>Internal Audit has not received an update or evidence.</p> <p>A revised implementation date has not been provided.</p>



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Table 3: Corporate Services


Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
Corporate Services							
18/19 Business Continuity - Recommendation 2	<p>An up-to-date version of the Council's preferred BCP template should be issued to all Services to update/create their plans. This will ensure a consistent approach throughout the Council. Completed plans should be sent to Emergency Planning and Resilience.</p> <p>The Executive Manager – Governance & Law should ensure that all services throughout the Council are covered by an up to date BCP and should report to CMT/Risk Board periodically on the compliance with the Business Continuity policy.</p> <p>BCPs should include out of hours contact details for key personnel to ensure the recovery of a service can happen in a timeous manner</p>	High	31-Oct-19	Executive Manager - Governance and Law	<p>A report detailing the updated Policy and revised Business Impact Analysis and Business Continuity Plan templates was agreed at Corporate Management Team on 27 June 2023. These were then uploaded to SharePoint and circulated to Directorates and Services for completion on 7th July 2023.</p> <p>Several services have uploaded their completed plans to the SharePoint page. However, due to annual leave, other priorities, and staff shortages this is still ongoing for the remainder of services.</p>	30-Jun-23	<p> Internal Audit has not received any evidence of implementation, such as, a copy of the new template.</p> <p>A revised implementation date has not been provided.</p>
18/19 Business Continuity - Recommendation 3	<p>Each plan should be updated to reflect the requirement to contact Assets, Commissioning and Procurement Service (ACP) (previously Capital Programme Service) in the event of an incident as they will have the best knowledge of accommodation that is available to relocate services.</p> <p>Consideration should be given to whether the larger primary and high/junior high schools should have specific plans in place for recovery in the event of an incident.</p>	Medium	31-Oct-19	Executive Manager - Governance and Law	<p>The template has been updated to reflect the requirement to contact Assets, Commissioning and Procurement Service for accommodation options in the event of an incident.</p> <p>As previously reported the Schools Service have advised that primary and high / junior schools will not have individual plans.</p>	30-Jun-23	<p> Internal Audit has not received any evidence of implementation, such as, a copy of the new template.</p> <p>A revised implementation date has not been provided.</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
18/19 Business Continuity - Recommendation 4	<p>Services should contact Emergency Planning and Resilience who will be able to provide guidance on testing methods for BCPs. As a minimum, a desktop exercise should be carried out with the Section Recovery Team to ensure it appears practical on paper and that different scenarios have been considered.</p> <p>Data Protection implications must be considered in relation to the storage of, and access to, all plans, and must be included in any policy, strategy or framework.</p>	Medium	31-Dec-19	Executive Manager - Governance and Law	<p>Exercise of the plans has not progressed yet as the plans are still being updated. This will be part of the Business Continuity Programme as it progresses.</p> <p>The Policy, templates and plans are/will be held on a secure SharePoint site with access for Directors, Executive Managers and Team Leaders</p>	30-Jun-23	<p></p> <p>Work in this area has not progressed and a revised implementation date has not been provided.</p>
19/20 Procurement - Recommendation 1	<p>CPT management should ensure that:</p> <p>i. Clear guidance and arrangements for ensuring that Services notify CPT about any contracts above £10,000 are developed and officers with procurement responsibilities across the Council are made aware of these procedures which they are required to follow;</p> <p>ii. In conjunction with the regular review of Council-wide spend analysis per recommendation 4, the contract register is reviewed on a regular basis to enable areas of non-contract spend or non-compliant procurement practices to be more effectively identified and appropriate action taken; and</p> <p>iii. The contract register is updated to include details of the duration of any period, if any, for which contracts can be extended in line with the requirements of the CSOs.</p>	Medium	31-Jan-21	Executive Manager - Assets, Commissioning and Procurement AND Procurement Manager	<p>On 15 May 2023 the Director of Corporate Services presented a report (Ref: CRP-09-23 F) to the Audit Committee, providing details of the Procurement Project and Action Plan (all actions to be completed by 30/09/2023). The Procurement Project has been established to address the recommendations from the following audit reviews:</p> <ul style="list-style-type: none"> • 2019/20 Procurement • 2021/22 Use of Consultants • 2021/22 Compliance with Procurement Arrangements <p>On 18 September 2023 the revised Contract Standing Orders and Procurement Strategy (Ref: ACP-11-23-F) were presented to Policy and Resources Committee and approved; work will now</p>	31-Mar-24	<p></p> <p>Parts (ii) and (iii) have been implemented.</p> <p>Part (i) has been covered in the revised standing orders however these are still to be communicated to the relevant parties.</p>


Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
					progress on the remaining recommendations.		
19/20 Procurement - Recommendation 2	<p>i. Management should ensure that the current exercise to review and update the CSOs is finalised and approved by the relevant Council body.</p> <p>ii. Once completed, these must be notified and made available to all officers with procurement responsibilities across the Council.</p> <p>iii. CPT management should also ensure that detailed operational procedures and appropriate training and guidance is developed for non-procurement specialist staff within other Services to raise their awareness of and understanding of the CSOs and legislative procurement requirements.</p>	High	31-Mar-21	Executive Manager - Assets, Commissioning and Procurement AND Procurement Manager	See comment in 19/20 Procurement recommendation 1 (above).	31-Mar-24	 <p>Part (i) has been completed and part (ii) will be completed soon.</p> <p>Work is ongoing to develop operational procedures now that the CSOs have been approved.</p>
19/20 Procurement - Recommendation 3	<p>CPT management should update the Contract Request Forms to ensure that these reflect not only ERDF grant funding retention periods but any other funder requirements which may involve extended retention periods.</p> <p>Where such cases are identified, suitable arrangements should be agreed with the Service to ensure records are readily accessible for the duration required by the grant funding body.</p> <p>Management should arrange for the Document Retention and Destruction Schedule to be reviewed at appropriate intervals to ensure that it remains up-to-date, fit for purpose and reflects current requirements.</p>	Medium	31-Dec-20	Executive Manager - Assets, Commissioning and Procurement and Director - Corporate Services	See comment in 19/20 Procurement recommendation 1 (above).	30-Sept-23	 <p>Work is ongoing to develop operational procedures now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
19/20 Procurement - Recommendation 5	<p>As part of the review of the CSOs, CPT management should consider whether NCA forms should be mandatory for direct awards below £50k by all Service departments.</p> <p>At a minimum, procuring officers in Service departments must be reminded to evidence the CSO condition to satisfy the appropriate Executive Manager that the requirement is not readily obtainable from more than one supplier, service provider, or contractor, and it can be demonstrated that no equivalent is available, or otherwise for technical reasons or due to time restraints. This must be clearly documented and authorised by a senior officer and regularly reviewed to ensure that these arrangements continue to remain appropriate and provide value for money.</p> <p>Through the spend analysis in recommendation 4, CPT management must identify where direct awards are regularly being made for the supply goods, works or services to the Council without quotes being obtained and review these to establish whether this is appropriate or whether alternative procurement arrangements could be implemented.</p>	High	31-Jan-21	Executive Manager - Assets, Commissioning and Procurement AND Procurement Manager	See comment in 19/20 Procurement recommendation 1 (above).	31-Mar-24	 <p>The CSO's have been updated to state the NCA (Non-Competitive Action) process must be for emergency measures, however, further work to address this recommendation is underway now that the CSOs have been approved.</p>
19/20 Procurement - Recommendation 6	Management should ensure that appropriate anti-fraud, bribery and corruption training is developed and delivered to all staff with procurement responsibilities to ensure that they remain aware of issues relating to fraud and corruption and also understand what action they are required to take if fraud or corruption is identified or suspected.	Medium	31-Dec-21	Director - Corporate Services	See comment in 19/20 Procurement recommendation 1 (above).	30-Sept-23	 <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
							A revised implementation date has not been provided.
19/20 Procurement - Recommendation 7	CPT management should formalise arrangements to enable both difficulties experienced and areas which worked well with individual procurement exercises to be formally recorded and shared with relevant officers across the Council to benefit future procurement work.	Low	31-Jan-21	Executive Manager - Assets, Commissioning and Procurement AND Procurement Manager	See comment in 19/20 Procurement recommendation 1 (above).	31-Mar-24	 Further work to address this recommendation is underway now that the CSOs have been approved.
19/20 Procurement - Recommendation 8	<p>Management should develop appropriate procedures to ensure compliance with the Code of Conduct in order that Employees' Interest Forms are reviewed, updated, and signed on an annual basis.</p> <p>Thereafter, prior to any procurement exercise being undertaken, confirmation must be sought that employees involved in the procurement have an up-to-date Employees' Interest Form in place and that any declarations made do not pose a potential conflict.</p>	Medium	31-Mar-21	Executive Manager - Assets, Commissioning and Procurement AND Procurement Manager	See comment in 19/20 Procurement recommendation 1 (above).	31-Mar-24	 Further work to address this recommendation is underway now that the CSOs have been approved.
20/21 Business Continuity and Lessons Learned post COVID 19 - Recommendation 1	Management should ensure that agreed standard BCP templates are developed for use across the Council. Templates should incorporate all relevant aspects of good practice in Business Continuity Planning including identifying and documenting key business areas, critical functions, potential business impacts, key contacts and details of who is responsible for testing the effectiveness of plans and providing training to appropriate staff. Thereafter:	High	31-Dec-21	Executive Manager – Governance and Law	<p>Completion of the templates and approval by Corporate Management Team on 27 June 2023 largely addressed the various components of this action. However, only when all services have completed their plan updates will 100% be achieved.</p> <p>A realistic revised implementation date is 31 December 2023.</p>	31-Dec-23	 The revised due date has not yet been reached; however, no evidence provided for this or earlier BCP audit recommendations despite Service Comments indicating that key documentation


Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	<ul style="list-style-type: none"> The agreed template should be distributed to all Services. Services should be advised to update their BCPs to reflect the requirements of the agreed template, ensuring that appropriate arrangements for a formal testing schedule and providing training to appropriate staff are put in place. Arrangements should be put in place to ensure that BCPs are reviewed and approved by senior officers. Arrangements should be developed to ensure that all BCPs are reviewed and where necessary updated on a regular basis. Where any significant changes are made these should be reviewed and authorised by a senior officer. BCPs should clearly link into DR plans. 						had been updated in June 2023.
20/21 Health and Safety Arrangements - Recommendation 1	<p>A new Health and Safety Strategy should be developed at the earliest opportunity once it becomes clearer what the new normal working arrangements will be for the Council.</p> <p>The Health, Safety and Welfare Policy should be reviewed to ensure content is up to date.</p>	Medium	31-Mar-22	Executive Manager – Human Resources	<p>June 2023 update: The new Health and Safety system is currently being implemented. There have been some delays with full implementation due to updates to the system rules required by the developer. Once working practices are established in line with the system, the Health and Safety Strategy will be developed to incorporate and reflect these, however availability of resources is delaying progress.</p>	30-Nov-23	 The revised due date has not yet been reached; no further updates have been provided.



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
20/21 Health and Safety Arrangements - Recommendation 2	<p>As part of the migration to a new Health and Safety Management System, arrangements should be put in place to ensure that all risk assessments are recorded on the system in a timely manner.</p> <p>Thereafter these should be monitored to ensure that all required information is being captured with risk assessment content reviewed as required</p>	Medium	30-Apr-22	Health & Safety Manager	<p>June 2023 update: The new Health and Safety system is currently being implemented; phase two includes risk assessments as well as the new procedure for the recording and monitoring of these. Implementation of this recommendation has been delayed while further staff training is provided, and the new system embeds.</p>	31-Aug-23	<p></p> <p>Internal Audit has not received an update or evidence.</p> <p>A revised implementation date has not been provided.</p>
20/21 Health and Safety Arrangements - Recommendation 3	Following the appointment of a Health and Safety (H&S) Advisor, an agreed programme of audits should be agreed and thereafter undertaken, reported, and monitored as necessary.	High	30-Jun-21	Health & Safety Manager	<p>June 2023 update: An inspection schedule was agreed previously, and work progressed in accordance with this. However, a process to monitor completion of actions raised has still to be formalised and resourcing issues are further delaying progress.</p>	30-Sept-23	<p></p> <p>Partially implemented.</p> <p>A programme of audit was agreed; however, the reporting and monitoring arrangements have not been finalised (at time of last update).</p> <p>Internal Audit has not received a further update or evidence.</p> <p>A revised implementation date has not been provided.</p>
20/21 Health and Safety Arrangements - Recommendation 4	i. The Risk Board should identify all premises which do not have an up-to-date premises inspection and instruct premises managers to undertake these as a matter of priority.	High	30-Sep-21	Executive Manager - Human Resources AND Health & Safety Manager	<p>June 2023 update: An HR Information Bulletin, which includes links to the relevant guidance has been issued to all Premises Managers across the Council reminding them of their</p>	31-Aug-23	<p></p> <p>Partially implemented.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	<p>ii. A communication should be issued to premises managers reminding them of their responsibilities per the Premises Managers Handbook.</p> <p>iii. An ongoing monitoring regime should be introduced to identify cases where premises inspections become overdue with appropriate escalation arrangements. This could potentially be built into the requirements for the replacement health and safety system.</p>				<p>responsibilities, including Premises Inspections and Fire Safety Arrangements.</p> <p>Phase two of the new Health and Safety system implementation includes premises inspections. Once complete it will allow Premises Managers to update forms online and for the system to monitor future inspection dates. The Premises Managers' Handbook will be updated to reflect the new working arrangements. Resource availability is delaying progress on this recommendation.</p>		<p>Part (ii) of this recommendation has been completed.</p> <p>Internal Audit has not received a further update or evidence.</p> <p>A revised implementation date has not been provided.</p>
<p>20/21 Health and Safety Arrangements - Recommendation 7</p>	<p>As part of the data cleansing exercise in preparation for the new system, all incidents which are sitting as "Pending Investigation" should be reviewed, and action taken to close/update.</p> <p>Going forward and following the implementation of any new system, management should reintroduce periodic checks to identify incidents that have not been marked as complete with Services contacted to ensure appropriate investigation has been undertaken and the system thereafter updated.</p> <p>A reminder should be issued to all Services regarding the requirement to fully investigate all incidents and complete/record details on the Health and Safety system.</p>	High	31-Mar-21	Executive Manager – Human Resources	<p>June 2023 update: The data has been cleansed and migration to the new system is complete.</p> <p>The new Health and Safety system will be used for incident recording and monitoring; documented procedures on how this will work have still to be developed and have been delayed due to resource availability.</p>	30-Sept-23	<p></p> <p>Partially implemented.</p> <p>Internal Audit has not received a further update or evidence.</p> <p>A revised implementation date has not been provided.</p>


Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Information Security Management - Recommendation 1	Management should develop an Information Security Policy. The policy should be appropriately approved, made available to staff, be reviewed at suitable intervals, and apply to all staff.	Medium	31-Aug-22	Director, Corporate Services	<p>June 2023 update: In February 2023 both the Information Governance Policy & Framework, and the Data Protection Policy was approved by the Council.</p> <p>A draft Information Security Policy, which is intended to consolidate governance, ICT, and data protection policy into one document, is being developed.</p> <p>Progress is delayed due to capacity constraints and work ongoing in other areas of information governance. In the meantime, information security risks are being monitored by the Information Governance Board and the Risk Board.</p>	30-Nov-23	 <p>The revised due date has not yet been reached; however, management have confirmed that work is ongoing in this area.</p>
21/22 Information Security Management - Recommendation 4	Management should ensure an Information Risk Register is put in place. The Register should be reported and monitored through an appropriate governance board on a regular basis.	High	31-Aug-22	Director, Corporate Services	<p>June 2023 update: An Information Risk Register has been drafted; however, the Information Governance Board have suggested some refinements and work is ongoing in this area.</p> <p>In the meantime, information security risks are managed and monitored by the Information Governance Board and the Risk Board.</p>	30-Nov-23	 <p>The revised due date has not yet been reached; however, management have confirmed that work is ongoing in this area.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Information Security Management - Recommendation 6	Management should ensure guidance is developed and communicated to staff on good practice for the physical security of records.	Medium	31-Aug-22	Director, Corporate Services	June 2023 update: This is being addressed in conjunction with recommendation one of the 21/22 Information Security Management audit (above).	30-Nov-23	 The revised due date has not yet been reached; however, management have confirmed that work is ongoing in this area.
21/22 Information Security Management - Recommendation 7	Management should consider the introduction of a data classification scheme and ensure that this is applied to all documents thereafter. In doing so the Council should also consider the protections that should be applied to each data classification and ensure that these are communicated to staff.	Low	31-Aug-22	Director, Corporate Services	June 2023 update: Information classification has been used in the development of Information Asset Registers, and guidance has been drafted for further consideration by the IGB. In conjunction with recommendation one of the 21/22 Information Security Management audit (above), consideration will be given to formalising an information classification scheme.	30-Nov-23	 The revised due date has not yet been reached; however, management have confirmed that work is ongoing in this area.
21/22 NDR & CT Changes - Recommendation 1	Management should: i. Review and update the NDR information currently available on the Council website in relation to Rural Rates relief, including the addition of a Rural Settlement List. ii. Include information and up to date application forms on the Council's website for all NDR reliefs which could apply in Shetland, such as Fresh Start and Business Growth Accelerator. iii. Assess the feasibility of introducing online application forms for NDR relief to improve customer service and reduce postage costs.	Medium	31-Mar-23	Principal Revenues & Benefits Officer	Parts (i) and (iii) are complete. Part (ii) is substantially complete with only two more relief types to be updated.	31-Dec-23	 Internal Audit has reviewed the information provided and significant progress has been made with only a small element of the recommendation outstanding.

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 NDR & CT Changes - Recommendation 3	<p>Management should review and update the Rural Rates Relief Policy, ensuring it remains relevant and accurately reflects current legislation.</p> <p>Once updated, the Policy should be approved and made available to all relevant parties and programmed for periodic review and update.</p> <p>Management should implement a rolling programme of review to ensure that Rural Rates relief applicants remain eligible for the relief and still wish to receive it.</p> <p>Consideration should also be given to extending these reviews to other NDR relief types.</p>	Medium	31-Dec-22	Principal Revenues & Benefits Officer	<p>To date we have reviewed 1,101 Small Business Bonus Relief cases, with 492 cases remaining for all the other relief and exemption categories.</p> <p>The new policy document is currently being developed and will be presented to the December meeting of the P&R Committee.</p>	31-Dec-23	<p></p> <p>Internal Audit has reviewed the information provided and steps have been taken to greatly reduce the risk identified during the audit. Once the updated policy is approved this recommendation can be closed.</p>

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Change Programme Recommendation 1	<p>Management should develop formal guidance for the Programme which provides direction on the:</p> <ul style="list-style-type: none"> • Scope of projects to be included; and • The process to be followed for the evaluation of project proposals for inclusion in the Programme. <p>Once the guidance is in place, management should agree a list of projects to be captured within the Programme for reporting to the Programme Board. A process of review and update should be established to ensure that it continues to reflect details of current Programme projects and the link to achieving the Our Ambition.</p> <p>Management should formalise the arrangements in place to link the Programme to the financial budget to ensure that identification and allocation of resource requirements is aligned to the Programme priorities and savings/benefits being realised from the Programme can be effectively tracked.</p>	High	30-Sept-22	Director, Corporate Services	<p>June 2023 update: Progress has been delayed due to resourcing challenges.</p> <p>The Change Programme Delivery Plan for 2023/24 was presented to Policy & Resources Committee on 14 November 2022. with the final version due to be presented to the Council for approval.</p> <p>Once approved, the required guidance documentation will be developed and rolled out across the organisation. A Change Manager Network is being developed and is expected to be established by the end of June 2023 and they will play a key role in driving this forward.</p> <p>Guidance to be drafted 30 June 2023 followed by engagement and rollout by 31 December 2023.</p>	31-Dec-23	 <p>The revised due date has not yet been reached. Report to P&R and full Council detailed the Change Programme delivery.</p>
21/22 Change Programme Recommendation 2	<p>Management should develop and agree a formal plan to detail how the Programme will be embedded within the Council and ensure that clear and SMART objectives are set for delivering the Programme.</p> <p>Management should finalise and implement the formal Communication and Reporting Framework as outlined in the CPPF.</p> <p>The PMO should regularly monitor the implementation of the Programme and the Communication and Reporting Framework to</p>	Medium	31-Jan-23	Director, Corporate Services	<p>June 2023 update: This recommendation will be completed in line with 21/22 Change Programme Recommendation 1 (above).</p>	31-Dec-23	 <p>The revised due date has not yet been reached.</p>

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	ensure actions are progressing as expected, highlighting any concerns to the Programme Board for further scrutiny and decision making as required.						
21/22 Change Programme Recommendation 3	<p>Management should ensure that work on the Project Management Toolkit is completed as soon as possible and that it provides guidance and templates which will support staff to:</p> <ul style="list-style-type: none"> Identify, manage and report project risks, issues, resource requirements and constraints and dependencies of a project; and Assess and document how the project links to the key priorities set out in Our Ambition. <p>The guidance should also include processes for:</p> <ul style="list-style-type: none"> The review and scrutiny of project documentation; and A standardised approach for the capture, review, evaluation and sharing of lessons learned. <p>Once finalised the Project Management Toolkit, and the requirement to adhere to it, should be communicated to all staff. Management should also consider if key staff should receive project management training, and if so, ensure this is delivered as soon as possible.</p>	High	30-Nov-22	Director, Corporate Services	<p>June 2023 update: Progress has been delayed due to resourcing challenges.</p> <p>Work on developing the toolkit is planned to commence in June 2023 with work on this recommendation now due to be completed by 31 December 2023.</p>	31-Dec-23	 The revised due date has not yet been reached.
21/22 Change Programme Recommendation 4	The PMO should ensure that arrangements are in place to receive regular updates for all projects under remit of the Programme, this could be through regular highlight reports to the PMO or setting a timetable for rolling review of each project. The PMO should then determine the information that should be presented to the Programme Board on an	High	31-Jan-23	Director, Corporate Services	No update provided for November 2023 follow up report.	31-Dec-23	 The revised due date has not yet been reached.



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	<p>exception reporting basis. The PMO should agree and formalise the arrangements and responsibilities for:</p> <ul style="list-style-type: none"> • The escalation and reporting of significant risks and issues from individual projects; • Prioritisation, allocation and review of finite resources across the projects in the Programme and communication of this to the relevant parties; and • Reporting lessons learned to the Programme Board. <p>The PMO should also introduce:</p> <ul style="list-style-type: none"> • A Programme Risks and Issues Log to capture and monitor those which may impact the delivery of the Programme; and • A master lessons learned log that can be utilised by all relevant parties. 						
21/22 Change Programme Recommendation 5	<p>Management should develop guidance which details:</p> <ul style="list-style-type: none"> • Roles and Responsibilities of the Programme Board; and • Joint working arrangements with the PMO. <p>Management should ensure that documented guidance is made available to the Programme Board, senior management and Elected Members to help them understand their roles and responsibilities in relation to the Programme.</p> <p>Management should ensure that a ToR is in place for the Project Management Network, and the roles and responsibilities of those involved should be clearly documented. This</p>	Medium	30-Sept-22	Director, Corporate Services	<p>June 2023 update: Progress has been delayed due to resourcing challenges.</p> <p>Once established, the Change Manager Network will take responsibility for developing the guidance and documentation required.</p> <p>The Change Manager Network will be established by 30 June 2023 and the guidance is expected to be in place by the end of December 2023.</p>	31-Dec-23	 The revised due date has not yet been reached.



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	should be completed as soon as practically possible.						
21/22 Change Programme Recommendation 6	<p>Management should review and update the reporting arrangements in place for the Programme, ensuring it is included in the appropriate Committee Business Workplan(s) and reported in line with these.</p> <p>If management still consider Directorate level reporting on the Programme appropriate, arrangements for this should be agreed, documented and embedded within the Performance Management Framework.</p>	High	30-Nov-22	Director, Corporate Services	<p>June 2023 update: Progress has been delayed due to resourcing challenges.</p> <p>We will engage with the Corporate Management Team (CMT) (as the Programme Board) to determine the most appropriate reporting arrangements for the Programme. Thereafter, work will commence in embedding the agreed process into the reporting arrangements in place.</p> <p>Reporting arrangements expected to be agreed with CMT by 30 June 2023 and fully embedded by 30 June 2024</p>	30-Jun-24	 The revised due date has not yet been reached.
21/22 Use of Consultants Recommendation 1	<p>Good Practice Guidance Management should adopt the Scottish Government good practice guidance on the Use of Consultants. A formal internal procedure document should be developed which includes:</p> <ul style="list-style-type: none"> The circumstances in which it would be appropriate to engage a consultant. The conditions which should be met before a consultant is appointed. The requirement to justify the engagement of a consultant to demonstrate value-for-money compared to in house delivery. The requirement to apply the Scottish Government's "Three-Part-Test" to any 	High	31-Jan-23	Director of Corporate Services	<p>On 15 May 2023 the Director of Corporate Services presented a report (Ref: CRP-09-23 F) to the Audit Committee, providing details of the Procurement Project and Action Plan (all actions to be completed by 30/09/2023). The Procurement Project has been established to address the recommendations from the following audit reviews:</p> <ul style="list-style-type: none"> 2019/20 Procurement 2021/22 Use of Consultants 	30-Sept-23	 <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	<p>consultancy engagement to determine if it in fact relates to another professional service.</p> <ul style="list-style-type: none"> The applicable procurement and financial processes to be followed. <p>Thereafter the procedure should be made available to all staff.</p> <p>Procurement Strategy Management should review and update the current Procurement Strategy and the associated suite of procurement documentation to include:</p> <ul style="list-style-type: none"> Clarification on the circumstances in which a formal business case is required to support the procurement process. Contact details for the procurement section. <p>Thereafter, management should ensure that all procurement guidance and templates/forms are made available to all staff.</p>				<ul style="list-style-type: none"> 2021/22 Compliance with Procurement Arrangements <p>On 18 September 2023 the revised Contract Standing Orders and Procurement Strategy (Ref: ACP-11-23-F) were presented to Policy and Resources Committee and approved; work will now progress on the remaining recommendations.</p>		
21/22 Use of Consultants Recommendation 2	<p>Management should issue a reminder to all relevant officers that completion and authorisation of an NCA form is compulsory when proposing to make a non-competitive appointment. When such an appointment is made this must be recorded on the corporate register to allow for monitoring and scrutiny by the Procurement Team.</p> <p>All Service Directors should be required to submit a report to the Procurement Team outlining all NCAs in place within their service on at least a six-monthly basis. The Procurement Manager should then cross reference this report against the NCA register to ensure that all applicable cases have been appropriately recorded and documented.</p>	High	31-Jan-23	Director of Corporate Services	See comment in 21/22 Use of Consultants Recommendation 1 (above).	30-Sept-23	<div data-bbox="2033 962 2089 1026">R</div> <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	Management should also consider introducing a requirement for high-value NCAs (e.g., over £50k) to be reviewed and approved by a representative from another team, such as Legal Services or Internal Audit.						
21/22 Use of Consultants Recommendation 3	<p>Management should ensure that a process is put in place which requires all contract extensions to be formally scrutinised and approved by both the relevant Director and the Procurement Team. Where proposed extensions are approved, this should be formally documented.</p> <p>Management should also ensure that a formal contract is put in place for all future consultancy engagements. These contracts should clearly outline key deliverables or outputs in a defined schedule of work.</p> <p>Management should fully investigate the cases noted in the observation to determine the reason why payments were made in excess of agreed contract rates or continued to be made without a formal contract being in place. Management should consider if any formal action is required following their investigations.</p>	High	31-Jan-23	Director of Corporate Services	See comment in 21/22 Use of Consultants Recommendation 1 (above).	30-Sept-23	<div data-bbox="2033 464 2089 528" data-label="Image"></div> <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Use of Consultants Recommendation 4	<p>Management should:</p> <ul style="list-style-type: none"> i. Review, update, and reissue IR35 guidance to all staff. This should clearly highlight the need to conduct a formal CEST assessment where a proposed contract is to be delivered by an individual/sole-trader, partnership, or personal service company. ii. Introduce a corporate register to document each CEST assessment undertaken, the outcome, and a date for formal review. Arrangements should also be made to hold electronic copies of all CEST assessments in a central location (these requirements should be included in the documented guidance). iii. Review the cases identified during the sample testing to identify if any lessons can be learned, if any cases need to be reported to HMRC, and for any engagements which remain ongoing undertake a CEST assessment immediately and act upon this as required. iv. Determine if there are any other ongoing engagements in the Council that have not been assessed using the CEST tool and ensure that the assessments are completed as soon as possible. 	High	30-Sept-22	Director, Corporate Services	See comment in 21/22 Use of Consultants Recommendation 1 (above).	30-Sept-23	<div data-bbox="2033 406 2101 475" data-label="Image"> </div> <p>Partially implemented.</p> <p>Part (i) has been completed. The remainder is being addressed through the Procurement Project.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Use of Consultants Recommendation 5	Management should put in place guidance to set out the expected format and nature of contract management activities, where these are not undertaken by the Procurement Team. This should include a requirement for a formal contract management framework for all future consultancy and professional service engagements. Staff should be required to undertake regular assessments of contractor performance against the terms set out in the framework – such as key deliverables, outputs or performance indicators. Thereafter the procedure should be circulated to all staff with responsibility for contract management.	Medium	31-Jan-23	Director of Corporate Services	See comment in 21/22 Use of Consultants Recommendation 1 (above).	30-Sept-23	 Further work to address this recommendation is underway now that the CSOs have been approved. A revised implementation date has not been provided.
21/22 Compliance with Procurement Arrangements Recommendation 1	As a matter of urgency management should progress and implement all outstanding procurement recommendations. This should be overseen and progressed by an appropriate officer within the Council, seeking specialist advice and guidance where required.	High	30-Jun-23	Director, Corporate Services	On 15 May 2023 the Director of Corporate Services presented a report (Ref: CRP-09-23 F) to the Audit Committee, providing details of the Procurement Project and Action Plan (all actions to be completed by 30/09/2023). The Procurement Project has been established to address the recommendations from the following audit reviews: <ul style="list-style-type: none"> • 2019/20 Procurement • 2021/22 Use of Consultants • 2021/22 Compliance with Procurement Arrangements On 18 September 2023 the revised Contract Standing Orders and Procurement Strategy (Ref: ACP-11-23-F)	30-Sept-23	 Further work to address this recommendation is underway now that the CSOs have been approved. A revised implementation date has not been provided.




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
					were presented to Policy and Resources Committee and approved; work will now progress on the remaining recommendations.		
21/22 Compliance with Procurement Arrangements Recommendation 2	<p>The Procurement Strategy should be reviewed, updated and approved. Once approved the strategy should be shared with all relevant parties and published on the Council's website.</p> <p>Management should ensure that arrangements are in place to produce an annual procurement report; this should be presented to the relevant Committee and submitted to Scottish Government in advance of the deadline.</p>	High	30-Jun-23	Director, Corporate Services	See comment in 21/22 Compliance with Procurement Arrangements Recommendation 1 (above).	30-Sept-23	<p></p> <p>Partially implemented.</p> <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>
21/22 Compliance with Procurement Arrangements Recommendation 3	<p>Management should:</p> <ul style="list-style-type: none"> Remind all relevant parties that the Director of Corporate Services must sign off all NCA forms. Ensure that the NCA forms in use are updated to include the requirement for Director of Corporate Services approval. Implement an approval process for NCAs required where Corporate Services are the contracting service. <p>Once the form and process have been updated these should be reflected in all relevant documented procedures and shared with all staff.</p>	High	31-Dec-22	Director, Corporate Services	See comment in 21/22 Compliance with Procurement Arrangements Recommendation 1 (above).	30-Sept-23	<p></p> <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
21/22 Compliance with Procurement Arrangements Recommendation 4	Methodology and corresponding guidance for calculating expected contract value should be included in the operational procedures to be developed and shared with staff (2019/20 Review: Recommendation 2).	Medium	31-Dec-22	Executive Manager – Assets, Commissioning and Procurement	See comment in 21/22 Compliance with Procurement Arrangements Recommendation 3 (above).	28-Feb-24	 Further work to address this recommendation is underway now that the CSOs have been approved.
21/22 Compliance with Procurement Arrangements Recommendation 5	<p>Management should ensure that the cases of non-compliance identified in the sample testing are reviewed to:</p> <ul style="list-style-type: none"> Identify lessons learned and opportunities for improvement; and Determine if the issues are more widespread, and if so, take steps to address this, including ensuring a robust audit trail is maintained. <p>Management should remind all staff that they must comply with procurement rules, and to seek clarification if required.</p>	High	30-Sept-22	Director, Corporate Services	See comment in 21/22 Compliance with Procurement Arrangements Recommendation 3 (above).	30-Sept-23	 <p>Further work to address this recommendation is underway now that the CSOs have been approved.</p> <p>A revised implementation date has not been provided.</p>
22/23 Gifts and Hospitality Recommendation 1	<p>Each Director should ensure that they maintain a gifts and hospitality register for the employees within that Directorate.</p> <p>Management should ensure that offers which are made or received and subsequently declined are also recorded on the register.</p> <p>The relevant policies should be updated to include this requirement and be communicated to all staff.</p>	High	28-Feb-23	Monitoring Officer in consultation with Section 95 Officer	<p>A draft policy has been produced and report being prepared for Policy & Resources on 4 December 2023 with immediate implementation following.</p> <p>Subject to committee approval will a revised implementation date of 31 December 2023 has been set.</p>	31-Dec-23	 <p>Internal Audit has not received any evidence to date.</p> <p>A revised implementation date has been provided.</p>

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Gifts and Hospitality Recommendation 2	<p>Management should:</p> <ul style="list-style-type: none"> Develop and introduce operational guidelines for staff in relation to gifts and hospitality, ensuring that the points noted in the observation are included. Create a standard template for use across the Council to record offers of gifts and hospitality including all key information related to the offer, this should be used for all offers whether accepted or declined. Issue periodic communications to all employees reminding them of the requirement to comply with the policy and guidelines. <p>Management should also consider if regular reminders to staff at higher risk of offers/undue influence, such as senior officers and procurement staff, are required.</p>	Medium	28-Feb-23	Monitoring Officer	See comment in 22/23 Gifts and Hospitality Recommendation 1 (above).	31-Dec-23	 <p>Internal Audit has not received any evidence to date.</p> <p>A revised implementation date has been provided.</p>
22/23 Gifts and Hospitality Recommendation 3	<p>Management should identify an officer to collate the gifts and hospitality registers on a periodic basis and review for completeness, appropriateness, and trends. Issues identified from the review should be addressed, either through guidance for those accepting offers or by escalating to senior management.</p> <p>Following the periodic review, offers accepted or declined by senior officers should be extracted and reported to the relevant Council Committee for scrutiny.</p>	Low	28-Feb-23	Monitoring Officer	See comment in 22/23 Gifts and Hospitality Recommendation 1 (above).	31-Dec-23	 <p>Internal Audit has not received any evidence to date.</p> <p>A revised implementation date has been provided.</p>

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme Recommendation 1	<p>Management should investigate how the instances of incorrect PVG scheme membership occurred to identify if changes are required to the existing processes to prevent this reoccurring.</p> <p>Management should review the instance of admin errors and duplicate files to determine if data cleansing of the HR system is required.</p>	High	28-Feb-23	Executive Manager – Human Resources	<p>June 2023 update: The identification of issues and subsequent corrective actions are complete, however, due to resource challenges we have not yet been able to collate the evidence for review by Internal Audit. We aim to provide this along with the evidence for 22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme Recommendations 2 & 3 (below) by the end of August.</p>	31-Aug-23	<p></p> <p>Management has advised this recommendation has been implemented, however we await evidence which is delayed due to staff resourcing challenges within the HR Team.</p> <p>A revised implementation date has not been provided.</p>
22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme Recommendation 2	<p>Management should ensure that, as a minimum, a light touch review of the PVG Policy and Procedure is completed as soon as possible and that guidance in relation to volunteers is included.</p> <p>Once changes are introduced by Disclosure Scotland, the Policy and Procedure should be reviewed in full.</p> <p>Revised versions of the Policy and Procedure should be made available to all relevant staff in a timely manner.</p>	Low	31-Mar-23	Executive Manager – Human Resources	<p>June 2023 update: Resourcing challenges and other priorities have delayed progress with this recommendation. The review is planned to commence soon.</p>	31-Aug-23	<p></p> <p>Progress has been delayed due to resourcing challenges within the HR Team.</p> <p>A revised implementation date has not been provided.</p>
22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme Recommendation 3	<p>The operational guidance should be updated to ensure it addresses the points noted in the observation.</p> <p>Once updated this should be issued to all relevant staff.</p>	Low	31-Jan-23	Executive Manager – Human Resources	<p>June 2023 update: This recommendation will be addressed in conjunction with 22/23 Compliance with the Protecting Vulnerable Groups Membership Scheme Recommendation 2 (above).</p>	31-Dec-23	<p></p> <p>Progress has been delayed due to resourcing challenges within the HR Team.</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Complaints Handling Recommendation 2	<p>Corporate Services and Housing Services Management should liaise to determine if the management of complaints received by the Housing Service should be moved onto the Council's Pentana Risk system to address the issues noted in the observation.</p> <p>If moving to the Council's system is not deemed appropriate action should be taken by Housing Management to address the issues and risks noted in the observation.</p>	High	30-Jun-23	Director - Corporate Services and Executive Manager - Housing	Work has commenced on an options appraisal for the best solution for Housing complaint recording. Due to resourcing challenges this has been delayed; however, the aim is for a preferred solution to be in place within this financial year.	31-Jan-24	 <p>Work is ongoing to address this recommendation; we have been assured that Housing staff have been reminded of the complaints procedure and timescales which will help mitigate the risk until a permanent solution is in place.</p>
22/23 Complaints Handling Recommendation 3	<p>Management should:</p> <ul style="list-style-type: none"> i. Investigate the areas identified which did not comply with the CHP and ensure that staff are aware of the requirement to fully complete all details and attach all correspondence and documentation to the system. ii. As per recommendation 1, staff should complete the training course and ensure they are familiar with operational procedures for logging and updating complaints. <p>Senior Management within Planning should review the ongoing complaint and provide a resolution so it can be closed as soon as possible.</p> <p>Where complaints have not been resolved within the agreed timescales, Management should ensure that the CMT is provided with sufficient detail around the issues contributing to the delay to allow them to undertake effective scrutiny of the handling of the complaint.</p>	Medium	31-Mar-23	Director Corporate Services	<p>June 2023 update: Partially implemented.</p> <p>The ongoing planning complaint has been closed.</p> <p>Work on the remaining elements of the recommendation is ongoing but has been delayed due to resource availability.</p>	30-Sept-23	 <p>No further update has been received for November Committee.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Attendance Management Recommendation 2	Management should determine suitable storage arrangements for absence documentation to ensure it can be easily accessed if required. These arrangements should be documented, in conjunction with recommendation one, and shared with all relevant parties. Electronic options for uploading and retaining documentation should be considered as part of this recommendation.	Medium	30-Sept-23	Executive Manager - HR	No update provided for November 2023 follow up report.	Not provided	 Progress has been delayed due to resourcing challenges within the HR Team. A revised implementation date has not been provided.
21/22 Shetland Pension Fund: Review of Ad Hoc Payments Recommendation 1	Management should: i. Ensure that the procedure to be followed for 'transfers out' is documented and made available to all relevant staff. ii. Review and update all documented procedures to ensure they are reflective of current working practices. iii. Establish and adhere to a timetable for periodic review of the procedures to ensure they remain up to date.	Medium	31-Oct-23	Team Leader - Expenditure and Pensions Supervisor	Staffing issues have delayed the review of procedures the situation is beginning to improve, and it is hoped that the procedures will be reviewed by the end of March 2024.	31-Mar-24	 Progress has been delayed due to resourcing challenges within the Pensions Team.
21/22 Shetland Pension Fund: Review of Ad Hoc Payments Recommendation 2	An action plan should be put in place to ensure that all key supporting documentation within members' files are held electronically as soon as possible and to ensure the administration of the pension fund is carried out entirely electronically moving forward. In the interim, where possible, paper files should be stored in adequate fire-resistant cabinets and steps should be taken to secure the documentation within each file to minimise the risk of any being misplaced.	Medium	30-Jun-23	Team Leader - Expenditure and Pensions Supervisor	Options to move this recommendation forward have been researched and considered in depth. A preferred solution has been identified but cannot progress until the staffing issues are fully resolved. An action plan should be in place by end March 2024. Fire resistant cabinets have been considered and deemed cost prohibitive.	31-Mar-24	 Although there are resourcing challenges within the team the recommendation calls for a plan to be made to address this risk and not for the task to be fully completed immediately.



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Succession and Workforce Planning Arrangements Recommendation 1	<p>Management should:</p> <ul style="list-style-type: none"> i. Develop and agree operational workforce plans for each of the Directorates. These should include details of the responsible officer(s) and target date(s). ii. Agree a timetable for updates to be provided to HR to support monitoring of the overall Workforce Plan. 	High	31-Jul-23	Team Leader - Workforce Development and Team Leaders in HR	<p>A guide has been developed to support managers develop and agree operational workforce plans. However, a plan to formally roll this out across the Council has still to be agreed.</p> <p>The second part of the recommendation cannot be taken forward until the initial operational workforce plans are in place.</p>	31-Jan-24	 <p>We are aware of the resourcing challenges within HR and more widely across the Council, however, development of the operation workforce plans is important to help address the challenges in the longer term.</p>
22/23 Succession and Workforce Planning Arrangements Recommendation 2	<p>Management should:</p> <ul style="list-style-type: none"> i. Report progress against the plan on a regular basis to PRC. As part of this process, management should review and, where relevant, update the plan to ensure that it continues to be aligned to the Council's strategic priorities. ii. Implement monitoring and reporting arrangements for the key progress measures identified within the plan. 	Medium	30-Jun-23	Executive Manager - Human Resources	<p>A Workforce Plan update was presented to Policy and Resources Committee in June 2023. The second part of this recommendation will be addressed when the new Executive Manager for HR is in post.</p>	31-Mar-24	 <p>Partially implemented.</p> <p>Part (i) has been implemented with work on part (ii) ongoing.</p>



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Table 4: Development Services

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
Development Services							
20/21 Planning Application Process - Recommendation 3	Management should ensure that all relevant staff return a completed declaration of interest form on an annual basis to ensure any potential conflicts of interest are known and documented. Copies of these forms should be retained for future reference and referred to by management when allocating work.	Medium	31-Aug-21	Executive Manager – Planning	Register of Interest forms have been requested from all relevant staff, however, arrangements regarding storage of these forms and management access have not yet been finalised.	30-Jun-23	 <p>Identification of a location for retention of the forms has been delayed due to resourcing issues.</p> <p>A revised implementation date has not been provided.</p>
21/22 Housing Repairs and Compliance Checks Recommendation 3	<p>Management should ensure that a 'no access' policy and procedure is developed and approved as soon as practically possible; this should include clear arrangements for the completion of safety compliance work. Once approved the policy and procedures should be communicated to all relevant parties.</p> <p>Management should consider reporting on the volume and cost of 'no access' visits and seek to identify trends and take action to reduce the number of instances.</p>	Medium	31-Aug-22	Team Leader – Asset Management	The 'No Access' Policy has been finalised; however, it is still to be communicated to all relevant parties.	31-Dec-23	 <p>We are satisfied that work is ongoing, and near completion for this recommendation.</p> <p>A revised implementation date has been agreed.</p>
21/22 Housing Repairs and Compliance Checks Recommendation 4	<p>As a matter of urgency electrical testing should be completed on properties which have not been tested in the last five years.</p> <p>A policy should be formally established and approved in relation to electrical testing, ensuring compliance with Scottish Government guidance, and this should be documented in the updated Tenant's Handbook (referred to in recommendation 1).</p>	High	31-Mar-23	Team Leader – Asset Management	<p>June 2023 update:</p> <p>Progress has been delayed as the electrical contractor has not been able to complete all the required testing by the deadline given. These are planned to be completed during 2023/24.</p>	31-Aug-23	 <p>See paragraphs 4.6 to 4.9 in main report.</p> <p>A revised implementation date has not been provided.</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	The roles and responsibilities in relation to properties where access is denied, and overall progress reporting and monitoring should be agreed and documented. Appropriate contract management should be in place to confirm compliance.				Work on the other elements of this recommendation is still ongoing and have been delayed due to other priorities.		
21/22 Housing Repairs and Compliance Checks Recommendation 6	<p>Management should ensure that all remaining properties are upgraded as a matter of urgency and evidence of completion is maintained as this could be requested by Scottish Government to prove compliance with the new regulations.</p> <p>A process should be put in place to manage cases where access is denied by the tenant.</p>	High	31-Mar-23	Team Leader – Asset Management	<p>June 2023 update: The contractor was unable to complete the installations by the end of March 2023 and work is currently ongoing to create a plan for these to be upgraded as soon as possible. These properties are currently protected by traditional (unlinked) smoke alarms.</p>	31-Aug-23	<p></p> <p>See paragraphs 4.6 to 4.9 in main report.</p> <p>A revised implementation date has not been provided.</p>
21/22 Shetland Telecom Recommendation 1	<p>Management should compete a review of Shetland Telecom to determine if it remains fit for purpose/appropriate.</p> <p>If Shetland Telecom is to continue as a brand:</p> <ul style="list-style-type: none"> A formal legal review should be undertaken to ensure that the Council continues to operate within its powers under relevant legislation (i.e., Local Government Act and state aid/subsidy considerations) and determine the appropriate legal status of the venture. A strategy/plan should be developed, approved and subject to regular review and monitoring. Suitable risk management arrangements should be put in place, including a risk register which is subject to regular review and monitoring. 	High	30-Jun-23	Executive Manager - Economic Development	<p>Phase two of the legal review of Shetland Telecom is due to be completed by the end of October 2023, with the full review finalised by December 2023 and a report to Development Committee due in March 2024.</p> <p>Once the review outcomes are known and a decision made, the appropriate next steps to address the recommendations from the audit will be agreed and action taken.</p>	30-Jun-24	<p></p> <p>The review of Shetland Telecom is underway and to date no significant issues have been identified. Due to the involvement of third-parties, progress has been slower than anticipated.</p> <p>However, regular Fibre Optic Asset Management Board meetings are held, and the Shetland Telecom review is on its agenda for update and discussion which will</p>




Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
							allow for prompt action should significant legal issues be identified.
21/22 Shetland Telecom Recommendation 2	<p>i. In conjunction with recommendation one, management should ensure that the roles and responsibilities of key individuals and/or the main areas of the Council involved in Shetland Telecom are agreed, documented, and shared with all relevant parties.</p> <p>ii. Management should determine if SLAs are required between the departments involved in Shetland Telecom activity. If the SLAs are deemed appropriate these should be developed, agreed, and finalised as soon as possible and shared with all relevant parties.</p> <p>iii. Management should consider if the Management and Operational Boards are required for Shetland Telecom activity, if they are then the arrangements for these should be formalised in terms of references, and meetings should be held accordingly.</p>	High	30-Jun-23	Executive Manager - Economic Development	<p>Parts one and two of this recommendation will be addressed in line with recommendation one (above).</p> <p>Part three of the recommendation has been partially implemented. Shetland Telecom is included in the agenda for the Fibre Optic Asset Management Board which has defined terms of reference and membership. Operational Board meetings are held; however, the terms of reference is still to be documented and the meeting frequency formalised.</p>	30-Jun-24	<p></p> <p>As above (recommendation one 21/22 Shetland Telecom).</p> <p>Also, part (iii) of this recommendation is confirmed as partially implemented.</p>
21/22 Shetland Telecom Recommendation 3	<p>In conjunction with recommendation one, management should consider if branding, website, and social media accounts for Shetland Telecom are appropriate.</p> <p>If an online presence is to continue, then management should ensure that:</p> <ul style="list-style-type: none"> • More than one officer is an administrator for the website and social media accounts. • All officers with administrator rights have received social media training. 	Medium	30-Jun-23	Executive Manager - Economic Development	This recommendation will be addressed in line with recommendation one (above).	30-Jun-24	<p></p> <p>As above (recommendation one 21/22 Shetland Telecom).</p>



Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	<ul style="list-style-type: none"> A plan is in place for regular website and social media updates. 						
21/22 Shetland Telecom Recommendation 4	The price book should be updated to include effective dates and version control. Once completed this should be made available to all relevant staff.	Low	31-Mar-23	Executive Manager - Economic Development	This has not been addressed yet due to resourcing issues and other commitments. It will be included as part of the budget setting process for 2024/25.	31-Mar-24	 <p>Shetland Telecom has not updated its price book since the original audit meaning that the risk of incorrect charging remains.</p>
22/23 Payroll Verification: Development Services Recommendation 1	DS management should liaise with the payroll team to investigate the circumstances which led to the grade increment not being correctly applied to identify any wider issues which should be addressed.	Low	31-Oct-23	Director, Development Services	No update provided for November 2023 follow up report.	Not provided	 <p>Internal Audit has not received an update or evidence.</p> <p>A revised implementation date has not been provided.</p>



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Table 5: Infrastructure Services

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
Infrastructure Services							
20/21 Fleet Management - Recommendation 2	<p>Management should implement a process to ensure that a regular reconciliation is undertaken between the active drivers recorded on the Telematics system and those that have a valid driving licence and SIC insurance application. Any driver without a valid licence and SIC insurance application must not be permitted to drive a Council vehicle until valid documents are completed/provided.</p> <p>Managers should also be reminded to advise the Fleet Management Unit of leavers that should be removed from the list of approved drivers.</p>	High	31-Oct-21	Executive Manager - Environmental Services	<p>June 2023 update: Work is ongoing to address this recommendation using the information recorded in the new Health and Safety system, to provide a reconciliation process for driving licences and insurance information.</p> <p>An interim manual process has been introduced to track leavers using information provide by managers and HR.</p>	31-Mar-24	 <p>This recommendation involves collaboration between service areas with resourcing and capacity issues.</p> <p>Internal Audit will meet with key staff by the end of 2023 to re-assess the control and risk to then agree a way forward.</p>
22/23 Inter-Island Ferry Service: Asset Management Arrangements Recommendation 2	<p>Management should ensure that as part of development of the AMS and AMP, the roles and responsibilities of all parties involved are agreed and documented.</p> <p>Management should develop appropriate joint working arrangements for the development of the strategy and the ongoing governance arrangements to be followed, to promote information sharing and effective decision making.</p>	Medium	31-Mar-23	Executive Manager – Transport Planning	<p>A draft document has been developed which will address this recommendation, however this requires an update to ensure it reflects current circumstances; it will then be made available to the relevant parties.</p>	31-Dec-23	 <p>Internal Audit have been assured that work is ongoing in this area and a revised implementation date has been agreed.</p>

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
22/23 Inter-Island Ferry Service: Asset Management Arrangements Recommendation 4	Management should undertake a formal review of the fleet to ensure that the highest risk assets can be identified and incorporated into the AMS and AMP accordingly. Once completed, the review should be subject to ongoing monitoring and update to ensure any significant vessel risk changes are identified and captured within the AMS and AMP.	High	31-Mar-23	Executive Manager - Ferry & Airport Operations & Port Infrastructure	June 2023 update: The consultant responsible for the fleet review is currently preparing the draft report. Once the report is finalised and approved, we will take steps to incorporate the findings of the review into the ongoing arrangements in place to ensure that the fleet information remains up to date and is aligned to the repairs and maintenance arrangements in place.	31-Dec-23	 The revised due date has not yet been reached, and no further updates have been provided
22/23 Inter-Island Ferry Service: Asset Management Arrangements Recommendation 7	Management should ensure that: <ul style="list-style-type: none"> The BCP is reviewed and updated to adequately reflect the arrangements to be followed if the fleet and/or staffing is unexpectedly reduced. Once updated, the BCP is made available to all relevant staff within the ferry service, providing training where necessary. The BCP is subject to regular review and periodic testing. The workforce and succession planning review is completed as soon as possible, and the key risks identified through this are actively managed and captured within the BCP arrangements. 	Medium	31-Mar-23	Executive Manager - Ferry & Airport Operations & Port Infrastructure	A wider corporate exercise is underway for the development of BCPs across all Council Service areas. The content of the Ferry Service BCP is currently being finalised. Progress has been delayed due to the development and agreement of the Council wide approach.	31-Dec-23	 Management have provided assurances that the BCP is near completion and a revised implementation date has been agreed.
22/23 Ports and Harbours Finance Processes Recommendation 1	Senior Management should ensure that a policy, which outlines the eligibility criteria for Account Card holders is developed. This should then be subject to approval at the appropriate level. Once approved the policy should be communicated to all relevant parties and thereafter subject to ongoing review, monitoring, and scrutiny.	High	31-Mar-23 (For initial response and investigation)	Executive Manager – Finance	June 2023 update: The Interim Ferry Fare and Ticketing Review (ISD-03-22-F) was presented to Environment & Transport Committee and Policy and Resources Committee on 14 March. The use of account cards for non-	31-Mar-24	 The initial risk has reduced due to the decision taken to cease the use of

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	Action should also be taken in respect of current Account Card holders and a review undertaken to determine if they are still eligible.				business/commercial users ceased on 1 April 2023 and this change was communicated to customers and stakeholders. A proposal to write-off de minimis invoices was presented to Policy and Resources Committee on 5 June 2023. A Fare Policy Review is being undertaken by ZetTrans during 2023/24 and this will include inter-island ferries. For the duration of the review account card holders can still access discounted fares but will be required to pay at or in advance of travel.		account cards for non-business users. The revised due date has not yet been reached, and no further updates have been provided.
22/23 Ports and Harbours Finance Processes Recommendation 2	Management should ensure that a full review of the financial administration and stock management arrangements for Ports & Harbours is conducted to ensure they remain fit-for-purpose. Process Guides should be updated to reflect any changes made and these should cover all required areas. Once complete, these should then be subject to approval at the appropriate and communicated to all relevant parties.	High	31-Mar-23 (For initial response and investigation)	Executive Manager - Finance	June 2023 update: Initial meetings have taken place to agree the outline of process guides and a clearly defined relationship between Sella Ness based staff and staff in 8 North Ness to support month end closure processes.	31-Dec-23	 The revised due date has not yet been reached.
22/23 Ports and Harbours Finance Processes Recommendation 3	Management should put in place appropriate financial monitoring and stock control arrangements and update process guides to reflect these. Management should put in place appropriate checks (e.g., by selecting a regular sample of cases) to ensure that processes are followed and invoices which are produced are	Medium	31-Mar-23 (For initial response and investigation)	Executive Manager – Finance	June 2023 update: Initial meetings have taken place to agree the outline of process guides and a clearly defined relationship between Sella Ness based staff and staff in 8 North Ness to support month end closure processes.	31-Dec-23	 The revised due date has not yet been reached.

Title	Recommendation	Priority Rating	Original Due Date	Responsible Officer	Service Comments	Revised Due Date	Internal Audit Comments
	accurate. Evidence of the checks undertaken should be retained.						
22/23 Ports and Harbours Finance Processes Recommendation 4	<p>On completion of the procedural review outlined at recommendation 2, management should remind all relevant officers of the importance of adhering to the invoicing procedures and their requirements, including retention of supporting documentation. Management should also address the errors identified during this audit review.</p> <p>Management should also ensure that a clear segregation of duties is in place to prevent a credit being applied to a customer account without the required approval. This should be formally recorded for audit trail purposes.</p>	High	31-Mar-23 (For initial response and investigation)	Executive Manager – Finance	<p>June 2023 update: Initial meetings have taken place to agree the outline of process guides and a clearly defined relationship between Sella Ness based staff and staff in 8 North Ness to support month end closure processes.</p>	31-Dec-23	 The revised due date has not yet been reached.
22/23 Ports and Harbours Finance Processes Recommendation 5	Senior Management should review the current arrangements and determine whether the financial administration team based at Sella Ness, or some of their key tasks should be incorporated into the central finance team, to allow for a more consistent, efficient, and effective approach between all parties involved.	High	31-Mar-23 (For initial response and investigation)	Executive Manager – Finance	<p>June 2023 update: Initial meetings have taken place to agree the outline of process guides and a clearly defined relationship between Sella Ness based staff and staff in 8 North Ness to support month end closure processes.</p>	31-Dec-23	 The revised due date has not yet been reached.

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Meeting:	Audit Committee Policy and Resources Committee Shetland Islands Council	14 November 2023 4 December 2023 13 December 2023
Report Title:	Whistleblowing Arrangements	
Reference Number:	CRP-30-23 F	
Author / Job Title:	Duncan Black, Chief Internal Auditor	

1.0 Decisions / Action required:

1.1 That the **Audit Committee**:

- a) **CONSIDERS** the information presented in this report and the draft Whistleblowing and Response Policy attached at Appendix 1;
- b) **RECOMMENDS** that Policy and Resources Committee **RECOMMENDS** that the Council **RESOLVES** to **APPROVE** the Whistleblowing and Response Policy at Appendix 1.

1.2 That the **Policy and Resources Committee**:

- a) **CONSIDERS** the information presented in this report and the draft Whistleblowing and Response Policy attached at Appendix 1;
- b) **CONSIDERS** the views and decision of the Audit Committee in this regard; and
- c) **RECOMMENDS** that the Council **RESOLVES** to **APPROVE** the Whistleblowing and Response Policy at Appendix 1.

1.3 That the **Council**:

- a) **CONSIDERS** the information presented in this report and the draft Whistleblowing and Response Policy attached at Appendix 1;
- b) **CONSIDERS** the views and decisions of the Audit Committee and of Policy and Resources Committee in this regard; and
- c) **RESOLVES** to **APPROVE** the Whistleblowing and Response Policy at Appendix 1.

2.0 High Level Summary:

- 2.1 The Internal Audit contract that Shetland Islands Council (the Council) has with Audit Glasgow includes the requirement for Audit Glasgow to provide a whistleblowing service to the Council.
- 2.2 The draft Whistleblowing and Response Policy at Appendix 1 sets out the arrangements for both staff and the public to report suspected wrongdoing within the Council.

2.3	Internal Audit will be responsible for implementing the arrangements for receiving, logging, investigating, and reporting on allegations that are received.
3.0 Corporate Priorities and Joint Working:	
3.1	The Audit Committee is an integral part of the formal governance arrangements of the Council making a significant contribution to the delivery of the ambitions within the Corporate Plan, 'Our Ambition 2021-26' which aim to "focus on the things that can help most to create opportunities and achieve long-term sustainability for Shetland.
4.0 Key Issues:	
4.1	The Council currently has a Reporting Concerns at Work Policy, which is specifically for employees reporting concerns, however there is no Whistleblowing Policy. Whistleblowing is when you suspect someone is doing something wrong, and you report it to someone in the organisation in a position of authority. Concerns can be reported either by staff or members of the public.
4.2	A specific Whistleblowing and Response Policy has been drafted and once approved, it will be communicated to staff and to the public. The whistleblowing facility will be made available on the Council's website; there will be a dedicated phone line, web reporting form and email address established as part of the launch of the Policy. This will take the reporter directly to Audit Glasgow staff, who will log and undertake initial enquiries into each allegation received in line with the Policy.
4.3	Six-monthly updates on whistleblowing information will be provided to the Audit Committee; and Audit Glasgow will work closely with SIC management to ensure relevant actions are undertaken as required.
4.4	All whistleblowers have rights and these will be protected as detailed in the Policy.
5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications:	
6.1 Service Users, Patients and Communities:	The whistleblowing arrangements will enable the public to report on suspected wrongdoing in the Council. The Whistleblowing Policy is in addition to existing policies and procedures that support service users to make a complaint about the Council's services.
6.2 Human Resources and Organisational Development:	The Whistleblowing Policy is in addition to existing HR policies and procedures for example the Reporting Concerns at Work Policy. It provides a separate route for staff to report concerns directly through the Council's internal audit service.

6.3 Equality, Diversity and Human Rights:	None directly arising from this report.	
6.4 Legal:	<p>Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity, and Best Value in their stewardship of public funds.</p> <p>Whistleblowers are protected by legislation if they Whistleblow appropriately.</p>	
6.5 Finance:	None arising directly from this report.	
6.6 Assets and Property:	None arising directly from this report.	
6.7 ICT and new technologies:	An online reporting form and dedicated telephone number will be set up to facilitate whistleblowing referrals, which will be made to Audit Glasgow under the terms of the existing Internal Audit Contract between the Council and Audit Glasgow.	
6.8 Environmental:	None arising directly from this report.	
6.9 Risk Management:	None arising directly from this report.	
6.10 Policy and Delegated Authority:	<p>The Council's Scheme of Administration and Delegations: The terms of reference for the Audit Committee includes at paragraph 2.6.1 in, "<i>To promote an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability.</i>"</p> <p>The remit of Policy and Resources Committee includes at paragraph 2.2.1 2 - to "Advise the Council in the development of its strategic objectives, policies and priorities.</p> <p>Approval of Policy is a matter that is reserved to the Council, therefore a decision of the Council is required.</p>	
6.11 Previously considered by:	None	

Contact Details:

Duncan Black
Chief Internal Auditor
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November 2023

Appendices:

Appendix 1 – Whistleblowing & Response Policy

END

Shetland Islands Council – Whistleblowing & Response Policy – Draft November 2023

Message from Director Corporate Services

We, as a Council, have a duty to make sure public funds are properly used and protected, for everyone's benefit.

We are committed to preventing people committing fraud and becoming involved in corruption and bribery.

We are also committed to making sure we have the right controls in place to prevent these acts from happening at all.

Shetland Islands Council employees have a duty to report any concerns they may have regarding possible fraud or wrongdoing.

Given the potentially high cost of fraud to everyone, we will also encourage members of the public to let us know if they detect or suspect someone is involved in this activity.

By phoning the Whistleblowing Hotline on **xxxxxxx**, filling in a form at shetland.gov.uk/whistleblowing or emailing using fraud@shetland.gov.uk we can investigate the matter thoroughly and take action to deal with it properly.

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2. Aims of the Council's Arrangements
3. Preventing Fraud, Corruption, and Bribery in the Workplace
4. Whistleblowing and Investigation Arrangements for Staff
5. Safeguards
6. Preventing Fraud, Corruption, and Bribery in the Shetland Islands
7. Whistleblowing and Investigation Arrangements for the Public
8. How to Raise a Concern
9. Services Provided on Behalf of the NHS
10. Internal Audit Contact Details

1. Introduction

Whistleblowing is when you suspect someone is doing something wrong, and you report it to someone in the organisation in a position of authority. The whistleblowing facility exists for members of staff. Members of the public can also report any cases of wrongdoing which they believe are being committed across the Shetland Islands. Examples include Council Tax Reduction Scheme fraud, tenancy fraud and misuse of public funds.

The purpose of the Whistleblowing and Response Policy is to advise you about the ways cases of wrongdoing can be reported and how we will deal with it.

The policy set out in this document covers the following areas:

- Preventing fraud, corruption, and bribery,
- The Council's rules and procedures; and
- The Council's whistleblowing and investigation arrangements for staff and the public.

2. Aims of the Council's Arrangements

Most importantly, our arrangements aim to:

- Provide secure ways for our staff and the public to raise concerns; and
- Provide reassurance that every effort will be made to protect anyone who makes a report from being victimised.

There are procedures in place which allow staff members to lodge a grievance relating to their own employment, for example, bullying and harassment.

Whistleblowing is intended to cover concerns that fall outside the range of these procedures, except in exceptional circumstances where an employee has a concern that is so serious that they feel they have no route to report it.

3. Preventing Fraud, Corruption, and Bribery in the Workplace

A number of rules and procedures have been approved and guidance produced to make sure the Council's business is properly controlled. It is important that all Elected Members and employees are aware of, and uphold, them.

Our guidance documents include the following:

- Councillors' Code of Conduct
- Employee Code of Conduct
- Financial Regulations
- Contract Standing Orders
- Procurement Strategy and Procedures
- Scheme of Administration and Delegations

Our employees must read, understand, and carry out the rules and procedures of the Council's Code of Conduct.

If employees don't follow these rules and procedures, they may be disciplined which may result in being dismissed.

All cases of actual or suspected fraud, corruption, bribery, and theft must be reported immediately to the Chief Internal Auditor. Council Directors must make sure their employees are aware that they must do this.

4. Whistleblowing Arrangements for Employees

Whistleblowers are protected by legislation if they whistleblow appropriately. The following information outlines the legislative protection offered to employees.

Whistleblower Protection

Whistleblowers are protected if they:

- Reasonably believe the information disclosed tends to show that one of the following has happened, is happening, or is likely to happen:
 - Criminal activity.
 - Breach of a legal obligation, for example, not having insurance for employees or the public.
 - Miscarriage of justice.
 - Danger to an individual's health and safety.
 - Damage to the environment.
 - A deliberate attempt to cover up any of the above.
- Make the disclosure in the public interest.
- Reasonably believe the information is true.
- Believe the whistleblowing allegation is being made to the right person.

As well as using the Council's facility there are outside agencies whistleblowers can contact. However, an employee can only inform the outside agency if they reasonably believe the disclosure lies within the remit of that agency; and the information disclosed, and any allegation contained within it, is substantially true.

Whistleblowers' Rights

An employee cannot be dismissed because of whistleblowing. If they are, the employee can claim unfair dismissal provided they satisfy that the main reason for the dismissal was the making of the disclosure they believed to be true, in the public interest and told to the right person.

An employee cannot miss out on opportunities for promotion, transfer, training, or any other benefits because of whistleblowing. Also, they cannot be bullied, harassed, or victimised on the grounds of whistleblowing. If they do suffer detriment, they can bring a claim before an Employment Tribunal. The Council is responsible for an act of detriment committed by an employee against a colleague. An employee who victimises their whistleblowing colleagues will also be held personally liable.

Who is Protected?

The following people are protected:

- Employees
- Agency workers
- People who are training with an employer, but not employed
- Self-employed workers, and
- Home workers

Who is Not Protected?

Employees are not protected from dismissal if:

- They found out about the wrongdoing when someone wanted legal advice, for example, if they are a solicitor
- They break the law when making the disclosure, for example, they signed the Official Secrets Act.

Employment Tribunals

Employees who are dismissed, or who suffer detriment on the grounds of whistleblowing, can take a claim before an Employment Tribunal. There is no minimum length of service required by an employee before they can bring a case of unfair dismissal or detriment, on the grounds of whistleblowing.

If the tribunal decides the employee has been unfairly dismissed, it will order that they:

- Get their job back, and/or,
- Receive financial compensation.

If the Employment Tribunal decides the employee has suffered detriment, they will award compensation.

There is no upper limit on the level of compensation an Employment Tribunal may award. However, a tribunal judge can reduce any compensation awarded by up to 25%. This will be done if they find the whistleblower did not make the disclosure in good faith.

5. Safeguards

Harassment or Victimisation

The Council recognises the decision to report a concern can be a difficult one to make because of the fear of retaliation.

The Council will not tolerate harassment or victimisation and will take action to protect employees when they raise a concern in the public interest. Employees who victimise colleagues who have made a disclosure will be held responsible and appear at an Employment Tribunal for their actions. An employee who causes detriment to a whistleblowing colleague will be disciplined.

Confidentiality

The Council will do its best to protect the identity of individuals who raise concerns and do not want their names to be disclosed.

It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence necessary to show that an allegation is correct.

Anonymous Allegations

Concerns expressed anonymously are much less powerful than concerns to which you put your name, but anonymous allegations will be considered at the discretion of the Chief Internal Auditor. Accounts will be taken of the:

- Seriousness of the issue raised
- Credibility of the concern raised
- Likelihood of confirming the allegation from attributable sources.

Untrue Allegations

If you make an allegation in the public interest and you reasonably believe it to be true, but it is not confirmed by the investigation, no action will be taken against you. If, however, you make malicious or vexatious allegations, the allegations will not be taken further, and it will result in disciplinary action being taken against you. The judgement of whether an allegation is malicious or vexatious rests with the Chief Internal Auditor.

6. Preventing Fraud, Corruption, and Bribery

The best way to tackle fraud, corruption and bribery is to prevent it from happening in the first place. Maintaining and publicising whistleblowing facilities that allow and encourage the public to report concerns, for example, the whistleblowing hotline and web reporting facilities, will help the Council in this regard.

7. Whistleblowing and Investigation Arrangements for the Public

Confidentiality

The Council will do its best to protect the identity of anyone who raises concerns and does not want their name to be disclosed. However, the investigation process may reveal the source of the information and your statement may be required as part of the evidence necessary to show that an allegation is correct.

Anonymous allegations

Concerns expressed anonymously are much less powerful than concerns to which you put your name. Anonymous allegations will be considered at the discretion of the Chief Internal Auditor. Account will be taken of the:

- Seriousness of the issue raised
- Credibility of the concern
- Likelihood of confirming the allegation from attributable sources.

How your complaint will be dealt with

The Chief Internal Auditor will log all reports and carry out a review in each case to determine the most appropriate course of action. The action will depend on the nature of the concern. Any matters which fall within the scope of other existing procedures, for example, child protection, complaints, or discrimination issues, will be dealt with under these procedures. Some concerns may be resolved by agreed action without the need

for investigation. Matters to be investigated may be:

- Dealt with internally by Internal Audit or other specialist sections such as the Trading Standards Unit, or
- Referred to the Police or other external agency.

Where possible, the Council will advise you that your allegation has been received.

The Council may also ask for more information where this would help in the investigation.

Investigations may result in recommendations for changes to procedures and systems which will be included in action plans. Follow up reviews are carried out to make sure that recommendations are implemented.

Investigations may lead to disciplinary action against employees. These will be conducted according to the Council's disciplinary procedures.

Where appropriate, after discussion with the Chief Executive or Executive Manager – Governance and Law, the Chief Internal Auditor will refer findings to the Police for investigation or review.

Depending on the results of any enquiries it may not be possible to advise you of the outcome. Examples would include if the matter were referred to the Police for further enquiries, or to protect an individual's human rights if the complaint is dealt with under the Council's disciplinary procedures.

8. How to raise a concern

The Council's Whistleblowing Arrangements are managed by the Chief Internal Auditor.

You can report your concerns by:

- Phoning **xxxxxxx**. The Whistleblowing Hotline will be answered when possible and at other times you can leave a voicemail message.
- Filling in our online form at www.shetland.gov.uk/whistleblowing. This option allows you to attach any documentary evidence to support your concern.
- Emailing fraud@shetland.gov.uk. This option also allows you to attach any documentary evidence in support of your concern.

If your concern relates to Social Security benefit fraud, including Housing Benefits and Universal Credit, please contact, Social Security Scotland - www.mygov.scot/benefit-fraud or the Department for Work and Pensions - www.gov.uk/whistleblowing/contacts

The earlier the concern is expressed, the easier it is for us to take action.

Although you are not expected to prove the truth of an allegation, you will need to demonstrate to the person contacted that there are sufficient grounds for concern.

9. Services provided on behalf of the NHS

The National Whistleblowing Standards set out how the Independent National Whistleblowing Officer (INWO) expects all NHS service providers to handle concerns that are raised with them, and which meet the definition of a 'whistleblowing concern'.

If you are a Council employee and have a concern regarding a service provided on behalf of the NHS, then this should be raised directly with management. However if you would prefer to raise it independently and in confidence then you can raise it in line with this Whistleblowing Policy by phoning the Whistleblowing Hotline on **xxxxxxx**, or filling in a form at www.shetland.gov.uk/whistleblowing or emailing fraud@shetland.gov.uk. All concerns raised will be logged, and Internal Audit will thereafter liaise with the Confidential Contacts within the NHS in line with the National Whistleblowing Standards.

The Independent National Whistleblowing Officer (<https://inwo.spsa.org.uk/>) is available to provide advice for a whistleblowing concern regarding NHS services and can be contacted at 0800 008 6112. A concern can also be raised directly with the Independent National Whistleblowing Officer if, after reporting locally, you remain concerned.

10. Internal Audit Contact Details

Duncan Black – Chief Internal Auditor

duncan.black@glasgow.gov.uk

0141 287 4053

Jillian Campbell – Senior Audit Manager

jillian.campbell@glasgow.gov.uk

0141 287 4247