Shetland Islands Council

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Date: 17 September 2019

Dear Sir/Madam

You are invited to the following meeting:

Special Audit Committee
Council Chamber, Town Hall, Lerwick
Wednesday 25 September 2019 at 10am

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Mr A Duncan
Vice-Chair: Ms C 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 Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

Items

1. Annual Audit Report on the 2018/19 Audit - Shetland Islands Council and Zetland Educational Trust
F-053

2. Annual Audit Report on the 2018/19 Audit – Shetland Islands Council Pension Fund
F-052

3. Audit Scotland and other External Reports
ACP-07-19

	Shetland Islands Council	Agenda Item **1**

Meeting(s):	Audit Committee Shetland Islands Council	25 September 2019
Report Title:	Annual Audit Report on the 2018/19 Audit – Shetland Islands Council and Zetland Educational Trust	
Reference Number:	F-053-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee:

a) NOTES the findings of the 2018/19 audit as contained in the external auditor's annual report at Appendix 1;

b) NOTES the Action Plan as outlined in the Annual Report;

c) CONSIDERS a verbal report by the external auditor;

d) CONSIDERS the audited Annual Accounts for 2018/19 (Appendix 2) for Shetland Islands Council;

e) CONSIDERS the audited Annual Accounts for 2018/19 (Appendix 3) for Zetland Educational Trust; and

1.2 That Shetland Islands Council RESOLVES to:

a) NOTE the findings of the 2018/19 audit as contained in the external auditor's Annual Report at Appendix 1;

b) APPROVE the Action Plan and management responses as outlined in the auditor's Annual Report;

c) APPROVE the audited Annual Accounts for 2018/19 (Appendix 2) for Shetland Islands Council for signature; and

d) APPROVE the audited Annual Accounts for 2018/19 (Appendix 3) for Zetland Educational Trust for signature.

2.0 High Level Summary:

2.1 The Local Authority Accounts (Scotland) Regulations 2014 ("the Regulations") require the Council to prepare and publish annual accounts that are subject to external audit. The Council's appointed external auditor is Deloitte LLP.

2.2 Section 10 of the Regulations requires the Council to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.

2.3 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.

2.4 The External Auditor's findings, otherwise known as their ISA260 report, are included in the Annual Audit Report at Appendix 1. For the 2018/19 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 2019.

2.5 The Council approved the unaudited accounts for the year ending 31 March 2019 earlier this year, on 26 June 2019. Following adjustments made to the accounts, the accounting surplus has decreased by £2.71m and net assets have decreased by £2.52m as a result of the changes made, and are more fully explained on page 30 of Appendix 1.

2.6 The Annual Audit Report (Appendix 1) also includes an Action Plan with recommended improvements following the audit of the financial statements. The recommendations are noted in paragraph 4.5 below. These recommendations are in addition to the recommendations made in the earlier Interim Audit Report.

2.7 The Annual Audit Report also includes findings in relation to the audit of the Trustees' Annual Report and Financial Statements of Zetland Educational Trust and Shetland Leasing and Property Developments Limited (SLAP) as detailed on page 17 and 18 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 reporting arrangements.

4.0 Key Issues:

4.1 The Council's accounts for the year to 31 March 2019 were submitted to the External Auditor by the statutory deadline of 30 June 2019. The External Auditor was required to complete the audit by 30 September 2019 and to report on certain matters arising to those charged with governance.

4.2 The Annual Audit Report (Appendix 1) highlights three significant risk areas that auditors reviewed, as follows:

- Recognition of grant income
- Valuation of property assets, *and*
- Management override of controls

4.3 Pages 9 to 14 of the Annual Audit Report presents how, in each of these areas, the result of the audit control testing was satisfactory.

4.4 During the financial statements audit, a number of errors and omissions were identified which required an adjustment to rectify. An overview of these errors and required adjustments are detailed on pages 30 to 34 of Appendix 1. A summary of the corrected misstatements for the Council and Group are detailed below:

- Adjustment to the Comprehensive Income and Expenditure Statement (CIES) to correct the draw from the Community Care Reserve £0.19m;
- Adjustment to the gross income and gross expenditure in the CIES to correct the removal of internal recharges £1.81m. The net impact on the CIES was £nil;
- Adjustment to the CIES, pension liability and pension reserve to account for the impact of the McCloud judgement £2.52m;
- Adjustment for investment income and pension interest costs reducing the General Fund and increasing Housing Revenue Account by the same amount £1.66m. The net impact on the usable reserves was £nil;
- Following review of the property portfolio of SLAP, the valuation of assets was reduced by £1.55m, with a corresponding reduction in reserves;
- Adjustment to the goodwill of £1.61m with a corresponding reduction in the investment value. The net impact on net assets was £nil; and
- Following a subsequent valuation on the SLAP property portfolio on an operational valuation basis, property, plant and equipment increased by £10.56m with a reduction in investment properties by £9.115m.

4.5 In addition to the recommendations made in the interim audit report (min ref:43/19) the External Auditor suggests an Action Plan at page 36 of Appendix 1, with 3 further recommended improvements arising from the financial statements audit. The recommendations relate to:

- Valuation of property assets
- Adoption of International Financial Reporting Standard (IFRS) 16 – Leases, and
- Review of financial statements

4.6 The progress of recommendations arising from the financial statements audit identified in the 2017/18 Action Plan are also noted in the Annual Audit Report. There are two items, both of which are fully implemented. Details can be found at page 37 of Appendix 1.

4.7 As well as reviewing the annual accounts, the scope of the audit includes wider audit dimensions, such as governance, transparency, financial management and financial sustainability. The External Auditor made a number of recommended improvements and are contained in the Interim Audit Report (min ref: 43/19) which was presented to the Audit Committee in June 2019. The key audit findings in this report were:

- **Financial sustainability:** The Council is not in a financially sustainable position. While the Council is aware of its funding gap in the short-to medium term and is taking action to address this, it has planned an unsustainable draw on reserves of £3.5m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

- **Financial management:** The Council has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.

- **Governance and transparency:** The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always ‘striving for more’. While attendance at meetings is good, scrutiny could be improved through better sharing of Council workload and the development of tailored training plans for Members. The Council needs to significantly improve its approach to self-assessment. It should develop a self-assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self-assessment arrangements in place. The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

Value for money: While the Council’s performance continues to fare well against the national average, this comes at substantial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not. Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focussed on continuous improvement. The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

The interim audit report, and associated audit action plan, can be found here: https://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24214

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to approve the audited Annual Accounts for signature no later than 30 September each year.
6.5 Finance:	None arising from this report.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	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:	The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity. 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.
6.11 Previously considered by:	n/a

Contact Details:
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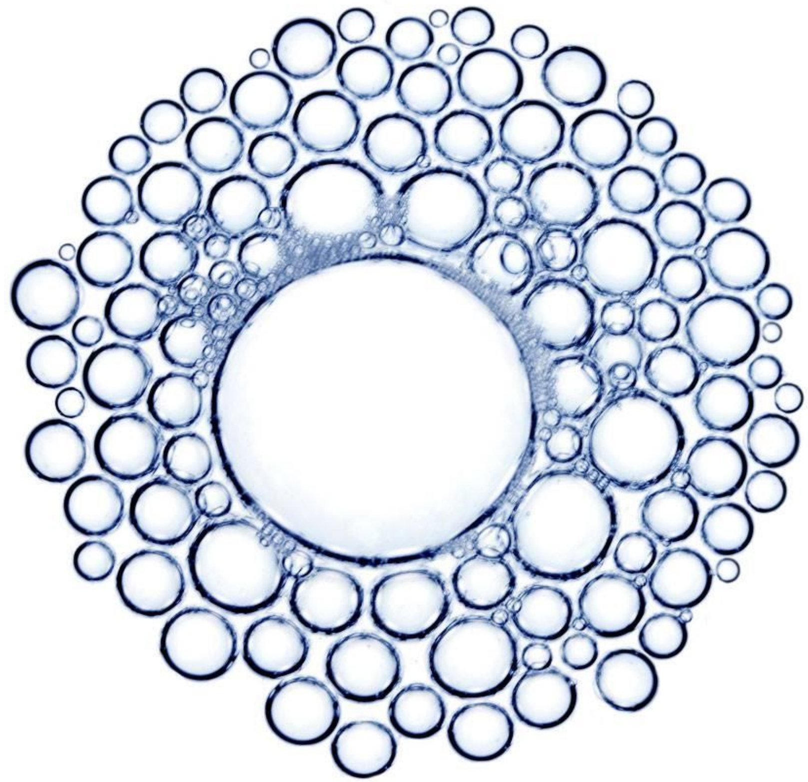
jamie.manson@shetland.gov.uk
11 September 2019

Appendices:
Appendix 1: Annual Audit Report 2018/19 for Shetland Islands Council (incorporating the Zetland Educational Trust)
Appendix 2: Audited Annual Accounts 2018/19 for Shetland Islands Council
Appendix 3: Audited Trustee's Annual Report and Financial Statements 2018/19 for the Zetland Educational Trust

Background Documents:
The Local Authority Accounts (Scotland) Regulations 2014



Shetland Islands Council

Report to the Audit Committee, Members of the Council and the Controller of Audit on the 2018/19 audit

Issued 4 September 2019 for the meeting on 25 September 2019

Contents

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee and Members of Shetland Islands Council (the Council) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in March 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of Best Value and the five Strategic Audit Priorities agreed by the Accounts Commission.

3

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

Following amendments to points identified through the audit process, the management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Council.

Following changes arising from audit, we are satisfied that the auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 9.

A total of 4 audit adjustments in excess of our reporting threshold for the Council of £155,000 have been identified up to the date of this report, as discussed further on page 30. It should be noted that the adjustment relating to the pension liability (£2.522m) is as a result of a post balance sheet event rather than an error by management. The net impact of audit adjustments is to reduce the General Fund balance by £2.404m (with a corresponding increase in the Housing Revenue Account of £1.658m and Capital Fund of £0.746m). We identified 9 disclosure deficiencies in the Council's accounts, set out on page 31.

One audit adjustment has been identified in relation to the audit of Shetland Leasing & Property Developments Ltd ('SLAP'), set out on page 32. This had the effect of reducing equity by £1.55m.

A further 2 audit adjustments in excess of our reporting threshold for the group of £158,000 have been identified, set out on page 33. We identified 2 disclosure deficiencies in the group accounts, set out on page 34.

Our audits of Zetland Educational Trust ('ZET') and SLAP are substantially complete, as discussed further on page 17 and page 18. An unmodified opinion is expected to be issued for ZET.

As management intend to liquidate SLAP in 2019/20, it is no longer a going concern. Our audit opinion includes an emphasis of matter to confirm that, in forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the notes to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers, care income and increased focus on openness and transparency.

Our detailed interim report, presented to the Committee in June 2019, set out our findings and conclusions on each dimension. We have updated this for any significant changes since that report and our overall conclusion on each dimension is summarised on page 5 and 6.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – The Council is not in a financially sustainable position. While the Council is aware of it's funding gap in the short-to-medium term and is taking action to address this, it has planned an unsustainable draw on reserves of £3.5m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

Financial management – The Council generally has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.

Governance and transparency – The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council business workload and the development of tailored training plans for Members.

The Council needs to significantly improve its approach to self assessment. It should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

Value for money – While the Council's performance continues to fare well against the national average, this comes at substantial financial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not.

Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Value for money (continued) – The Council needs to work with its partners in the NHS and Integration Joint Board ('IJB') to address the issues facing the IJB, which can be progressed through a review of the Integration Scheme required by mid 2020.

We considered that if appropriately managed, progressed and monitored, the Council should achieve value for money from the decision to purchase SLAP and progress with the College Merger. Since the issuing of our interim report, a number of issues with the acquisition of SLAP have arisen from which lessons must be learned to ensure value for money in future projects, as discussed on page 27.

Our conclusions are included on pages 24 to 27 of this report, with the detailed findings and agreed Action Plan included in our interim report in June 2019. Management have agreed to all the recommendations in the Action Plan and are in the process of implementing them.

We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

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

This is provided throughout this report, our Interim Report and the Sector Development paper presented in June 2019. In particular we have added value through our work with the Council on its Business Transformation Programme ('BTP') and Service Redesign Programme ('SRP'), sharing best practice in this area. We also believe that our input has encouraged a constructive discussion of the Council's approach to openness and transparency and how it works to improve outcomes for local residents.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the Council continues to face significant financial pressures due to an increase in costs and demand for services as well as a risk of reduced available funding.

The integration of health and social care continues to be a challenge.

Materiality

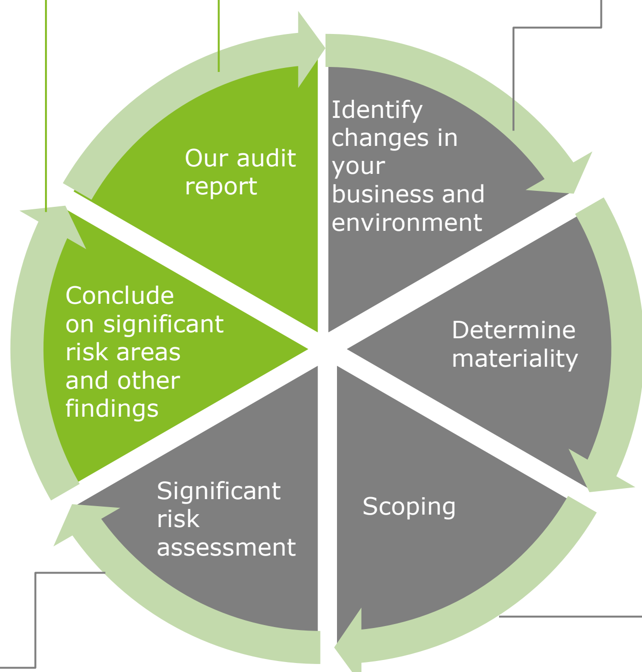
Group materiality of £3.164m (Council only £3.119m) and group performance materiality of £2.531m (Council only £2.495m) has been based on the benchmark of gross expenditure and is a slight decrease from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment.

We have reported to you all uncorrected misstatements greater than £0.158m for the group and (Council only £0.155m).

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.



Quality and Independence

We confirm we are independent of Shetland Islands Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of the audit

We have audited the group financial statements for the year ended 31 March 2019 of Shetland Islands Council.

We concluded that only the Council and SLAP were significant components, and have performed a full audit of both. No other entities have been deemed material for inclusion in the consolidated group financial statements.

Timeline 2018/19

November 2018 – February 2019
Meetings with management and other staff to update understanding of the processes and controls.

20 March 2019
Presented planning paper to the Audit Committee

31 March 2019
Year end

26 June 2019
Presented interim report to the Audit Committee

July-August 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

21 August 2019
Audit close meeting

25 September 2019
Audit Committee

25 September 2019
Accounts sign-off

Financial statements audit

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Recognition of grant income	✓	✓	D+I	Satisfactory		Satisfactory	10
Valuation of property assets*	✓	✗	D+I	Satisfactory		Satisfactory	11
Management override of controls*	✓	✓	D+I	Satisfactory		Satisfactory	12

* These risks apply to the audits of both the Council and SLAP

Overly prudent, likely to lead to future credit — Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 - Recognition of grant income

Risk identified

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

Key components of income for the Council are summarised in the table below. The revenue support grant and non-domestic rates income are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. Council tax and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other service income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error. The significant risk is therefore pinpointed to the recognition of grant income, comprising capital grants and contributions, and grants credited to services.

Key judgements and our challenge of them

Grant income is a significant risk due to:

- management judgement in determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Deloitte response

We have performed the following:

- assessed management's controls around recognition of grant income; and
- tested a sample of capital grants and grants credited to services to confirm these have been recognised in accordance with any conditions applicable and applicable accounting standards.

Type of income	2018/19 (£m)	Significant risk
Taxation and Non-Specific Grant Income		
Council tax income	9.372	
Non domestic rates	23.851	
Revenue support grant	56.727	
Capital grants and contributions	*6.461*	✓
Service Income		
Grants credited to services	*18.263*	✓
Housing Benefit Subsidy	3.137	
Housing Revenue Account	6.965	
IJB commission income (book entry)	22.553	
Harbour Account	30.237	
Other Service Income	15.314	
Total Service Income	**96.469**	

Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting. One error has been identified (£2.092m), as detailed on page 31, whereby service income was not disclosed as a grant, however this is simply a disclosure misstatement and the income has been correctly recognised in the Comprehensive Income and Expenditure Statement (CIES).

Significant risks (continued)
Risk 2 - Valuation of property assets

Risk identified
The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. In the prior year audit, an internal control deficiency in relation to the valuation of property assets was identified relating to segregation of duties in the valuation process.

The same significant risk applies to SLAP and the group accounts.

Key judgements and our challenge of them

The Council held £273.338m of property assets at 31 March 2019. The financial year to 31 March 2019 represented year two of a five year rolling programme in which 20% of the portfolio were revalued along with 100% of Council dwellings. Due to prevailing market conditions, there was an overall revaluation gain in the year.

SLAP held £14.992m of investment properties at 31 March 2019. The full portfolio was revalued in the year – in addition to SLAP's property, plant and equipment.

Deloitte response
- We assessed management's controls around the valuation of property assets;
- We reviewed the revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
- We considered material changes in assets not subject to full revaluation during the year.
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the council's internal valuation specialists, including sample testing of inputs to the valuation; and
- For valuations performed prior to the year end, where the valuer confirms to the Council that there are no significant differences between the valuation date and 31 March 2019, we have challenged whether any potential impact of a "Brexit shock" has been included and concluded that it is reasonable not to include.

Deloitte view
We have concluded that the net book value of the Council's property assets is not materially misstated. The Council's valuation assumptions are generally reasonable, in line with other Councils and fall within our expected range.

For SLAP, we have concluded that the valuation of investment properties was overstated by £1.55m, as highlighted on page 32. This has been corrected by management.

For the group, we have concluded that the valuation of investment properties was overstated by £10.561m, with property, plant and equipment understated by £9.115m. This was due to an incorrect basis of valuation being adopted, as set out on page 33. This has been corrected by management.

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified

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

Deloitte response

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

- the Council's results throughout the year were projecting overspends in the year. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval.

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

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

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud, as set out in the summary on the following page. We concluded that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements including goodwill, investments, the pension liability, valuation of property assets, valuation of fishing quota, provisions and consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instrument), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

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

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

We have identified errors in the determination of goodwill in the Group accounts of £1.61m, as set out on page 33. Adjustments to valuations of property assets and pensions are discussed further on page 11 and 15 respectively.

Significant risks (continued)

Risk 3 - Management override of controls (continued)

Key judgements	The key judgment in the financial statements are those which we have selected to be the significant audit risks around the recognition of grant income (page 10) and valuation of property assets (page 11). While not considered to be a significant audit risk, we have considered the assumptions used to calculate the pension liability (page 15). In the table below, we set out our challenge of the assumptions used in the determination of the value of fishing quota, investments, provisions and expected credit loss. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements. As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Investments	The Council holds investments at fair value, with valuations provided to the Council by independent fund managers. 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.	Investments are managed by external fund managers, with the valuation of investments provided by them independently. While the balance sheet value is material, the Council only records what they are advised by the independent fund managers in terms of valuations and gain/losses on disposals. The Council have little scope to manipulate the balances as the fund managers provide monthly reports with a comprehensive breakdown of additions, disposals and revaluations. After consultation with financial instrument experts to review the assumptions and valuations performed by the fund managers, as well as agreeing the valuation of investments to third party evidence or developing a point estimate based on adjusted net asset values, we concluded that management's estimates are within a reasonable range.
Fishing Quota	The Council holds a substantial amount of fishing quota, leased to third parties for use in the year. The valuation of fishing quota is performed by an independent expert. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market.	All valuations are completed by an external expert. Deloitte are satisfied that the independent valuer is suitably competent and has the capabilities to carry out a valuation of the fishing quotas held by the Council. We have assessed management's expert and developed an independent estimate of the value based on information obtained from the active market in the year. We have also assessed the Council's valuation against fishing quota held by similar local authorities and assessed the movement against the movement in the market in the year. We have concluded that fishing quota are held at a reasonable value.

Significant risks (continued)

Risk 3 - Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The total provisions held within the Council's balance is material, at £3.972m. The balance is primarily comprised of the pension cessation costs as a result of the Shetland College, Train Shetland and NAFC merger, accounting for £3.271m. The calculation of this amount has been determined by the Council's independent actuary.	We examined the rationale for each provision, including a retrospective review of amounts provided in 2017/18. We have also challenged the completeness of the provisions made through discussion with the Council's legal advisors. For the pension cessation costs, we confirmed that the calculation was provided by the same actuaries we assessed for the pension liability. We have confirmed that the amount recorded by the Council is in line with the amount provided by the actuary. We concluded that the provisions made were reasonable.
Expected credit loss (IFRS9)	The risk of default across the classifications has been assessed by management as being low. 39% of the Council's debtors are with other public bodies for which there is no expected credit loss. For the remaining 61% of debtors – representing £9.72m at the year end – an expected credit loss of £0.27m (2.8%) has been posted by the Council.	We have confirmed that it is appropriate in line with the Code to consider that amounts owing by public bodies do not have any expected credit loss. We have assessed the historic bad debt and write-offs of amounts owing to the Council and developed an independent point estimate, which was in line with the amount provided by the Council. We are therefore satisfied that the estimate is reasonable.

Other matters

Defined benefits pension scheme

Background
The Council participates in two defined benefits schemes:

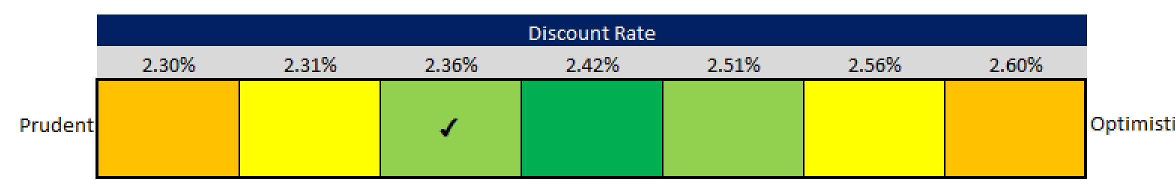
- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Shetland Islands Council Pension Fund, administered by the Council.

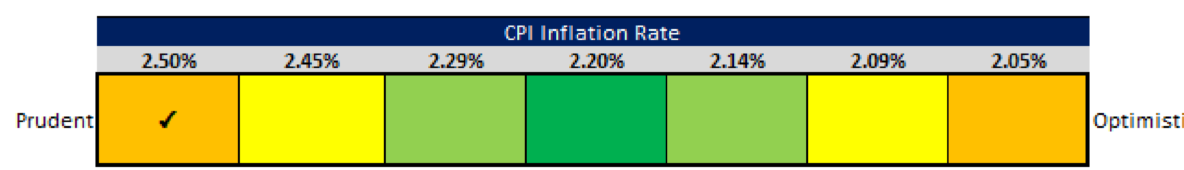
After taking into account the adjustment noted on the following page in relation to the McCloud judgement, the net pension liability has increased from £165.171m in 2017/18 to £209.906m in 2018/19. The increase is as a result in changes in assumptions, specifically the discount rate has reduced and salary increase rate has increased, together with the impact of McCloud.

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table opposite;
- we assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements;
- we have reviewed and challenged the calculation of the impact of the McCloud case and GMP on pension liabilities;
- we reviewed the disclosures within the accounts against the Code; and
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.4	2.42	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.5	2.2	Prudent
Salary increase (% p.a.) (over CPI inflation)	0.6	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.5	2.25	Prudent
Pension increase in deferment (% p.a.)	2.5	2.2	Prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.1	21.70	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.9	23.60	Reasonable, slightly prudent





Other matters (continued)

Defined benefits pension scheme (continued)

Impact of McCloud ruling

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following changes made to public service pension scheme legislation in 2014. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

In December 2018, the Court of Appeal ruled that the transitional protection gave risk to unlawful discrimination on the basis of age. The Government requested leave to appeal the decision to the Supreme Court, however the request was denied on 27 June 2019. As a result, certain scheme members will need to be compensated for any discrimination suffered as a result of the transitional protections. As Scottish Public Service Pension Schemes implemented the changes to the legislation in 2015, this may impact benefits accrued from 1 April 2015 for these members.

The Council’s actuary has provided an updated results schedule which included an allowance for the additional liability potentially arising as a result of the McCloud ruling. This has resulted in an audit adjustment of £2.522m for past service costs (approximately 1.2% of the pension liability) arising from this post balance sheet event.

The calculation of this amount was based on the Government Actuary Department’s analysis, adjusted for local circumstances. Based on the limited information available, the amount appears reasonable.

Impact of Guaranteed Minimum Pension (GMP) indexation

In order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in 2016 in respect of people, who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, where full inflationary increases will be provided by the scheme.

In January 2018, this interim solution was subsequently extended to members who reach SPA between 6 December 2018 and 5 April 2021.

Details of any permanent solution are still unknown.

No allowance has been made for the potential additional liability in respect of GMP indexation. We have not seen many schemes allowing for GMP indexation due to the uncertainty regarding the permanent solution, however we note that Hymans Robertson LLP have made allowance for other Scottish LGPS. Therefore, not making an allowance for GMP indexation is reasonable.

Deloitte view

On the whole, the set of assumptions is reasonable and lies towards the prudent end of the reasonable range when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS 19.

The allowances made for the McCloud ruling are reasonable and within the expected range. The decision not to include any allowance for GMP does not result in the pension liability being outwith a reasonable range and therefore no error has been identified.

Other matters (continued)

Charitable trusts

Risk identified

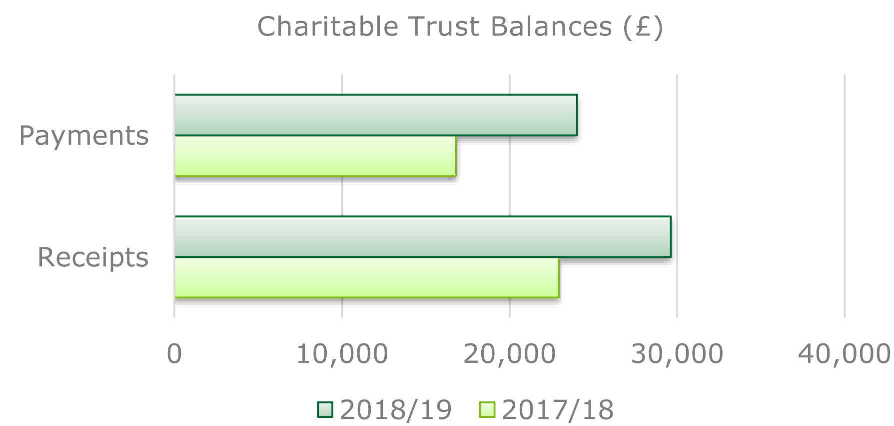
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. Shetland Islands Council administers one such registered charity – Zetland Educational Trust.

As the gross income of the Trust is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. A couple of disclosure issues were identified, relating specifically to the naming of Trustees and the signing of the accounts, which were corrected by management.

A summary is provided in the table adjacent. We note that there has been very little movement in the Trust over the last 12 months, with the movements largely relating to interest from investments held.



Deloitte view

Following adjustments made arising from audit of Zetland Educational Trust's accounts for the year, we are satisfied that they have been correctly accounted for in accordance with the Regulations.

Other matters (continued)

SLAP

Risk identified

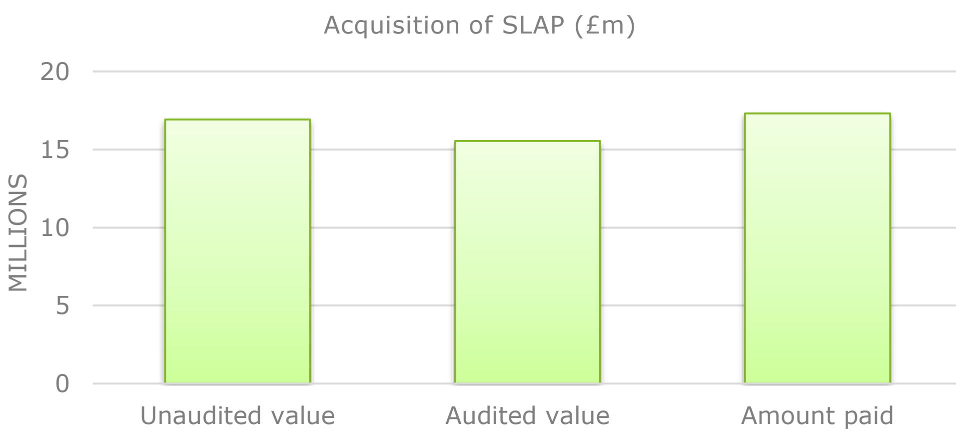
In August 2018, the Council approved a decision in principle to purchase SLAP. The agreement to purchase was finalised in October 2018. In April 2019, the Council hived up the company into the Council, with the company being expected to be dissolved in 2019/20.

The acquisition of SLAP required to be accounted for in line with IFRS 3 Business Combinations. There are numerous complex accounting entries and legal requirements involved in the acquisition, including but not limited to consideration of goodwill or bargain purchase amounts, legal compliance requirements in hiving up the reserves of SLAP and revaluing SLAP's investment properties which become operational on transfer to the Council. Given that SLAP remained an active company as at 31 March 2019, the Council is required to prepare consolidated annual accounts for 2018/19, including additional disclosures in the accounts for group accounting purposes.

Despite involving substantial complexity, this has not been identified as a significant risk given that the valuation of properties is addressed through our significant risk on valuation of property assets (page 11) and there is immaterial goodwill or bargain purchase arising on the acquisition.

Deloitte response – SLAP

- SLAP performed an independent valuation of its investment property portfolio. This was then subjected to review and challenge by our independent experts. Based on this work, an impairment in the value of properties held by SLAP of £1.55m was identified, as set out on page 11.
- We assessed the steps taken by management to reduce SLAP's share capital and increase its reserve by a corresponding amount, confirming all steps required by legislation were appropriately completed.
- We performed a full audit of SLAP's accounts, with adjustments as set out on page 32.



Deloitte response – Council

- We recalculated the goodwill recorded by the Council on the acquisition of SLAP, which is the premium paid by the Council above the fair value of the company. The amount recorded by the Council (£0.16m) was calculated incorrectly, with an adjustment of £1.61m to record the amount correctly being posted (page 33).
- We assessed the disclosures in the Council's accounts with regards to the acquisition of SLAP and following changes arising during audit, are satisfied that these comply with requirements.
- We have considered the impacts of the adjustments to the fair value of SLAP and the acquisition and implementation process on value for money at page 27.
- We have reviewed the Council's fixed asset register and lease disclosures to ensure assets are not double counted.

Deloitte view

An emphasis of matter, which does not modify our audit opinion, will be included in the audit report for SLAP given that it is no longer a going concern. See page 27 for our consideration of the impact of the adjustments on value for money. See page 32 for SLAP adjustments and page 33 for group adjustments.

Following these adjustments being corrected by management, we are satisfied that the Council has correctly accounted for the acquisition of SLAP.

Other matters (continued)

Implementation of IFRS 9 and IFRS 15

Matter identified	The Council was required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Council is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The Council has posted no retrospective adjustments with regard to IFRS 15 as there is no material impact on the financial statements. For IFRS 9, the Council has transferred the Available for Sale Financial Instruments Reserve to the General Fund from 1 April 2018, by recycling accumulated gains through the CIES.
Response	Management prepared papers and held discussions regarding the accounting impact of the new standards on the Council for the period and determined that the impact of IFRS 15 is immaterial, whereas IFRS 9 is material. The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. IFRS 9 also introduced changes in the recording of gains and losses on long-term investments. This resulted in the Council's accumulated gains being recycled through the CIES in the year, with accumulated gains now sitting in an earmarked reserve in the General Fund. All future movements in investments will be recorded in the CIES. Regarding IFRS 15, officers were satisfied that no transitional adjustments would be required as the Council's larger sources of income including grant income, rents and taxation are outside of the scope of the standard and in other income streams which fall within the scope of IFRS 15 there are no material performance obligations which span the year end. This is consistent with a general expectation for local authorities which have not entered into material unusual transactions. Both IFRS 9 and IFRS 15 include disclosure changes, with these being actioned by the Council.

Deloitte view

The Council has correctly accounted for the impact of IFRS 9 and IFRS 15. We are satisfied that, following changes made during the audit process, the Council's accounts comply with the Code requirements in respect of disclosures for these new standards. Management are to be commended for their detailed papers on the new standards and their impact on the Council.

Through our detailed analysis of income to assess the impact of the application of IFRS 15, we identified errors in the disclosure of grant income of £2.092m, the failure to remove internal recharges (£0.7m) as required by a change in the Code and the recording of the use of reserves (£0.2m). These errors are set out in detail on pages 30 and 31 and have been corrected by management.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Risk management: Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. As reported in our "Sector developments paper" presented to the Audit Committee in March 2019, the changes introduced by the standard will have substantial practical implications for Councils that currently have material leases, and also likely to have an effect on the capital financing arrangements of the authority. CIPFA/ LASAAC included a readiness assessment questionnaire in the consultation document which will help Councils consider their own preparedness. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	●
Internal control: Review of financial statements	Through our audit work, a substantial number of errors were identified (pages 30 – 34) which arose primarily due to journals being missed and incorrect formulae being used to drive the financial statements. These errors are simple in nature and should have been picked up by the Council's internal review process prior to the publication of the unaudited financial statements. The Council needs to ensure that it has a more thorough internal review of the supporting working papers which are used in the preparation of the financial statements prior to their publication.	●

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Our audit report

Other matters relating to the form and content of our report

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

Our opinion on the financial statements

Based on our work completed to date, our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

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

While the Council is faced with financial sustainability issues (as discussed on page 25), it achieved a balanced budget in 2018/19. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) public bodies will continue in operation, therefore it is appropriate to continue as a going concern.

Emphasis of matter and other matter paragraphs

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

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

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 22.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance..

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focusses on the strategic planning context.	We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Following amendments made during the course of the audit – in relation to including KPIs, links to outcomes and updating narrative to ensure that it is fair, balanced and understandable – we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages and apart from a disclosure misstatement, which is highlighted on page 31 and which has been corrected, we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that Shetland Islands Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We have required management to make changes in light of the findings of our interim report issued in June 2019, but are satisfied following these changes that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions

Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our conclusions on our audit work covering the following area, with our detailed findings and conclusions reported to the Audit Committee in June 2019 as part of our **Interim Report**. Our report is structured in accordance with the **four audit dimensions**, but also covers our specific audit requirements on strategic audit priorities, best value, statutory performance indicators and specific risks as summarised below.

Financial sustainability | **Financial management** | **Value for money** | **Governance and transparency**

Audit Dimensions

Strategic Audit Priorities

As set out in our Annual Audit Plan, the Accounts Commission sets out five Strategic Audit Priorities that are built into audit expectations, as follows:

- Having clear priorities with a focus on outcomes, supported by effective long term planning
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

Best Value (BV)

The BV framework follows a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. The Best Value Assurance Report (BVAR) report for Shetland Islands Council is planned for year five in the five-year programme (i.e. 2020/21). The BV audit work in 2018/19 was integrated into our audit approach, including our work on the audit dimension.

Statutory Performance Indicators

We have assessed the suitability of the arrangements for preparing and publishing the information, closely linked to our work on the Strategic Audit Priority "Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes".

Specific risks

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks faced by the public sector which we have considered as part of our work on the four audit dimensions.

- EU Withdrawal
- Changing landscape for public financial management
- Care income, financial assessments and financial guardianship
- Dependency on key suppliers
- Openness and transparency

Our conclusions on the above were reported in our **Interim Report** to the Audit Committee in June 2019.

In relation to EU Withdrawal, we have received assurance that the Council continues to maintain a watching brief on developments and plan as far as possible in response to changes.

Audit dimensions (continued)

Financial sustainability and financial management

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

Key facts:

2018/19 financial position

- £15.31m use of reserves (£4.83m under budget)

2019/20 financial position

- £17.57m use of reserves planned for 2019/20

Medium-term financial position

- £15.6m recurring savings needed by 2023/24

Overall conclusions

The Council has achieved short-term financial balance but over the medium to longer term is not in a financially sustainable position. The Council has planned an unsustainable draw on reserves of £3.5m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24.

The medium-term funding gap identified by the Council is optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

Our review of capital budgeting and spend raises questions about the achievability of the Council's Asset Investment Plan and the robustness of its capital budgeting process. For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. Management have accepted the above points and the related recommendations as set out in our Interim Report, and are progressing action on them in 2019/20.

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

Key facts:

2018/19 budget

- Original budgeted expenditure of £107.71m
- Savings of £0.41m achieved, against budgeted savings of £1.94m
- Overspends reported during the year across the Council
- Regularly reported to management and Members

Overall conclusions

The Council generally has effective financial management processes in place. There is room for improvement in the budget setting process and the reporting of progress and changes in year. The Council also needs to better align its budget with its Corporate Plan, making clear how the budget progresses the Council's priorities. Management have accepted this recommendation and are making progress on it in 2019/20.

To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Management have confirmed they will review this option.

We note that issues raised in relation to the NFI exercise in 2016/17 have arisen again in the 2018/19 exercise, in relation to prioritisation, resourcing and responsible officers. The Council needs to put plans in place this year to ensure these issues do not recur for the 2020/21 exercise. Management have confirmed they will address these issues for 2020/21.

The Council has changed internal auditors in the year, given the retirement of its Chief Internal Auditor. The internal audit function is now provided by 'Audit Glasgow', the internal audit service in Glasgow City Council. The transition has been well managed.

Audit dimensions (continued)

Governance and transparency and value for money

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

Key facts:

- High attendance at Council meetings
- Consistent leadership team in place at the Council

Overall conclusions

The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council business workload and the development of tailored training plans for Members.

The Council needs to significantly improve its approach to self assessment. It should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

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

Key facts:

- The Local Government Benchmarking Framework shows an increase in 30 indicators, decrease in 28 indicators and no change in 18 indicators in 2017/18 compared to 2016/17.
- A number of performance issues have been highlighted by the Housing Regulator in relation to homelessness services.

Overall conclusions

While the Council's performance continues to fare well against the national average, this comes at substantial financial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not.

Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

Audit dimensions (continued)

Governance and transparency and value for money (continued)

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

Overall conclusions (continued)

The Council needs to work with its partners in the NHS and Integration Joint Board ('IJB') to address the issues facing the IJB, which can be progressed through a review of the Integration Scheme required by mid 2020.

We considered that if appropriately managed, progressed and monitored, the Council should achieve value for money from the decision to purchase SLAP and progress with the College Merger. Since the issuing of our interim report, a number of issues with the acquisition of SLAP have arisen from which lessons must be learned to ensure value for money in future projects.

Acquisition of SLAP

In relation to the acquisition of SLAP, we noted in our Interim Report that:

"The Full Business Case for the acquisition of SLAP identifies a rate of return for the acquisition of 7.14%, with the net present value of the acquisition being in excess of £7m. The acquisition of SLAP will reduce annual lease expenditure of the Council by over £1.2m. Appropriate due diligence was performed which did not identify any issues with the approach or methodology used in the Full Business Case. While the acquisition of SLAP itself is not transformative, it enables the Council to explore transformative actions and to identify alternative models of service delivery given that it has much more control over its property base."

"The Full Business Case produced for the acquisition of SLAP demonstrate clear financial savings which can be made, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved."

"The Council needs to carefully monitor progress against these actions to ensure that benefits are realised, and a post-implementation benefits realisation analysis should be performed by the Council to ensure any areas of good practice and lessons learned are appropriately used in future. "

We have reviewed the acquisition and implementation of it during our financial statements audit and have made the following observations:

1. Completion accounts were not filed with the former parent entity within the agreed timeframe, resulting in the council being unable to recoup the difference between the amount paid and the fair value per the completion accounts as set out in the purchase agreement. This resulted in the Council failing to recoup £0.38m. We are aware that the Council is currently considering the impact and the recovery mechanism available to it in respect of this amount.

2. The due diligence performed on the completion accounts should have been more thorough. From our engagement of an independent expert, in discussion with the Council's internal valuer, we concluded that the value of SLAP's assets in the year-end (and completion accounts) was overstated by £1.55m. Had the Council undertaken independent valuations of SLAP's property portfolio prior to the acquisition, the price paid by the Council to acquire SLAP could have been up to £1.55m less.

3. The Council did not appropriately plan and resource the implementation of the acquisition and the subsequent hive up process, consequently failing to complete the hive up of SLAP by the year-end, resulting in assumed savings not being realised in the year and additional costs being incurred by the Council (in relation to professional fees, management time and audit costs).

These issues reduce the benefits anticipated by the business case developed for the purchase of SLAP. However, the Council will still benefit from the acquisition in the longer term. We are pleased to note that the Council has planned an internal 'lessons learned' debrief. These issues and their causes must be addressed to ensure that appropriate scrutiny is demonstrated by Members based on accurate and complete information and that value for money is obtained in future projects.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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

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

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow

4 September 2019

Audit adjustments

Summary of Council corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) CIES £m	Debit/ (credit) MIRS £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m	If applicable, control deficiency identified
Misstatements identified in current year						
Classification of use of reserves as income	*[1]*	0.186	(0.186)	-	-	
Completeness of internal recharges	*[2]*	-	-	-	-	
Pensions – McCloud judgement	*[3]*	2.522	(2.522)	(2.522)	2.522	
Classification of reserves	*[4]*	-	-	-	-	
Total		**2.708**	**(2.708)**	**(2.522)**	**2.522**	Page 20

[1] In the year, the Council drew down £0.186m of its Community Care Reserve for services provided in the year. The correct recording of this is to simply incur the expenditure and the reserves will be reduced by the year-end deficit. This has no impact on the General Fund.

[2] The Council failed to exclude all internal recharges from its gross income and gross expenditure as required by a change in the Code in the year. The net impact on each line in the CIES and the CIES as a whole is £nil, but gross expenditure and gross income are both reduced by £1.810m.

[3] As discussed on page 16, the McCloud judgment has been confirmed as final following the Supreme Court's refusal of leave for the UK Government to appeal the ruling. This has resulted in the pension liability being adjusted to account for the impact of this judgment, with a corresponding increase in the pension reserve. The impact of this is a £2.522m increase in both the liability and the reserve. This has no impact on the General Fund.

[4] The Housing Revenue Account reserves in the Movement in Reserves Statement did not match the amount in the Housing Revenue Account statement. On investigation of the Integra system, it was noted that amounts relating to investment income and pension interest costs were incorrectly coded to the General Fund when they should have been coded to the Housing Revenue Account. An adjustment has been posted to correct for this. This reduces the General Fund by £1.658m (and increases the Housing Revenue Account by the same amount).

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Audit adjustments (continued)

Summary of Council corrected and uncorrected misstatements and disclosure deficiencies (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit Committee to evaluate the impact of those matters on the financial statements. We have identified the following corrected disclosure misstatements:

Note	Description
Remuneration Report	Exit packages were misstated by £0.002m.
Remuneration Report	No disclosure of remuneration or accrued pension and pension contributions should be made for senior councillors and officers where they have not been remunerated in 2018/19.
CIES	The surplus on revaluation of available for sale financial instruments and amounts recycled on derecognition should not be included in Other Comprehensive Income and Expenditure following changes as a result of IFRS 9. This reduces the amount recorded by £2.524m.
Cash Flow Statement	A number of classification errors were identified, namely: 1. "Cash effects are investing or financing cash flows" being reduced by £0.745m, with "other receipts from investing activities" being increased by the same amount. 2. "Depreciation, impairment and revaluations" being reduced by £0.351m, with "other non-cash items" increasing by the same amount.
Note 12 – Grants Credited to Services	The Council received £2.092m of grants from the Shetland Charitable Trust in the year which should be disclosed as a grant credited to service. This replaced the previous partnering arrangement for the Rural Care Model.
Note 19 – Financial Liabilities	The fair value of financial liabilities was understated by £11.404m.
Note 28 – Operating Leases	The lease payment amounts for 2-5 years and more than 5 years were amended as follows: 1. Lessee – Reduce 2-5 years by £1.056m and increase more than 5 years by the same amount 2. Lessor – Reduce 2-5 years by £1.340m and increase more than 5 years by the same amount 3. Sublease – Reduces 2-5 years by £0.785m and increase more than 5 years by the same amount These amendments have a net £nil impact.
Note 32 – Related Parties	Transactions with North Atlantic Fisheries College need to be included, whereas those with SLAP do no need to be. The net effect of these adjustments is to reduce the amount disclosed by £0.194m.
Note 33 – Capital Financing	A classification error was identified whereby the "lease principal" figure was overstated by £1.796m with the "PFI contract principal repayments" being understated by the same amount.

Audit adjustments (continued)

Summary of SLAP corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) income £m	Debit/ (credit) reserves £m	Debit/ (credit) in net assets £m	If applicable, control deficiency identified
Misstatements identified in current year					
Property Valuation	*[1]*	-	1.55	(1.55)	
Total		**-**	**1.55**	**(1.55)**	

[1] Following review of the property portfolio of SLAP – including both investment properties and property, plant and equipment – our independent expert determined that the amounts recorded by management were overstated by £1.55m. Management's valuer agreed. This resulted in assets being reduced by £1.55m and reserves by a corresponding amount.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit Committee to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work

Audit adjustments (continued)

Summary of Group corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) CIES £m	Debit/ (credit) MIRS £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m	If applicable, control deficiency identified
Misstatements identified in current year						
Goodwill on acquisition of SLAP	*[1]*	-	-	-	-	
Valuation of investment properties	*[2]*	-	-	(1.446)	1.446	
Total		**-**	**-**	**(1.446)**	**1.446**	Page 20

[1] The amount of goodwill recorded by the Council was incorrectly calculated. An adjustment of £1.611m was posted to correctly recognise the goodwill arising on the acquisition of SLAP. This reduces the investment value by the same amount.

[2] The Council did not originally value group-owned properties on the correct basis. A subsequent valuation was performed to correctly value operational assets, resulting in investment properties being reduced by £10.561m and property, plant and equipment being increased by £9.115m, with reserves being reduced by £1.446m.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Audit adjustments (continued)

Summary of Group corrected and uncorrected misstatements and disclosure deficiencies (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit Committee to evaluate the impact of those matters on the financial statements. We have identified the following corrected disclosure misstatements:

Note	Description
Note 28 – Operating Leases	The lease payment amounts for less than 1 year, 2-5 years and more than 5 years were amended as follows: 1. Lessee – Increase less than 1 year by £1.448m, 2-5 years by £4.505m and more than 5 years by £4.335m 2. Lessor – Increase less than 1 year by £2.210m, 2-5 years by £7.421m and more than 5 years by £25.023m 3. Sublease – Increase less than 1 year by £0.821m, 2-5 years by £3.285m and more than 5 years by £1.247m
Note 15 – Investment Properties	Reduce the amount of investment properties by £10.561m.

Action plan

Recommendations for improvement

Our interim report submitted to the Audit Committee in June 2019 reported our detailed recommendations arising from our work on the wider audit dimensions. In this report, we made 22 recommendations, as follows:

Wider audit dimension	Recommendations made
Financial sustainability	7
Financial management	5
Governance and transparency	8
Value for money	2

We have made three recommendations arising from our financial statements audit, as set out on page 36.

We will follow up these recommendations and report to the Audit Committee on progress as part of our 2019/20 audit.

In our interim report, we followed up on recommendations for improvement made in 2017/18 on the wider scope areas. The following page reports our follow up of the recommendation made in relation to the financial statements audit.

A summary of progress against 2017/18 actions has been included below. Of the 10 recommendations outstanding, 6 have an updated recommendation included above. Consequently, there are 26 total recommendations which we will follow up in our 2019/20 audit.

Area	Recommendations made	Recommendations implemented
Financial statements	2	2
Financial sustainability	4	1
Financial management	2	-
Governance and transparency	5	1
Value for money	3	2

Action plan (continued)

Recommendations for improvement (continued)

Recommendations for improvement arising from the wider scope work are included in the Interim Report, with a summary on the preceding page. The below recommendations arising from our financial statements work are also to be addressed.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Valuation of property assets	Where the Council's valuer is deviating from recognised third party data sources for build costs, the rationale for this and supporting evidence needs to be clearly set out. The Council should assess useful lives of housing stock in line with industry averages. The valuer should ensure that investment properties are valued net of Land & Building Transaction Tax, agent and legal fees. (See page 11 for details.)	Standard practice is to use published industry figures which are adjusted for location and date. Where the Council has deviated from the third party build costs, such deviations only occur where accurate and actual build costs for the same or similar properties are known to the Council from existing Council projects and is noted in the valuation commentary. The Council will ensure the justification for any deviation in the future is set out clearly and supported by appropriate evidence. In the future, the Council will assess the useful life of the housing stock at valuation in line with industry averages where applicable. The Council will ensure that the cost of sale and LBTT will be factored in to the valuation for investment properties in the future.	Executive Manager – Capital Programmes	31/3/20	Medium
IFRS 16	Given issues identified in the testing of operating leases both historically and in the current year, we recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems. (See page 20 for details.)	The Council is undertaking a review of its operating leases in preparation for implementation of IFRS 16 from 1 April 2020, with a view to providing an updated opening balance position to auditors by end of June 2020.	Executive Manager – Finance	30/6/20	Medium
Review of financial statements	The Council needs to ensure that it has a thorough internal review of the supporting working papers which are used in the preparation of the financial statements prior to their publication. Going forward, we would expect to see documented evidence of the amendments identified in the review process by the Financial Accountant and Executive Manager – Finance. (See page 20 for details.)	The finance team will undertake a 'lessons learned' exercise shortly after the conclusion of the annual external audit in the autumn. This exercise will capture any learning points arising from the 2018/19 audit, which will be subsequently built into our planning for preparing the 2019/20 accounts.	Executive Manager – Finance	30/6/20	Medium

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas in our Interim Report. In 2017/18, we made two recommendations arising from our financial statements work and are pleased to note that both have been fully implemented.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Valuation of property assets	The Council should ensure that the post of Valuer, independent of the Team Leader of Estates and Assets, is filled for 2018/19 and that sufficient segregation of duties exist between the person carrying out the valuation of property assets and the person carrying out the technical review of that work.	Management have confirmed that the post has been filled for 2018/19.	Executive Manager – Capital Programmes	31/12/18	High	*Fully implemented:* We have confirmed that the post has been filled and appropriate segregation of duties has been maintained in the valuation process in 2018/19.
Valuation of property assets	A number of recommendations have been made in review of the valuation exercise, undertaken by our property specialists. These points should be considered when preparing the valuation report in the coming year.	Management confirmed that they aim to address all recommendations in the year they are raised, and that they will follow up and implement all recommendations made with regards to the valuation process in 2018/19.	Executive Manager – Capital Programmes	31/12/18	High	*Fully implemented:* We are pleased to note that the recommendations made by our independent expert have been actioned by management. In 2018/19, our independent expert praised the quality of the work prepared by the Council's valuer in relation to council housing stock.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

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

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

Audit work performed:

In our planning we identified the achievement of recognition of grant income, property valuations and management override of controls as key audit risks for your organisation.

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

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

We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.

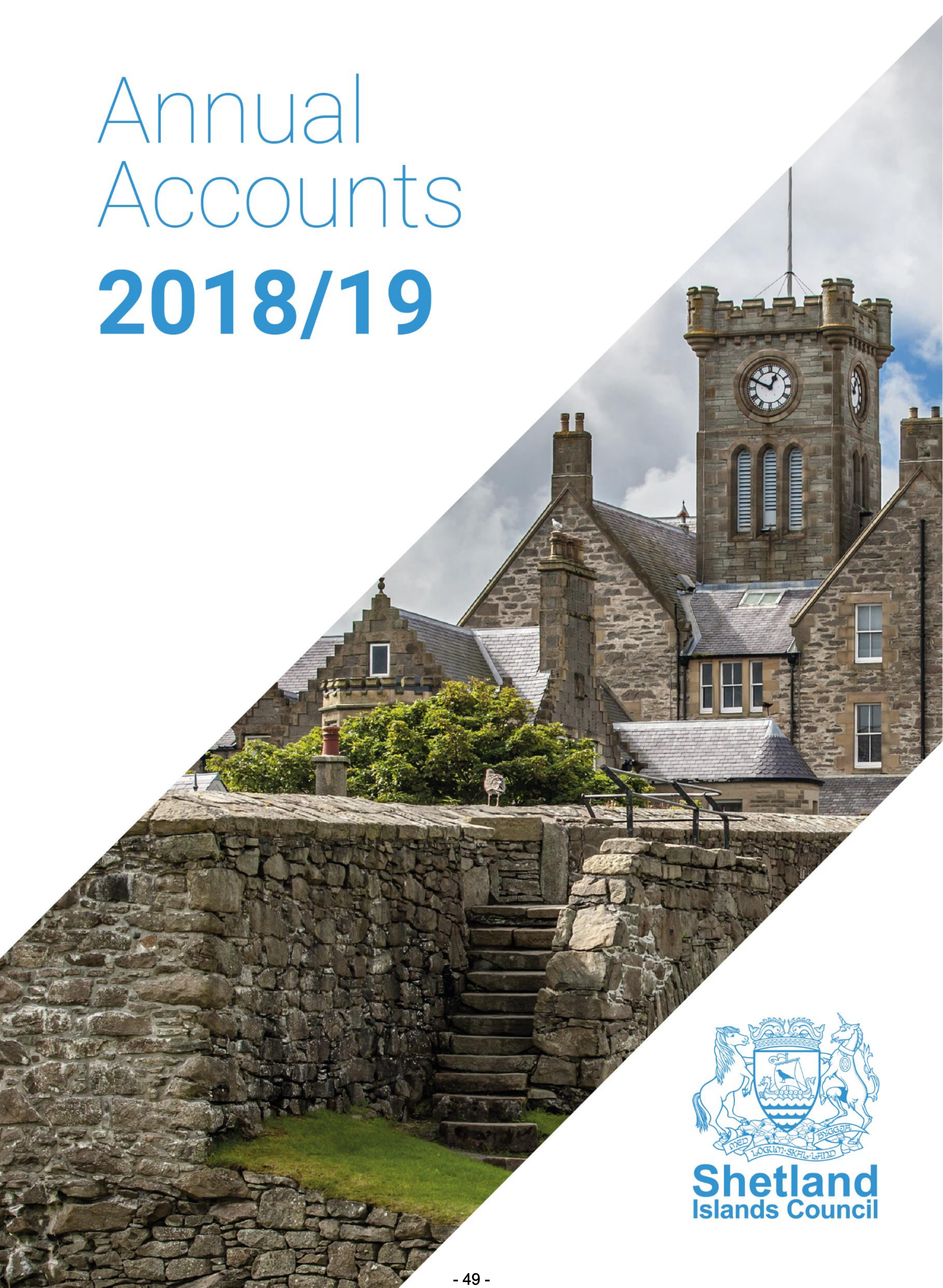
Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2018/19, above the fee range provided by Audit Scotland due to additional work in the year in relation to the College Merger, acquisition of SLAP, IFRS 9 and group accounts, is £246,730 as broken down below: £ Auditor remuneration 177,420 Audit Scotland fixed charges: Pooled costs 13,560 Contribution to PABV 46,970 Audit support costs 8,780 **Total agreed fee 246,730** In addition, the audit fee for the charitable trusts audit is £400. Non-audit services fees of £24,000 (plus VAT) have been charged in the year, in relation to tax due diligence services provided on the 'Effective and sustainable tertiary education, research and training in Shetland' project. The provision of these services was agreed with Audit Scotland in accordance with audit planning guidance. We were appointed as statutory auditor for SLAP for 2018/19, for which fees of £33,500 (plus VAT) have been agreed. This fee will be levied on and paid by SLAP as a distinct entity, rather than being paid through the Council.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Deloitte.

Annual Accounts
2018/19



Shetland
Islands Council

Contents

Management Commentary

Introduction

The Annual Accounts present the financial statements of Shetland Islands Council for the year ended 31 March 2019.

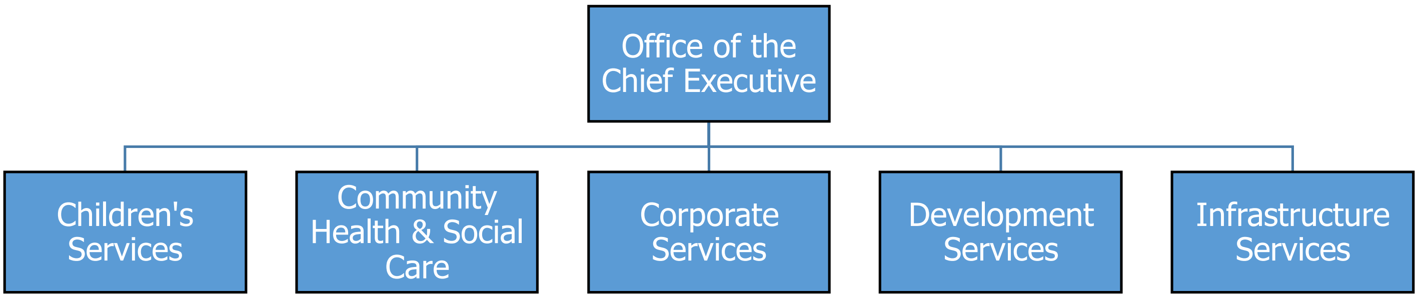
The purpose of the Management Commentary is to present an overview of the Council's financial performance during the year 2018/19 and to help readers understand its financial position as at 31 March 2019. In addition, it outlines the main risks and uncertainties facing the Council for the financial year 2018/19 and beyond.

Background

Shetland Islands Council is one of 32 local authorities in Scotland.

It is governed by 22 elected members (21 independent and 1 SNP) serving a population of approximately 23,000 people. Subsequent to the year-end, one independent member resigned as an elected member following their successful election as MSP for the Shetland Islands. The Council is currently organising a by-election to fill the vacant seat.

The Council is organised to provide and deliver its services to the public, such as schools, public transport, economic development, social care, environmental health, housing, ports and harbours and roads, as follows:



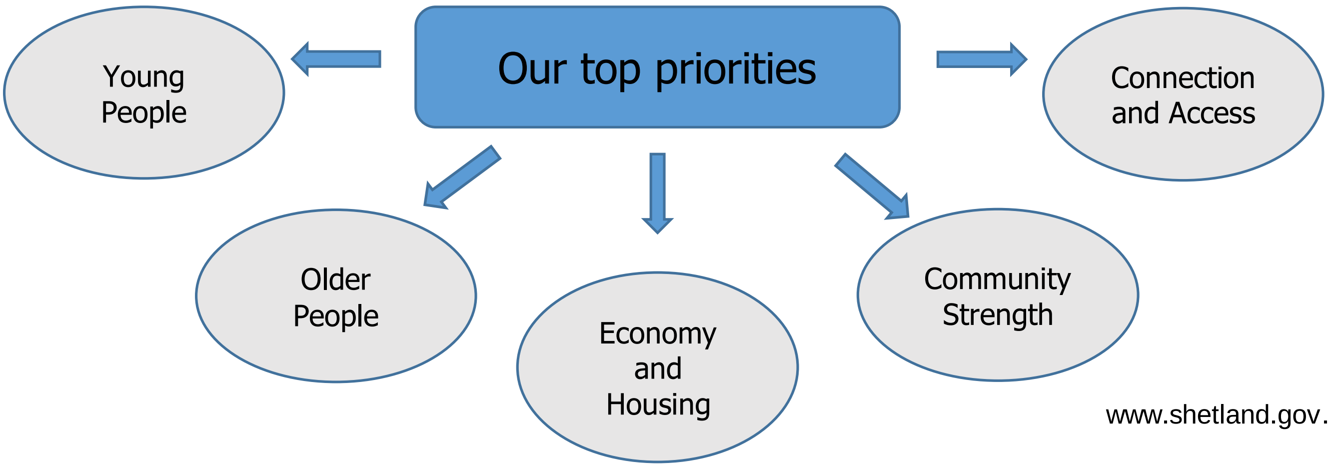
Full details on the services provided can be found on the Council's website: www.shetland.gov.uk

Strategy and Performance Management

Corporate Plan

Shetland Islands Council has a four-year corporate plan. Called 'Our Plan 2016-2020', it sets out the Council's vision as follows:

> "By the end of this plan (2020), we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland"



A half-way progress report was reported to the Policy and Resources Committee in March 2019. This table provides an update on the five top political priority areas that were set out in the Plan.

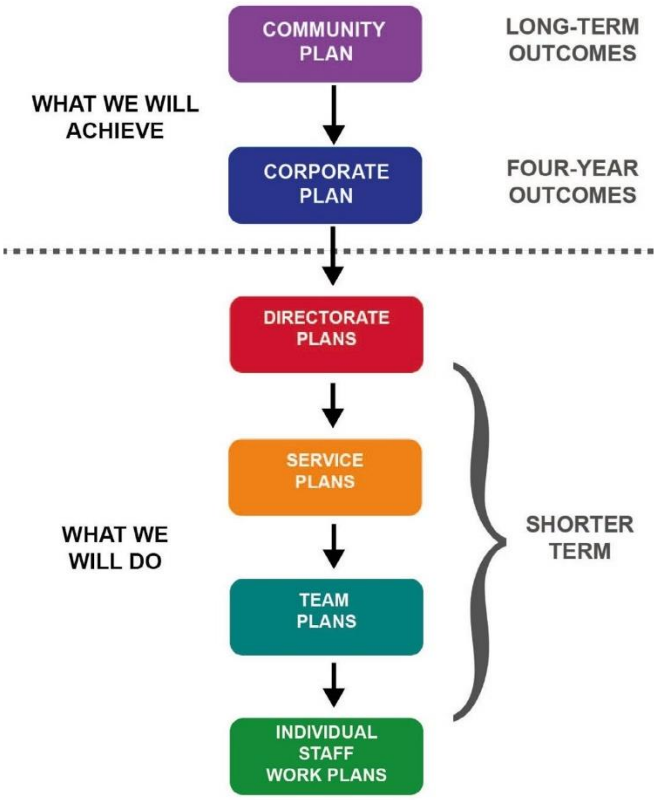
Political Priority Area	Progress to 2018/19	Progress in 2018/19	Planned Action 2019/20 onwards
Complete and move into the new Anderson High School and Halls of Residence.	The new Anderson High School and Halls of Residence welcomed pupils in October 2017. The new campus is providing an exciting and stimulating learning environment for Shetland's young people.	The new Anderson High School building was formally opened in September 2018 by John Swinney, Deputy First Minister and Cabinet Secretary for Education and Skills.	Project complete, no further action required.
Support older people across Shetland so they can get the services they need to help them live as independently as possible.	Develop Anticipatory Care Plans (ACP) - Since April 2016, there has been a continuous month on month increase in the number of anticipatory care plans in place, increasing from 917 in April 2016 to 1,119 in March 2018; Develop intensive rehabilitation service - The Intermediate Care Service (ICS) has been expanded and has become a key component of the care pathway for older people; Self Directed Support (SDS) - Since 2016, there has been an increase in the number of people choosing to direct their own support through 'direct payments'; 'With You For You' - Since 2016, changes to the way we refer, assess and review the support offered to individuals has been implemented. This has made a significant improvement, enabling greater ease of access to support, getting the right staff involved, and ensuring assessment processes are focused on what is important to and for individuals.	ACP - Trial use of the Key Information Sheet from the national ACP document which has increased the uptake in completion of ACPs to its current level and will remain current practice. The number of ACPs in place at March 2019 was 1,127. ICS - The Intermediate Care Team is firmly embedded to support reablement with investment in the Otago Falls Prevention programme to help avoid people injuring themselves and requiring treatment. SDS - Significant investment in training and coaching to support staff in finding ways to meet needs through innovative approaches and flexibility of services.	Continue to support older people across Shetland helping them to live as independently as possible.

Political Priority Area	Progress to 2018/19	Progress in 2018/19	Planned Action 2019/20 onwards
Provide quality transport services within Shetland, and push for improvements in services to and from Shetland.	The Shetland Transport Strategy was refreshed over the course of the second half of 2017 and the first half of 2018. The process adopted an extensive engagement process, which identified six main issues that the refreshed strategy should address: Lifeline Transport; Transport Robustness; Community Support; Integration Support; Behavioural Change; and Change Management.	Development of the supporting draft delivery plan and performance indicators.	The supporting draft delivery plan was approved by the Zetland Transport Partnership in April 2019. The performance indicators are due to be reported late 2019.
Increase the supply of affordable housing in Shetland.	Over the two years from April 2016 to March 2018, 183 new houses were built (118 private housing and 65 social housing).	In 2018/19 62 new houses were built (46 private housing and 16 social housing).	Strategic Housing Investment Plan 2019/20 - 2023/24 to build 316 new affordable homes in the next five years.
Improve high-speed broadband and mobile connections throughout Shetland.	The Council has assisted staff in the Scottish Government who are preparing the Reaching 100% (R100) project. R100 should enable more settlements in Shetland to access high-speed broadband including some of the hard-to-reach places not included in the previous Broadband Delivery UK project.	The Council was awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst.	The delivery of R100 to begin in 2019. Work on the full fibre broadband connections expected to start in late 2019 with project completion expected mid 2020.

The corporate plan and progress report can be found on the Council's website:

http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf
http://www.shetland.gov.uk/our-plan-progress-report.asp

The Corporate Plan describes how, as a strategy, it fits in with other local plans. Its objectives stem from the priorities enshrined in the community plan, as described in the following diagram:



The outcomes of the Corporate Plan then cascade to the Council's directorate plans and on through the organisation to individual work plans.

Community Planning

The Council is a statutory member of the Shetland Partnership, which is the local Community Planning Partnership for Shetland. There are five statutory partners with equal responsibility for community planning in Shetland. These are Shetland Islands Council, NHS Shetland, Police Scotland, Scottish Fire and Rescue Service and Highlands and Islands Enterprise (HIE). The five lead agencies work in partnership with a network of organisations drawn from across the public, private and third sectors in Shetland. Shetland's Partnership Plan 2018-2028 sets out what the Partnership aims to achieve across Shetland over the long term.

The Shetland Partnership is responsible for preparing a Local Outcomes Improvement Plan (LOIP) under the Community Empowerment (Scotland) Act 2015 known as the Community Plan ('Shetland Partnership Plan'). This aims to empower community bodies by giving them more say in decisions about public services.

Shetland's Partnership Plan fulfils that requirement and is the principal strategic planning document for the delivery of public services in Shetland.

Shetland's Partnership Plan 2018-2028 proposes a shared vision that:

"Shetland is a place where everyone is able to thrive; living well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges"

Shetland's Partnership Plan will be supported by delivery plans. The Council's activities that contribute to the target outcomes in Shetland's Partnership Plan will be monitored by the Council and its committees as appropriate.

Shetland's Partnership Plan 2018-2028 outlines four shared priorities, as follows:

People
Individuals and families can thrive and reach their full potential

Participation
People can participate and influence decisions on services and use of resources

Place
Shetland is an attractive place to live, work, study and invest

Money
All households can afford to have a good standard of living

The Shetland Partnership has undertaken work to ensure compliance with the legislation introduced by Part 2 of the *Community Empowerment (Scotland) Act 2015* which brought about changes to how community planning works. Further information regarding the omission of a specific Locality Plan for Shetland is detailed in the Annual Governance Statement.

The Shetland Partnership has fulfilled its duty of reviewing and reporting on progress with community planning as detailed in the Annual Report 2017/18, which can be found at: https://www.shetland.gov.uk/communityplanning/documents/ShetlandPartnershipAnnualReport2017-18.pdf

Analysis of a wide range of data and evidence demonstrated what life is like for people in Shetland and the challenges Shetland faces in the short, medium and long term.

Shetland's Partnership Plan 2018-2028 was approved by the Council on 27 June 2018. It is built on an evidence-based understanding of local needs, circumstances and opportunities.

Positives

Challenges

The Shetland Partnership Delivery Plan 2019-22 which provides a delivery plan for each priority: People, Participation, Place and Money, was reported to the Policy and Resources Committee in July 2019.

More information can be found at: http://www.shetland.gov.uk/communityplanning/ShetlandPartnership.asp

National Performance Framework

The vision and priorities within the Shetland Partnership Plan 2018-2028 align with the outcomes adopted by the National Performance Framework.

The framework sets out national outcomes to help achieve its purpose as illustrated below. Further information can be found at: https://nationalperformance.gov.scot/index.php/national-outcomes

The following table shows examples of how the outcomes for Shetland align with the national outcomes:

National Outcome	Shetland Partnership Plan Outcome Examples
We tackle poverty by sharing opportunities, wealth and power more equally.	By 2021 no more than 35% of households in Shetland are in full poverty (2018 - 53%)
We live in communities that are inclusive, empowered, resilient and safe.	By 2021 we will demonstrate community participation in decision making and how that participation has improved the outcome
We grown up loved, safe and respected so that we realise our full potential.	The proportion of child protection cases involving parental alcohol and drugs misuse will have reduced by at least a third by 2020.
We are well educated, skilled and able to contribute to society.	Positive destinations for school leavers to at least 97% participation by 2021. (2018 - 96.1%)
We have thriving and innovative businesses, with quality jobs and fair work for everyone	At least 13,700 employees in Shetland by 2021 (increase of 80 per annum)
We are healthy and active	People engaging in physical activity to at least 80% by 2021 (2018 - 77%)
We value, enjoy, protect and enhance our environment	Carbon emissions are within at least 60% of the Scottish average by 2021 (2018 - 75%)

Council Performance

The draft Performance Management Framework (PMF) was approved by the Council and IJB in July 2019. It is part of the 'commissioning cycle' which seeks to provide good evidence to ensure that services are prioritised, designed and delivered to meet need. It is built on reporting the delivery of outcomes and strategic objectives; performance indicators being readily and openly available; and performance data encompassing a wide range of information in support of strategic objectives. The PMF is available to view online at: http://www.shetland.gov.uk/coins/viewDoc.asp?c=e%97%9De%94m%7E%90

Each Directorate periodically reports on performance to their relevant Committee. The below table includes an example of the Key Performance Indicators (KPIs) extracted from Directorate Performance Reports. More data is available on the Council's performance web page, called Our Performance Matters, which can be accessed at: http://www.shetland.gov.uk/about_performance/default.asp

Key Performance Indicator	2017/18			2018/19		
	Target	Achieved	% Variance	Target	Achieved	% Variance
Finance						
General Fund Spend	£112.8m	£109.1m	3.3%	£109.9m	£114.1m	3.8%
Harbour Account Surplus	(£9.376m)	(£11.324m)	20.8%	(£8.914m)	(£13.652m)	(53.2%)
Housing Revenue Account Deficit	£0.484m	(£1.048m)	(316.5%)	£1.289m	£1.644m	27.5%
Whole Council						
Sickness absence	4.0%	4.0%	0.0%	4.0%	4.1%	0.1%
FOISA responded to within 20 day limit	95%	93%	(2.0%)	95%	89%	6.0%
Children's Services						
Attendance - primary school pupils	95.1%	95.1%	0.0%	95.1%	95.7%	0.6%
Attendance - secondary school pupils	91.9%	92.7%	0.8%	91.9%	93.8%	1.9%
Corporate Services						
% of press releases featured in the local media	95%	97.5%	2.5%	95%	99%	4.0%
% of payments invoices paid on time	90.0%	90.8%	0.8%	90.0%	91.6%	1.6%
Community Care Services						
Number of 65 and over receiving Personal Care at Home	200	196	(2.0%)	200	205	2.5%
Number of people waiting for a permanent residential placement	10	8	(20.0%)	10	4	(60.0%)
% of early supported discharges with no readmission in 30 days by ICT	100%	100%	0.0%	100%	100%	0.0%
Development Services						
Success rate of external funding applied for by community groups	66.0%	72.7%	6.7%	66.7%	67.8%	1.1%
Households with home internet access (comparison to Scotland)	85%	87%	2.0%	85%	92%	7.0%
Infrastructure Services						
Food Hygiene Inspection Programme completed	100%	53%	(47.0%)	100%	87%	(13.5%)
% of household waste recycled (value per Qtr4 of 2018/19)	10.5%	7.9%	(2.6%)	10.5%	19.4%	8.9%
Tonnes of CO2 from council operations	26,100	25,805	(1.1%)	24,220	25,086	3.6%

The Local Government Benchmarking Framework (LGBF) provides a range of indicators that show how the Shetland Islands Council is performing over time and against other local authorities. The following table contains information on how the Council has performed. More data can be explored online at the LGBF website at: http://www.improvementservice.org.uk/benchmarking/explore-the-data.html

Directorate	2016/17	2017/18	% change	Future Improvement
Children's Services				
Cost per secondary school pupil	£10,996	£10,985	-0.10%	Annual National Improvement Framework Plans will continue to set out how the Council intends to close the poverty related attainment gap;
Cost per primary school pupil	£7,927	£7,656	-3.42%	
Cost per pre-school pupil	£5,669	£5,607	-1.09%	
Average tariff score	1,041	990	-4.90%	
Teacher sickness absence (working days)	5.12	7.30	42.58%	A recently revised Mental Health Policy to ensure absences are being managed in the most effective way.
Corporate Services				
Cost per home of Council Tax collection	£14.23	£12.80	-10.05%	A recently revised Mental Health Policy to ensure absences are being managed in the most effective way.
Council Tax collection rate	97.10%	97.10%	0.00%	
Employee Sickness absence (working days)	9.01	10.29	14.21%	
Community Care Services				
Cost of residential care for older people (per person, per week)	£1,369	£1,349	-1.46%	Continue to drive efficiencies and integrate services to reduce running costs and while increasing opportunities for people to stay at home longer;
Cost of providing care to support older people to live at home (£ per hour)	£32.21	£46.76	45.17%	
What proportion of social care funding is allocated using personalised managed budgets	3.5%	3.3%	-5.71%	Continue to raise awareness of the SDS options at assessment and review with individuals and through training with staff.
Development Services				
% of procurement spent on local small/medium enterprises	40.9%	54.2%	32.52%	Cost to deliver planning application is dependent on the size and nature of development which can vary. The cost will continue to be reviewed and monitored.
Number of weeks to deliver commercial planning application decision (on average)	14.7%	12.7%	-13.61%	
Cost per planning application	£6,298	£7,638	21.28%	
Infrastructure Services				
Cost per premise on refuse collection	£48.90	£48.30	-1.23%	Introduction of kerbside recycling impacted on the collection frequency of non-recyclable waste to fortnightly which will have impact on satisfaction score;
Quantity of household waste recycled (comparison is 2017/18 to 2018/19)	8%	18%	118.75%	
Satisfaction of residents with local refuse collection	93%	92%	-1.08%	Further efficiencies through flexible use of staff and workplace planning exercise to train existing members of staff to EHO level.
Cost of providing environmental health (£ per 1,000 people)	£31,360	£35,442	13.02%	

Key Risks and Uncertainties

The Council maintains a Corporate Risk register and reports progress on a quarterly basis to the Policy & Resources Committee. The latest report was presented on 13 May 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24037

The following table highlights the key risks and uncertainties, and mitigating actions:

Infrastructure Maintenance	Mitigating actions
The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this.	The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer - term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013. Other measures in place include: MTFP, budget monitoring and scrutiny, clear and robust roles and responsibilities for managers and financial procedures and regulations.
Pension Fund	**Mitigating actions**
The SIC Pension Fund is not currently 100% funded. At 31 March 2017 triennial evaluation the Fund was 90% funded. The Fund, as well as the Council has a number of Scheduled and Admitted Bodies that have liabilities to fund over the long term. Admitted bodies failing or being unable to meet their contributions places risk from these arrangements on the Council, as the largest contributor to the Pension Fund.	Bodies seeking admission to the Pension Fund they now have to be supported in doing so by the Council (as a Schedule 1 Body) and also provide a guarantee / bond to meet any liabilities should they default in the future. This mitigates the risk to the Fund in relation to new employers. Deficits are estimated to be recovered over a period of less than 20 years in line with the Pension Fund Strategy objective of reaching 100% funding level by 2027.
Funding	**Mitigating actions**
Uncertainty over the state of public sector finances and the impact this will have on the level of funding the Council receives from the Scottish Government in the future. This includes uncertainty over the fair funding settlement from the Scottish Government and the impact this could have on internal ferry services in the near future.	The MTFP 2018/19 - 2023/24 provides the financial framework for the delivery of Council services in the near to medium term. It takes a prudent approach to Scottish Government funding projections for the 5 year period, recognising the likelihood of reductions in government funding and the significant risk posed from reliance on external income, over which the Council has no control. The plan identifies the level of funding that can be made available for the delivery of services, including resources generated from reserves and the Council's long-term investments, The plan also estimates the expected funding gap that exists between income and expenditure, which the Council will need to address by generating more income or reducing expenditure by making savings and efficiencies, or a combination thereof.

Demand for services	Mitigating actions
The ability to maintain services with an ever increasing cost base, arising either from local decisions or externally-imposed changes, while funding is reduced.	The Service Redesign Programme is in place to identify and implement sustainable levels of service going forward, delivering the right outcomes in an efficient and cost-effective way. The Business Transformation Programme supports service redesign and provides the framework to review and transform the services provided and the ways in which those services are delivered.
Demographic Changes	**Mitigating actions**
Change in the age demographics of the population will increase service demand in areas such as Social Care.	The Service Redesign Programme is in place to identify and implement sustainable levels of service going forward, delivering the right outcomes in an efficient and cost-effective way.
European Union	**Mitigating actions**
The proposed exit of the United Kingdom from the European Union may impact the Council in various ways including constraints on the supply chain for imports and exports, withdrawal of funding, political and economic uncertainty, legislative and regularity uncertainty, impact on investments and uncertainty on non-UK EU nationals employed in Shetland.	The Council continues to monitor this, regularly reviewing and updating the risk registers, having in place contingency plans and reporting to the Corporate Management Team (CMT) and Policy and Resources Committee. The Resilience Advisor who reports to CMT on a regular basis is in close communitcation with various national local authority and Category 1 responder groups to consider EU exit preparedness and the changing Scottish and UK planning assumptions.
Workforce	**Mitigating actions**
Impact of an ageing workforce on staffing requirements.	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.

Council Highlights 2018/19

Shetland Leasing and Property Developments Limited (SLAP)

In October 2018 the Council acquired SLAP, a property development and investment company for £17.3m. The company had a portfolio of 22 properties which are leased to local private sector businesses, national entities and Shetland Islands Council. The landmark deal is a major investment for the Council and will see the Council increase its net annual rental income and will assist the Council with the delivery of its Property Asset Management Strategy. The acquisition of the company took place on time in October 2018, however, the subsequent merging of SLAP's trade, assets and liabilities into the Council has taken longer than anticipated due to unforeseen issues. This means the Council was unable to fully realise the benefits of the acquisition in the financial year.

Year of Young People (YoYP)

The BIG Takeover, one of a number of YoYP events that celebrate the talents and achievements of young people in Scotland, saw young people working together to plan and deliver a broad range of arts, sports and cultural events in Shetland venues. The three-day programme involved over 80 events and activities showcasing musical and drama performances, sports events, film screenings, writing, arts and crafts, all developed by young people in Shetland who took on leading roles to design and deliver the events.

New Eric Gray Resource Centre

The start of 2019 saw the new Eric Gray@Seafield open to service users, with final construction costs amounting to £6m.
The new facility provides specialist supported vocational activities for adults with learning disability, autistic spectrum disorder and complex needs.

The Islands (Scotland) Bill

The Islands (Scotland) Bill which became an Act of the Scottish Parliament is a key aim of the Our Islands Our Future, a campaign led by the Councils in Shetland, Orkney and the Western Isles to secure more decision making at a local level and greater economic prosperity for communities. The Act will allow further devolution of powers for island communities and enable existing and future policies and legislation to take into account the special circumstances of island communities.

Customer First Strategy and Charter

During 2018/19, the Council's new Customer First Strategy and Charter was launched setting out the standards of service which the public, employees and services can expect when dealing with the Council.

Knab Masterplan

Following substantial preparatory work in 2018/19, In June 2019 the Council formally adopted the Knab Masterplan as supplementary guidance to the Local Development Plan. The first stage of implementing the Masterplan was approved to demolish all buildings on the former Anderson High School at the Knab with the exception of the listed buildings and the former science block.

Extension to fibre network

The Council was awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst. Work is expected to start in late 2019 with project completion expected mid 2020.

Kerbside Recycling

The new kerbside collection service was rolled out on a phased basis across Shetland in 2018. At just 8%, Shetland Islands Council had the lowest recycling rate in Scotland in 2017/18 and the new scheme aimed to address this.
Following the roll out of the service, the percentage of household waste recycled is continuing to improve with the fourth quarter of 2018/19 at 19.4%.

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2019 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.

A description of the purpose of the primary statements has been included immediately prior to the four parent entity statements: the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement.

These four statements are accompanied by notes to the accounts which set out the accounting policies adopted by the 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.

Financial Performance in 2018/19

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2018/19. This differs from the budgeted outturn position that was reported to the Policy & Resources Committee of the Council on 11 June 2019 and is available on the Council's website at: http://www.shetland.gov.uk/coins/viewDoc.asp?c=e%97%9De%94k%7E%8B.

The reasons for this difference are two-fold:

(i) 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 require to be met from local taxation; and

(ii) 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 Gain on Provision of Services of £94.4m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £12.1m in the Expenditure and Funding Analysis.

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 that the draw on reserves, excluding accounting adjustments, was £15.3m for 2018/19 (£8.6m for 2017/18). This is significantly lower than the planned draw on reserves of £20.1m. A breakdown of the variances can be seen in this table and is explained in further detail in the following sections.

As a result of an overall budget underspend and by applying the Council's carry-forward scheme, a sum of £4.1m has been committed for use in 2019/20. Of this, £2.3m will support the 2019/20 revenue budget and £1.8m will support capital investment activities.

The actual Total Revenue Draw figure below of £12.1m reconciles to the deficit shown in Note 1: Expenditure and Funding Analysis.

The narrative following the table explains the financial performance of each of the funds during the year.

Budget v Expenditure draw from / (contribution to) Reserves 2018/19	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund	19.408	23.781	(4.373)	1.198	(5.571)
Revenue Spend to Save	0.674	0.346	0.328	0.328	0.000
Housing Revenue Account	1.289	1.644	(0.355)	0.008	(0.363)
Harbour Account	(8.914)	(13.652)	4.738	0.780	3.958
Total Revenue Draw	**12.457**	**12.119**	**0.338**	**2.314**	**(1.976)**
Capital Spend to Save	1.595	0.798	0.797	0.063	0.734
Asset Investment Plan	6.093	2.394	3.699	1.699	2.000
Total	**20.145**	**15.311**	**4.834**	**4.076**	**0.758**

The figures in this table relate to the Revenue Monitoring and Capital Management Accounts.

General Fund

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

General Fund expenditure for 2018/19 totalled £114.1m (£109.1m 2017/18) against an approved budget of £109.9m. The overspend of £4.2m is attributed to:

- a provision recognising the likely impact of pension scheme cessation costs as the planned merger of Shetland's tertiary education sector progresses (£3.2m). Note 27: Provisions provides further information;
- a repayment of European Regional Development Funding (ERDF) grant in respect of Shetland College (£362k); and
- the acquisition of SLAP meant savings were not achieved (£750k) in the year as anticipated following the purchase of SLAP. This is due to the asset transfer date occurring after the end of the 2018/19 financial year, therefore no savings on rent costs were achieved.

In 2018/19 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).

The funding breakdown is shown below:

Funding of Net General Fund Expenditure	2018/19 £000	2018/19 %
General Revenue Grant	(56,729)	49.7
Non Domestic Rates	(23,851)	20.9
Council Tax	(9,372)	8.2
Draw on Reserves*	(24,127)	21.2

**Includes General Fund and Revenue Spend to Save*

Council Tax represents 10.4% of the Council's overall annual external revenue funding. During 2018/19, the Council collected 97.1% of the total billable Council Tax (i.e. the total amount of Council Tax that would have been collected if everyone liable had paid what they were supposed to).

The remainder of funding comes from Council's own reserves. The Council holds a range of long-term investments which help ensure the reserves increase in value over the longer - term. The Council is able to draw down some of the returns from these investments to support service delivery, while maintaining a robust asset base that continues to grow. The level of funding drawn from reserves is deemed to be at a sustainable level, based on assumptions about investment income and longer - term growth.

Resources deployed by the Council through its General Fund were used in the delivery and commissioning of services to the population of Shetland. As mentioned above, there have been some notable high - level achievements that have developed and improved these services during 2018/19.

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 £8.9m contribution to the Harbour Reserve Fund in 2018/19 (£9.4m in 2017/18).

The actual contribution was £13.7m (£11.3m 2017/18) due to additional tanker income, higher than expected throughput income from the Shetland Gas Plant, and delayed ferry terminal works.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate account within the Council. The HRA budgeted for a £1.3m contribution from its reserve in 2018/19 (£0.5m 2017/18) which was exceeded by £0.3m, giving a total contribution to the HRA of £1.6m in the year (£1.0m contribution from the HRA in 2017/18). The increase is mainly due to increased repair and maintenance costs.

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 a high 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.

At 31 March 2019 the HRA was responsible for 1,659 properties, a decrease of 3 since 31 March 2018. 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 2018/19 Shetland Islands Council incurred capital expenditure of £23.2m (£27.8m 2017/18) against a budget of £38.0m (£35.0m 2017/18) representing an underspend of £14.8m (£7.2m 2017/18) in the year.

The main reason for this underspend is a revision to the timing of construction in relation to Lerwick Library Redevelopment, Recycling Sorting Shed, Stoganess Bridge Replacement, and Street Lighting Replacement, as well as delays in ferry replacement and life extension works.

£1.8m will be carried forward to future years to enable work to be completed.

More information about capital expenditure and funding 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 position as at 31 March 2019. When comparing this to the position at 31 March 2018, there has been an overall decrease in the net worth of the Council of £18m. This is different to the total figure in the Comprehensive Income and Expenditure Statement which also includes the transfer of Unrealised Gains from the Available for Sale Financial Instruments Reserve of £110m. This is a requirement following the adoption of IFRS 9 which resulted in a change in measurement basis for this category of financial instrument. More information is provided in Note 13: Unusable Reserves.

Material Transactions

Long-Term Investments

Financial investments are covered by the Council's Investment Strategy 2018, which sets out the overarching investment approach to complement the Council's Medium-Term Financial Plan, to achieve investment returns that are sufficient to enable an annual sum to be withdrawn to support the Revenue Budget and which protect the annual sum withdrawn from the impact of inflation, and to mitigate investment risk by the diversification of asset classes, global coverage and a number of fund managers.

The Investment Strategy is supported by an Annual Investment and Treasury Strategy report, which includes more detail on capital and treasury activities, including key treasury indicators. It can be found at http://www.shetland.gov.uk/about_finances/

As at 31 March 2019 the Council had £341m (£345m at 31 March 2018) invested with three external Fund Managers, a decrease of £4m from the previous year, in addition to £17m investment in SLAP. There was a positive investment return of £26m attributable to excellent equity growth throughout the year and the Fund Managers' management of the investments. During the year the Council withdrew £30m from investments to support the purchase of SLAP and to meet its cash flow requirements.

The Fund Management Annual Investment Report 2018/19 was presented to Council on 15 May 2019 and this summarised the performance of the Council's investments during the year. The report indicates that the Council's investments experienced positive returns of 7.4% during the year against a target of 7.3%.

External Borrowing

External borrowing is regulated by the Borrowing Policy, part of the Council's Annual Investment and Treasury Strategy, which aims to secure best value in the financing of capital expenditure.

The Council's Capital Financing Requirement (CFR) is £98.6m as at 31 March 2019 (£93.0m at 31 March 2018), of which £49.1m (£41.2m in 2017/18) 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.

As at 31 March 2019, external borrowing was £49.2m (£41.2m at 31 March 2018) and this is reflected on the Council's Balance Sheet.

Debt financing costs currently represent 2.8% of the Council's net revenue stream (2.1% 2017/18) 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 2019/20 is 3.5% 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 2018/19 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The impact of the Local Government Pension Scheme and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 29 and 30 to the accounts. The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £209.9m as at 31 March 2019 (£165.2m at 31 March 2018). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff up and until 31 March 2019.

During 2018/19, the net pension liability has increased by £44.7m as a result of updated assumptions. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £70.2m. The assumptions interact in complex ways, however, and are established for particular reasons.

The Council continues to monitor and measure its pension liability and make changes to cash contributions as part of the regular assessment made by an independent actuary. A scheduled triennial valuation of the Pension Fund as at 31 March 2017 was undertaken during 2017/18 and the results were presented to the Pension Fund Committee in March 2018. It showed that the Pension Fund is valued at £450m and is 90% funded, with a deficit of £52m. Further detail can be found in the 2018/19 Annual Report and Accounts available at: http://www.shetland.gov.uk/coins/calendar.asp.

Health and Social Care Integration

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, seamless delivery and improved quality of health and social care provision.

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

In 2018/19, the Council contributed £21.2m (£20.6m 2017/18) to the IJB and received income from it of £22.5m (£21.7m 2017/18), 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 2018 £m	As at 31 March 2019 £m
General Fund	60.318	175.261
Housing Revenue Account	17.335	17.425
Harbour Reserve Funds	63.221	65.969
Capital Funds	66.330	69.711
Other Usable Funds	42.593	40.801
Total Usable Reserves	**249.797**	**369.167**

The overall level of usable reserves was £369.2m at 31 March 2019, an increase of £119.4m from the previous year. This is due to a change in accounting standards, with the adoption of IFRS 9 changing the measurement basis of 'Available for Sale' financial instruments to Fair Value through Profit and Loss. This has resulted in the transfer of reserves from the Unusable Available for Sale Financial Instruments Reserve to the Usable General Fund Unrealised Investment Gains. In line with guidance issued by the Local Authority (Scotland) Account Advisory Committee LASAAC, this element of the General Fund is earmarked and is not available to fund the delivery of services.

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 has increased by £2.0m to £24.8m as at 31 March 2019 from the previous year (see Note 8: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 22.8% 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 measured in terms of income generated by those investments and a change in their value reflected by unrealised gains, plus any injection of new money by the Council during the year. More information is outlined in the 'Long-Term Investments' section on page 14.

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 of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires the Council to prepare group accounts where the Council has material interests in subsidiaries, associates and / or jointly controlled entities.

In October 2018 the Council acquired 100% interest in SLAP. The Council is the only shareholder in the company, representing 100% of the issued share capital. The Council also has interests in Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board (IJB).

The Council has controlling interest in SLAP and SLAP has therefore been consolidated in group accounts. By consolidating SLAP, net assets have decreased by £0.7m, and the surplus on the provision of services has decreased by £3.4m. OSVJB is deemed to be not material and is therefore not consolidated in group accounts. The results of the remaining two bodies have a net nil impact on both the Comprehensive Income and Expenditure Statement and the Balance Sheet and are therefore not consolidated in the group accounts. More detail can be found in Note 39 Group Interests.

The accounts of SLAP, OSVJB, ZetTrans and IJB can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/

2019/20 Budget and Medium-Term Financial Outlook

2019/20 Budget

The Council's 2019/20 budget has been developed in conjunction with the Medium - Term Financial Plan 2018/19-2022/23 (MTFP) which sets out expected levels of expenditure for the period. The budget does not align with the expectations of the MTFP as the Council has been unable to reduce service expenditure to the assumed levels contained in the MTFP. The General Fund budget will be supplemented with an additional £24.7m from its reserves, including a one-off, draw of £3.5m to meet the expected shortfall in funding for the year ahead. The financial settlement for the Council included £5.2m of funding to support the operating costs of the inter-island ferry services which is £2.7m less than expected.

For more information, please refer to the 2019/20 Council Budget Book which can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

Comparative figures for the 2018/19 settlement are shown in the following table. Revenue funding has increased by 1%. Capital funding has increased by 19% as a result of additional funding for early years expansion.

Note that 2018/19 figures have been redetermined by the Scottish Government (Circular 2/2019).

	2018/19	2019/20	Movement	
Scotland	**£bn**	**£bn**	**£bn**	**%**
Revenue	9.778	10.016	0.238	2%
Capital	0.877	1.084	0.207	24%
Total	**10.655**	**11.100**	**0.445**	**4%**
Shetland	**£m**	**£m**	**£m**	**%**
Revenue	86.267	86.748	0.481	1%
Capital	7.743	9.232	1.489	19%
Total	**94.010**	**95.980**	**1.970**	**2%**

Within the finance settlement from the Scottish Government there are certain conditions that local authorities must meet, which bring further financial pressures. These conditions are:

- Overall teacher-to-pupil ratios to be maintained and all probationer placements secured;
- £210m revenue and £25m capital funding to deliver the programme for the expansion of Early Years provision;
- £120m for additional investment in integration;
- £95.5m funding for social care, to be used for specific purposes;
- £50m Town Centre Fund for the regeneration and sustainability of town centres;
- £3.3m for the Barclay Review; and
- Council Tax increases capped at 3% in real terms which equates to 4.79% for 2019/20.

Following the announcement of the financial settlement for 2019/20, seminars were held with Councillors in January 2019 to discuss the impact of the settlement and revised budget strategy. A report on the settlement was also prepared and the Council considered this ahead of the formal budget-setting meeting.

The revised budget strategy took into account the funding gap including the lower than anticipated funding to support the operating costs of the inter-island ferry services. The 2019/20 budget was formally approved by the Council on 26 February 2019.

Medium-Term Financial Outlook

The Medium-Term Financial Plan is the Council's strategic finance document which focuses on the next five years and provides the financial framework for the delivery of Council services to the citizens of Shetland. It is anticipated that there will be significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years and therefore an increasingly unaffordable cost of service delivery is inevitable.

At the same time, the Council must manage increasing demand for services from school roll changes and areas such as community care, where the IJB will direct service development and adapt to these demands.

The latest MTFP was approved by the Council on 22 August 2018; it covers a five-year period to March 2023 and will be refreshed in autumn

2019. The MTFP is based on the following key principles:

- The Council will live within its means and in doing so approve an annual budget that is balanced and affordable;
- The Council has agreed to use its long-term investments as an investment fund and draw a sustainable amount of the long-term anticipated return from those investments each year to support Services;
- The cost of capital will be recognised by the Council, and the cost of any borrowing undertaken will be borne by the revenue budget and met by the relevant Service that will benefit from the capital investment;
- The Executive Manager – Finance will determine the costs associated with the management of significant corporate cost pressures, such as pay, pension and tax implications of national and local conditions of service. Where these cannot be applied to service budgets a central contingency will be retained and allocated to service budgets when required;
- A risk based approach will be taken to areas of the budget that Services identify are uncertain in any single year and a central contingency will be retained and allocated to service budgets if required; and
- The MTFP will identify the level of funding that can be made available for the delivery of services and estimate the gap between income and expenditure for which income generation, savings options and further efficiencies will have to be implemented.

Outlook - Projects and Initiatives

Service Redesign Programme (SRP)

The most recent update report was presented to the Policy & Resources Committee on 2 July 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24229

The SRP achieved savings of £407k in 2018/19 through the Insurance Redesign, Mental Health Redesign and Promote Shetland Redesign projects.

The Council acknowledges that its SRP is ambitious in scope and scale, and progress has been slower than envisaged. The Council recognises that the resources allocated to the programme so far mean that it is unlikely to implement and deliver planned changes on schedule. A ‘Programme Management Office’ function will be established within the Corporate Services directorate during 2019/20 to facilitate service redesign activity in the coming years.

Review of tertiary education in Shetland

A Full Business Case was presented to the Council and approved on 12 December 2018. An implementation plan for the merger of Shetland’s tertiary education sector, namely Shetland College, NAFC Marine Centre and Train Shetland is currently underway.

Review of bus contracts

‘Shetland Transport Programme Board’ has been formed to manage this and other transport projects. The Strategic Outline Case for Public, School and Adult Social Care Bus Transport was presented to Zetland Transport Partnership in July 2019. Peter Brett Associates have been appointed to support the next stage of the business case development. The current school and public bus contracts which are tendered on a 5-year cycle and which expired in August 2019 have been extended by one year. This is to allow sufficient time for the review to take place.

Review of internal air service contracts

The Outline Business Case for the Inter-Island Air Services – Emerging Principles and Next Steps which addresses what is required in terms of a sustainable network of inter-island services, was presented to Zetland Transport Partnership in June 2019. The Full Business Case is due to be presented in late September 2019.

Fair Funding for Ferries

The Scottish Government settlement for 2019/20 included £5.2m towards the operating costs of Shetland’s inter-island ferry services, the allocation was £2.74m lower than the £7.94m required to fully fund the ferry service. The Council continues to engage with Transport Scotland with a view to reaching a fair funding agreement.

Early learning and child care

Seven settings are now in place to offer the increased provision. The phased programme of capital works continues to progress with four more schools to be complete for the new term in autumn 2019.

Learning Disability Service

The Adult Learning Disability Short Breaks and Respite Project Board has been established to review Adult Services for adults with learning disabilities, autism and complex needs. The Board is developing a shared plan for the future which considers the needs and aspirations of people eligible for this support.

Community Care Resources

A Business Case is being prepared which aims to assess early intervention and preventative services, to further develop the objective of enabling people to live independently in their own home.

Community Area Structures

Regular case reviews have been undertaken which support individual residents to continue living in their communities and in their own homes, each with locality establishing multi-disciplinary ways of working.

Business Transformation Programme (BTP)

The Council continues to develop its BTP, approved by the Council in February 2017. This seeks to provide the framework to review and transform the services provided to the population of Shetland and the ways those services are delivered.

The most recent update report was presented to the Policy & Resources Committee on 2 July 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24230

Workstream	Description	Progress / Key achievements	Future Plans
Customer First	Embed Customer First Strategy and Charter to ensure that the Council is a customer focused organisation.	The Customer First Strategy and Charter which was agreed by Committee in June 2018 has now been implemented. Embedding the strategy and charter will ensure that the Council is a customer focused organisation.	To continue to embed the ethos of Customer First which will become part of the work of Executive Services and will feature in the Service Plan and associated action plans.
Commissioning and Procurement Framework	Establish new procedures to maximise efficient procurement and create concise commissioning and procurement guidance.	The Commissioning and Procurement Framework has been subsumed into the draft PMR Framework which was presented to Policy and Resources Committee in July 2019.	Work continues on the development of on line templates and linked guidance for commissioning and procurement activities.
Workforce Strategy	Implement Workforce Strategy across the Council and to carry out a review of the workforce requirements in Corporate and Executive Services.	Workforce planning sessions have been held with Council Directorates throughout 2018/19, the information gathered is being used to inform next steps.	A draft Workforce Plan is to be developed for informal consultation in autumn 2019 and the existing Council Workforce Strategy is to be refreshed.
Accommodation Rationalisation	Service Redesign Project to rationalise and make best use of the properties which the Council operates.	In June 2019, the Council formally adopted the Knab Masterplan as supplementary guidance to the Local Development Plan. The first stage of implementing the Masterplan was approved to demolish all buildings on the former Anderson High School at the Knab with the exception of the listed buildings and the former science block. 8 North Ness office accommodation is expected to be fully re-occupied by September 2019.	A revised Property Asset Management Strategy was reported to Council in June 2019. Approval of the strategy has been deferred to allow further work to be done on the strategy. There is a proposed development to establish a single reception point in Lerwick for all Council services.

Workstream	Description	Progress / Key achievements	Future Plans
Digital First	Investigate enablers for Digital Service Delivery.	A number of processes have been identified which are suitable for implementation on the Firm Step platform, with some forms going live in 2018/19. A procurement exercise to replace the Council's website has been completed and an implementation project is ongoing.	Firmstep forms are under development for various departments. Work is being done to explore the joint use of the Firmstep Platform with NHS which would allow forms to be administered and shared between the Council and NHS.
Broadband and Connectivity	To improve high speed broadband and mobile connections throughout Shetland.	The Council has been awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst. Work is expected to start in late 2019 with project completion expected in mid 2020.	Opportunities are being taken to lobby the Cabinet Secretary and Ministers, through CoHI, Islands Deal and Committee visits. The Scottish Government's 'Reaching 100%' (R100) Programme is progressing and an announcement of which supplier has been chosen and where the new network will reach is expected this summer.
Information Management & Improvement	Review Information Management and Improvement Programme.	The Information Governance Board has approved the Information Governance Policy, Governance and Accountability Management Structure, and Policy and Procedures Framework.	Work continues on the implementation of the General Data Protection Regulations including the creation of service Privacy Statements, reviewing personal information audits, management briefings and staff training.
Performance Management & Reporting	Develop a new Planning and Performance Management Framework, review Public Performance Reporting arrangements and review Complaints Handling and lessons learned.	The PMR Framework was presented to Policy and Resources Committee in July 2019.	2019/20 will see full implementation of the Framework for the Council and community planning partners. Implementation will include performance reporting for the Shetland Partnership.

Conclusion

In summary, the Council has had a financially challenging year in 2018/19 which will continue in the future as the Council looks to maintain service delivery while managing an increased cost base and reduced Government funding. The continuing challenges that lie ahead will be addressed by the Council in line with the MTFP.

…………………………………..	…………………………………..	…………………………………..
Steven Coutts	Maggie Sandison	Jamie Manson CPFA
Leader of the Council	Chief Executive	Section 95 Officer
25 September 2019	25 September 2019	25 September 2019

Annual Governance Statement

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 also has a statutory duty to make arrangements to secure continuous improvement in the way it operates.

In discharging this accountability, the Council is responsible for establishing proper arrangements for the governance of its affairs, including arrangements for the management of risk.

The Council approved and adopted its code of governance in 2017. It is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. This statement explains how the Council has complied with the code.

In August 2018 the Council approved the restructure of the Audit, Risk and Improvement service. With effect from 1 January 2019, the role of Chief Internal Auditor is now undertaken by Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team, who also provide the strategic planning, professional management and reporting for the Council's Internal Audit function.

This statement explains how the Council complies with the Governance Code and extends to the entity included in the Council's Group Accounts.

The Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and the activities through which it engages with its community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2019 and up to the date of approval of the annual accounts.

The key elements of Shetland Islands Council's governance framework are:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- the Council's performance in relation to delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

In March 2017, the Council approved a revised set of governance documents, including the Scheme of Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance. These documents can be found on the Council's website at: http://www.shetland.gov.uk/about_how_we_wor k/constitutionandgovernance.asp

The Council is in the process of reviewing the Governance Framework. Initial findings were reported to Council on 11 June 2019, and included approval of an updated Code of Corporate Governance.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report presented by Audit Glasgow, and also by comments made by external auditors and other review agencies and inspectorates. The Annual Report can be viewed on the Council's website at: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24195

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

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2018/19, no areas of weakness or concern were raised.
- 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 (2010).
- 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.
- The Executive Manager – Assets, Commissioning and Procurement and Executive Manager – Finance were appointed as directors of SLAP in October 2018. These appointments allowed the Council to exercise management control over the newly acquired company, including the application of the Council's internal controls and financial management standards.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor. 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 2017 election.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their **Audit Plan** during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's **external auditor** is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice. Deloitte LLP were also appointed as external auditor to SLAP following the Council's acquisition of the company in October 2018.

The 2018/19 Local Scrutiny Plan which sets out any scrutiny risks identified by the local area network (LAN), addressed several areas requiring oversight and monitoring:

- Financial sustainability and transformation: The Council acknowledges the challenges it faces of maintaining service delivery within the levels of decreasing Scottish Government funding. The Council through the BTP and SRP is taking action to address the funding gap and constrain growth in service demand.
- Social Care Adult Services: the risk of failing to maintain an adequate level of service due to staff recruitment difficulties and change in senior management.
- Children & Families Service: the ability to sustain quality assurance and improvement work due to a lack of capacity and recruitment difficulties. A service review is to be conducted with the aim of achieving a better balance of service delivery in the longer term in relation to accommodated children, as well as a more integrated and robust structure.

- Housing Service: the supply of housing has been challenging, and the use of temporary accommodation has been increasing. A review of performance of social landlord services by the Scottish Housing Regulator (SHR) identified the Council as being in the bottom quartile for several areas including tenant satisfaction of the quality of their home, rent arrears and non-emergency repairs. Ongoing dialogue continues between the Council and SHR to fully understand the performance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by CMT and Audit Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Update on Significant Governance Issues previously reported

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

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Fire risk assessments either not being in place or out of date.	CMT	New process for recording and monitoring introduced in 2018/19. Recommendations have been addressed.	No further action required.
Health & Safety risk assessments either not being in place or out of date.	CMT	New process for Health & Safety risk assessments implemented April 2019.	To be reviewed in 2019/20 as part of follow up monitoring.
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	CMT	A programme of 22 premise visits was scheduled for completion in 2018/19. 11 have been fully carried out.	Remaining premise visits to be undertaken, and progress to be reviewed as part of 2019/20 follow-up monitoring.
Contractual and procurement issues identified in procurement reviews.	CMT	Officers in the process of updating the Contract Standing Orders and steps are being taken to progress a “Procurement Knowledge Workshop” for relevant officers.	To be reviewed in 2019/20 as part of a Procurement audit.
Operational grants processing and monitoring issues.	CMT	Creation of Grants and Third Parties Payments Framework which addresses the audit issues raised.	To be reviewed in 2019/20 as part of follow up monitoring.

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 were highlighted in the Internal Audit Annual Report as specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Business Continuity – lack of an up to date corporate policy on business continuity. Some services 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	There is an increased risk that the Council's business critical functions cannot be delivered in the event of a business continuity incident.	Although there are services with either an out of date or no BCP in place, there is a Resilience Advisor in post who can advise services through the recovery process. In addition, the recovery and relocation of ICT services is all co-ordinated by the ICT team who have an up – to date recovery plan which was audited during 2017/18 with no areas of concern identified.	A new policy is in the process of being finalised which will be communicated to all service users. The new policy will be presented to CMT (acting as Risk Board) then Policy and Resources Committee for approval. The possibility of utilising Firmstep for BCPs will be explored which will ensure consistent development and central storage of plans throughout the Council.	31/10/2019
Fraud Controls – Reconciliations not carried out between key financial systems. System administrators have access to undertake entire accounts payable process, and there is no monitoring of audit logs as a compensating control.	Executive Manager – Finance	Significant financial fraud (this audit was undertaken following reported findings of a fraud valued at over £1million at Dundee City Council).	The Accounts Payable Supervisor is notified of any changes to Masterfile data by a system generated email. The post holder is not a system administrator and would be aware of any changes that have occurred by users out with the Accounts Payable team.	Quarterly reconciliations and monthly sample checks will be incorporated into the Finance team's monthly assurance checks.	30/09/2019

As part of the Council's annual external audit process, the Audit Committee received an interim audit report in June 2019 which was produced by the Council's external auditors. The interim audit report focused on areas other than the financial statements and summarised the auditor's findings in the areas of financial sustainability, financial management, governance and transparency and value for money. The interim audit report contains a number of recommendations for improvement across all four areas and the Council will be working to address the recommendations in the coming year. The audit action plan summarises each recommendation and the actions the council will take in response to the auditor's recommendations.

The interim audit report, and associated audit action plan, can be found here:

https://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24214

The Council along with the other 4 duty holders under the Community Empowerment Act 2015, Section 10 are addressing, as a high priority, the omission of a specific Locality Plan for Shetland at their meeting on 19 September 2019. This focus will add to the locality planning work already undertaken to reduce inequalities and improve outcomes, most recently particularly in the North Isles of Yell, Unst and Fetlar. The Council, meanwhile considers the risk arising as not amounting to a material risk with no significant financial impact.

We commit over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2018/19 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

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Steven Coutts
Leader of the Council
25 September 2019

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Maggie Sandison
Chief Executive
25 September 2019

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 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 have been audited by Deloitte LLP:

- General Disclosure by Pay Band
- Exit Packages
- Disclosure of Remuneration for Senior Councillors
- Remuneration of Senior Employees of the Council
- Pension Benefits - Senior Councillors
- Pension Benefits – Senior Employees
- Chair / Vice Chair of Integration Joint Board

The other sections of the Remuneration Report have been reviewed by Deloitte LLP to ensure that they are consistent with the Financial Statements.

Remuneration Arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 and the (Remuneration) Regulations 2007 (as amended). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the convener 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 Convener of the Council is set out in the amended Regulations SSI 2008/415, which came into effect on 10 February 2009 (later amended by the 2013 and 2015 Regulations). For 2018/19 the level of remuneration (including expenses) for the Leader S Coutts was £38.8k (£38.7k in 2017/18 for the Former Leaders, G Robinson and C Smith), and £34.9k for the Convener (£36.4k in 2017/18).

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 £172k in 2018/19 (£171k in 2017/18).

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 Integration Joint Board
- Chair of Development Committee
- Chair of Environment and Transport Committee
- Chair of Audit Committee
- Chair of Planning Committee
- Chair of Licensing Committee
- Chair of Harbour Board
- Chair of Shetland College Board

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2018/19 was £168k (£171k in 2017/18).

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 website at:
http://www.shetland.gov.uk/about_your_councillors/Expenses.asp

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 Orkney and Shetland Valuation Joint Board.

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 Convener of the Orkney and Shetland Valuation Joint Board from May 2017 has been a senior councillor of Orkney Islands Council, who are 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 (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2018/19.

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;
- the 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 recommended 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 2018/19 and 2017/18.

Number of Employees							
Total at 31 March 2018	Remuneration Bands	Children's Services	Infra-structure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2019
58	£50,000 - £54,999	30	36	2	2	3	73
27	£55,000 - £59,999	10	21	1	2	1	35
19	£60,000 - £64,999	6	12	0	2	2	22
9	£65,000 - £69,999	1	11	0	0	0	12
11	£70,000 - £74,999	1	3	1	0	0	5
5	£75,000 - £79,999	1	2	0	1	1	5
0	£80,000 - £84,999	0	2	0	0	0	2
5	£85,000 - £89,999	1	1	0	1	1	4
1	£90,000 - £94,999	0	1	0	0	0	1
0	£105,000 - £109,999	0	0	0	0	2	2
1	£115,000 - £119,999	0	0	0	0	0	0
0	£120,000 - £124,999	0	3	0	0	0	3
0	£125,000 - £129,999	0	1	0	0	0	1
0	£130,000 - £134,999	0	1	0	0	0	1
2	£135,000 - £139,999	0	0	0	0	0	0
1	£140,000 - £144,999	0	0	0	0	0	0
1	£145,000 - £149,999	0	0	0	0	0	0
140	**Total**	**50**	**94**	**4**	**8**	**10**	**166**

Of the 50 staff (42 in 2017/18) in Children's Services noted above, 21 were head teachers or senior teaching staff (20 in 2017/18).

Of the 94 staff (78 in 2017/18) in Infrastructure Services noted above, 85 worked in Ports and Harbours Operations or Ferry Operations (67 in 2017/18).

Summary of Remuneration paid to Councillors

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

	2018/19 £000	2017/18 £000
Salaries	374	368
Expenses	58	59
Allowances	30	30
Total	**462**	**457**

The annual return of Councillors' salaries and expenses for 2018/19 is available for any member of the public to view at the Finance Service, 8 North Ness Business Park, Lerwick during normal working hours or on the Council's website at:
http://www.shetland.gov.uk/about_your_councillors/Expenses.asp

Summary of Remuneration paid to Employees

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

	2018/19 £000	2017/18 £000
Salaries	72,704	69,786
Overtime	3,254	3,208
Expenses	1,830	1,794
Allowances	857	626
Total	**78,645**	**75,414**

Note that the Distant Islands 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.

The total cost for 2018/19 of £404k (£138k in 2017/18) in the table includes £296k (£40k in 2017/18) for termination benefits agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement (CIES) in the current year, comprising redundancy payments and pension strain costs.

In addition, the table includes £105k (£98k in 2017/18) for the capitalised cost of compensatory added years, agreed in 2018/19, that will be charged to the CIES in future years.

Exit package cost band (including special payments)	(a) Number of compulsory redundancies		(b) Number of other departures agreed		(a+b) Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19 £000	2017/18 £000
£0 - £19,999	2	0	1	5	**3**	**5**	**5**	**32**
£20,000 - £39,999	0	0	0	0	**0**	**0**	**0**	**0**
£40,000 - £59,999	0	0	1	1	**1**	**1**	**41**	**45**
£60,000 - £79,999	0	0	0	1	**0**	**1**	**0**	**61**
£80,000 - £99,999	0	0	0	0	**0**	**0**	**0**	**0**
£100,000 - £149,999	0	0	0	0	**0**	**0**	**0**	**0**
£150,000 - £179,000	0	0	1	0	**1**	**0**	**159**	**0**
£180,000 - £199,999	0	0	1	0	**1**	**0**	**199**	**0**
Total	**2**	**0**	**4**	**7**	**6**	**7**	**404**	**138**

The table above details the number and cost of exit packages awarded in 2018/19 and 2017/18. 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 cost at 31 March 2019.

Disclosure of Remuneration for Senior Councillors

Name of Councillor	Designation	2018/19			2017/18
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
M Bell	Convener	21,245	103	**21,348**	**20,974**
S Coutts (b)	Leader of the Council	27,115	122	**27,238**	**0**
A Duncan	Chair - Audit Committee	19,684	120	**19,804**	**19,341**
A Cooper	Chair - Development Committee	19,684	137	**19,821**	**19,485**
G Smith	Chair - Education & Families Committee	19,684	120	**19,804**	**17,637**
R Thomson	Chair - Environment & Transport Committee	19,684	121	**19,805**	**17,672**
A Manson	Chair - Harbour Board	18,666	(4)	**18,662**	**18,433**
I Scott	Chair - Licensing Committee	18,666	145	**18,811**	**16,777**
T Smith (d)	Chair - Planning Committee	16,994	372	**17,366**	**16,798**
P Campbell	Chair - Shetland College Board	18,666	120	**18,786**	**18,473**

Notes:

a) Taxable expenses include telephone line rental / broadband costs;

b) S Coutts held the Leader of the Council post on an interim basis from 8 March 2018, until he was formally appointed as Leader on 9 May 2018;

c) The Chair of the Integration Joint Board from 8 May 2017 has been appointed to a person not employed by Shetland Islands Council; and

d) T Smith received an allowance from the Orkney and Shetland Valuation Joint Board as Vice Convener and therefore did not receive additional remuneration for holding the Chair of Planning Committee Post.

Remuneration of Senior Employees of the Council

Name of Senior Employee	Designation	2018/19 Salary, Fees and Allowances £	2018/19 Taxable Expenses £	2018/19 Total Remuneration £	2017/18 Total Remuneration £
M Sandison (c)	Chief Executive	106,280	0	**106,280**	**88,685**
H Budge	Director - Children's Services	88,860	0	**88,860**	**87,206**
C Ferguson	Director - Corporate Services	88,860	420	**89,280**	**87,543**
N Grant	Director - Development Services	88,860	0	**88,860**	**88,542**
J Smith (d)	Director - Infrastructure Services	82,180	0	**82,180**	**0**
M Nicolson	Executive Manager - Children & Families (Chief Social Work Officer)	71,491	0	**71,491**	**68,729**
J Manson (e)	Executive Manager - Finance (Section 95 Officer)	38,963	0	**38,963**	**0**
J Belford (e)	Executive Manager - Finance (Section 95 Officer)	33,095	0	**33,095**	**76,331**
J Riise	Executive Manager - Governance & Law (Monitoring Officer)	78,984	37	**79,022**	**76,354**

Notes:

a) Remuneration includes ad-hoc elements that are part of the normal duties of the post, i.e. call-out and stand-by allowances;

b) Taxable expenses include taxable mileage and / or expenses out with HMRC's dispensation;

c) M Sandison held the post of Director of Infrastructure Services until 18 March 2018 and was appointed as Chief Executive from 19 March 2018. The full-time equivalent remuneration for the post of Chief Executive in 2017/18 was £104,648;

d) The Director of Infrastructure Services post remained vacant from 19 March 2018 until J Smith was appointed on 11 June 2018. The full-time equivalent remuneration for the post of Director of Infrastructure Services in 2018/19 was £85,621 (£87,229 in 2017/18);

e) J Belford held the post of Executive Manager - Finance (Section 95 Officer) until 31 August 2018. The post remained vacant until J Manson was appointed on 24 September 2018. The full-time equivalent remuneration for the post of Executive Manager - Finance (Section 95 Officer) in 2018/19 was £75,249; and

f) The post of Director of Community Health & Social Care is held by S Boker-Ingram, who is employed by NHS Shetland; 50% of the cost of this post is funded by the Council. In 2018/19 the Council paid £60k (£60k for 2017/18) to NHS Shetland in respect of this post and his remuneration is disclosed in the Remuneration Report of the Integration Joint Board.

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		Accrued Pension Benefits			
				As at 31 March 2019		Difference from 31 March 2018	
		31 March 2019 £000	31 March 2018 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	4	4	3	0	1	0
S Coutts (a)	Leader of the Council	6	0	2	0	2	0
C Smith (b)	Leader of the Council	4	5	1	0	(3)	(20)
G Robinson (c)	Leader of the Council	0	1	6	2	0	0
A Duncan	Chair - Audit Committee	4	4	1	0	1	0
A Cooper	Chair - Development Committee	4	4	1	0	1	0
G Smith	Chair - Education & Families Committee	4	4	3	0	1	0
R Thomson (d)	Chair - Environment & Transport Committee	3	0	0	0	0	0
M Stout (e)	Chair - Environment & Transport Committee	0	0	2	0	0	0
A Manson	Chair - Harbour Board	4	4	3	0	1	0
I Scott	Chair - Licensing Committee	4	3	1	0	1	0
T Smith	Chair - Planning Committee	4	4	1	0	1	0
P Campbell	Chair - Shetland College Board	4	4	3	0	0	0

Notes:

a) S Coutts figures for 2018/19 are reported from the commencement date of becoming Leader of the Council on 9 May 2018;

b) C Smith stepped down as Leader of the Council on 8 March 2018. Accrued pension benefits accessed on 4 May 2017 and new pension accruing from 8 May 2017;

c) G Robinson stepped down as Leader of the Council on 3 May 2017;

d) R Thomson, Chair of the Environment & Transport Committee became a member of the pension scheme with effect from 1 July 2019; and

e) M Stout ceased as a councillor on 3 May 2017.

Pension Benefits - Senior Employees

Name of Senior Employee	Designation	In-Year Employer		Accrued Pension Benefits			
				As at 31 March 2019		Difference from 31 March 2018	
		31 March 2019 £000	31 March 2018 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Sandison (a)	Chief Executive	22	18	37	55	7	9
H Budge	Director - Children's Services	15	15	30	89	2	5
C Ferguson	Director - Corporate Services	18	18	49	98	3	2
N Grant	Director - Development Services	18	18	23	21	2	0
J Smith (b)	Director - Infrastructure Services	17	0	30	47	30	47
J Manson (c)	Executive Manager - Finance	8	0	1	0	1	0
J Belford (d)	Executive Manager - Finance	7	16	30	51	1	0
M Nicolson	Executive Manager - Children & Families	15	14	25	37	2	1
J Riise (e)	Executive Manager - Governance & Law	16	17	38	69	2	2

Notes:

a) M Sandison figures for 2017/18 are reported jointly for the post of Director of Infrastructure Services and Chief Executive;

b) J Smith figures for 2018/19 are reported jointly for the post of Acting Executive Manager Ports & Harbours and Director of Infrastructure Services;

c) J Manson figures for 2018/19 are reported from the commencement date of 24 September 2018;

d) J Belford figures for 2018/19 are reported up to the leave date of 31 August 2018;

e) The Executive Manager – Governance & Law also has pension benefits arising from Returning Officer (RO) duties in respect of Local Government, Scottish and European Parliamentary elections. A single disclosure of the pension benefits is detailed above and includes RO accrued Pension benefits of £1.7k and lump sum of £2.5k at 31 March 2019. In 2017/18 the comparative figures were £1.8k and £2.7k respectively; and

f) Whilst 50% of remuneration costs of the Director of Community Health & Social Care are funded by the Council, the associated pension benefits are administered by NHS Shetland and disclosed in the Remuneration Report of the Integration Joint Board.

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 Superannuation Scheme (STSS). 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:	2018/19 %	2017/18 %
On earnings up to and including £21,300	5.50	5.50
On earnings above £21,300 and up to £26,100	7.25	7.25
On earnings above £26,100 and up to £35,700	8.50	8.50
On earnings above £35,700 and up to £47,600	9.50	9.50
On earnings above £47,600	12.00	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.

There is no 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. Prior 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 fund or scheme.

The Shetland Islands Council Pension Scheme is still assessing the impact of the McCloud judgement in relation to changes to benefits in 2015. The benefits and related CETVs disclosed do not allow for any potential future adjustments that may arise from this judgement.

Trade Union Facility Time Report 2018/19

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 employers to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation.

It should be noted that the following information is unaudited at the time of publication.

Facility Time Publication Requirements 2018/19	**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	18	6
Full-time equivalent employee number	16.6	5.5
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%	13	4
1-50%	5	2
51-99%	0	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)	9	26
Total pay bill (B)	96,200	20,371
Percentage of the total pay bill spent on facility time (A ÷ B)	0.01%	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	56.8%	2.41%

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Steven Coutts
Leader of the Council
25 September 2019

Maggie Sandison
Chief Executive
25 September 2019

Statement of Responsibilities for the Annual Accounts

The Council's Responsibilities

The Council 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 Council 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 can confirm that these annual accounts were approved for signature by the Council on 25 September 2019.

Signed on behalf of Shetland Islands Council.

The Executive Manager - Finance's Responsibilities

The Executive Manager - Finance is responsible for the preparation of the Council'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;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Council at the reporting date and the transactions of the Council for the year ended 31 March 2019.

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Steven Coutts
Leader of the Council
25 September 2019

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Jamie Manson CPFA
Executive Manager - Finance
25 September 2019

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Shetland Islands Council and its group for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the Council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Executive Manager – Finance and Shetland Islands Council 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 deemed inappropriate.

Shetland Islands Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual accounts

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

25 September 2019

Comprehensive Income and Expenditure Statement for year ended 31 March 2019

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.

2017/18 (Restated) Gross Expenditure £000	2017/18 (Restated) Gross Income £000	2017/18 (Restated) Net Expenditure £000	2017/18 (Restated) Group Net Expenditure £000		Notes	2018/19 Gross Expenditure £000	2018/19 Gross Income £000	2018/19 Net Expenditure £000	2018/19 Group Net Expenditure £000
2,327	(12)	2,315	2,315	Chief Executive and Cost of Democracy		4,956	(689)	4,267	4,267
56,436	(4,675)	51,761	51,761	Children's Services		54,392	(6,933)	47,459	47,459
51,420	(28,164)	23,256	23,256	Community Care Services		53,912	(29,378)	24,534	24,534
14,014	(4,190)	9,824	9,824	Corporate Services		14,975	(3,689)	11,286	15,461
22,756	(7,201)	15,555	15,555	Development Services		28,215	(6,750)	21,465	20,897
36,642	(7,173)	29,469	29,469	Infrastructure Services		36,773	(11,828)	24,945	24,891
5,523	(6,836)	(1,313)	(1,313)	Housing Revenue Account		5,554	(6,965)	(1,411)	(1,411)
19,559	(27,302)	(7,743)	(7,743)	Harbour Account		19,868	(30,237)	(10,369)	(10,369)
208,677	**(85,553)**	**123,124**	**123,124**	**Net Cost of Services**		**218,645**	**(96,469)**	**122,176**	**125,729**
3,357	0	3,357	3,357	Other operating income and expenditure	9	4,859	0	4,859	4,848
10,025	(13,644)	(3,619)	(3,619)	Financing and investment income and expenditure	10	10,289	(135,358)	(125,069)	(125,074)
0	(97,371)	(97,371)	(97,371)	Taxation and non-specific grant income	11	0	(96,413)	(96,413)	(96,391)
222,059	**(196,568)**	**25,491**	**25,491**	**Deficit/(Surplus) on Provision of Services**		**233,793**	**(328,240)**	**(94,447)**	**(90,888)**
				Items that will not be reclassified to the (surplus) or deficit on the provision of services	**Notes**				
		(10,305)	(10,305)	Surplus on revaluation of non-current assets	13			(23,701)	(23,875)
		(57,555)	(57,555)	Surplus on revaluation of available for sale financial assets	13			0	0
		(78,203)	(78,203)	Remeasurement of the net defined benefit liability	13			28,975	28,975
		(146,063)	**(146,063)**					**5,274**	**5,100**
				Items that may be reclassified to the (surplus) or deficit on the provision of services					
		47,791	47,791	Amounts recycled from the AFSFI reserve upon derecognition	13			0	0
		(98,272)	**(98,272)**	**Other Comprehensive Income and Expenditure**				**5,274**	**5,100**
		(72,781)	**(72,781)**	**Total Comprehensive Income and Expenditure**				**(89,173)**	**(85,788)**

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council and Group, 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.

Council - 2018/19	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(249,797)**	**(301,540)**	**(551,337)**
Adjustment	(108,464)	0	0	0	**(108,464)**	108,464	**0**
Restated balance at beginning of the year	**(168,782)**	**(17,335)**	**(66,330)**	**(105,814)**	**(358,261)**	**(193,076)**	**(551,337)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	13,786	231	0	0	**14,017**	4,022	**18,039**
Adjustments between accounting basis & funding basis per regulations (Note 7)	(26,929)	(321)	3,579	0	**(23,671)**	23,671	**0**
Net (Increase)/Decrease before transfers	**(13,143)**	**(90)**	**3,579**	**0**	**(9,654)**	**27,693**	**18,039**
Net Transfers to/(from) Other Statutory Reserves	6,664	0	(6,960)	(956)	**(1,252)**	1,252	**0**
(Increase)/Decrease in year	**(6,479)**	**(90)**	**(3,381)**	**(956)**	**(10,906)**	**28,945**	**18,039**
Balance at 31 March 2019	**(175,261)**	**(17,425)**	**(69,711)**	**(106,770)**	**(369,167)**	**(164,131)**	**(533,298)**

Group - 2018/19	Total Usable Reserves £000	Total Unusable Reserves £000	Council Total Reserves £000	Council's share of Group usable reserves £000	Council's share of Group unusable reserves £000	Total Group Reserves £000
Balance at 1 April 2018	**(249,797)**	**(301,540)**	**(551,337)**	**0**	**0**	**(551,337)**
Adjustment	(108,464)	108,464	**0**	0	0	**0**
Restated balance at beginning of the year	**(358,261)**	**(193,076)**	**(551,337)**	**0**	**0**	**(551,337)**
Acquisition of Subsidiary	0	0	**0**	(2,319)	0	**(2,319)**
Movement in reserves during the year:						
Total Comprehensive Income and Expenditure	12,728	4,022	**16,750**	4,848	(174)	**21,424**
Adjustments between Group accounts and Council	1,289	0	**1,289**	(1,614)	0	**(325)**
Adjustments between accounting basis & funding basis per regulations (Note 7)	(23,671)	23,671	**0**	0	0	**0**
Net (Increase)/Decrease before transfers	**(9,654)**	**27,693**	**18,039**	**915**	**(174)**	**18,780**
Net Transfers to/(from) Other Statutory Reserves	**(1,252)**	1,252	**0**	0	0	**0**
(Increase)/Decrease in year	**(10,906)**	**28,945**	**18,039**	**915**	**(174)**	**18,780**
Balance at 31 March 2019	**(369,167)**	**(164,131)**	**(533,298)**	**915**	**(174)**	**(532,557)**

Council Comparative movements in 2017/18	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2017	**(54,292)**	**(15,614)**	**(66,498)**	**(107,896)**	**(244,300)**	**(234,494)**	**(478,794)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	25,351	140	0	0	**25,491**	(98,272)	**(72,781)**
Removal of IJB surplus	238	0	0	0	**238**	0	**238**
Adjustments between accounting basis & funding basis per regulations (Note 7)	(30,525)	(2,023)	1,322	0	**(31,226)**	31,226	**0**
Net (Increase)/Decrease before transfers	**(4,936)**	**(1,883)**	**1,322**	**0**	**(5,497)**	**(67,046)**	**(72,543)**
Net Transfers to/(from) Other Statutory Reserves	(1,090)	162	(1,154)	2,082	0	0	**0**
(Increase)/Decrease in year	**(6,026)**	**(1,721)**	**168**	**2,082**	**(5,497)**	**(67,046)**	**(72,543)**
Balance at 31 March 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(249,797)**	**(301,540)**	**(551,337)**

Group Comparative movements in 2017/18	Total Usable Reserves £000	Total Unusable Reserves £000	Council Total Reserves £000	Council's share of Group usable £000	Council's share of Group unusable £000	Total Group Reserves £000
Balance at 1 April 2017	**(244,300)**	**(234,494)**	**(478,794)**	**0**	**0**	**(478,794)**
Movement in reserves during the year:						
Total Comprehensive Income and Expenditure	25,491	(98,272)	(72,781)	0	0	**(72,781)**
Removal of IJB surplus	238	0	238	0	0	**238**
Adjustments between accounting basis & funding basis per regulations (Note 7)	(31,226)	31,226	0	0	0	**0**
Net (Increase)/Decrease before transfers	**(5,497)**	**(67,046)**	**(72,543)**	**0**	**0**	**(72,543)**
Net Transfers to/(from) Other Statutory Reserves	0	0	0	0	0	**0**
(Increase)/Decrease in year	**(5,497)**	**(67,046)**	**(72,543)**	**0**	**0**	**(72,543)**
Balance at 31 March 2018	**(249,797)**	**(301,540)**	**(551,337)**	**0**	**0**	**(551,337)**

Balance Sheet as at 31 March 2019

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

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'.

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Notes	Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
423,052	423,052	Property, Plant and Equipment	14	438,842	448,378
0	0	Investment Property	15	0	4,431
4,853	4,853	Heritage Assets	16	4,839	4,839
27,160	27,160	Intangible Assets	17	33,508	35,280
345,392	345,392	Long-term Investments (including investment in Subsidiary)	19	357,778	340,464
1,911	1,911	Long-term Debtors	23	1,731	1,731
802,368	**802,368**	**Long-Term Assets**		**836,698**	**835,123**
557	557	Assets held for Sale	22	205	205
4,704	4,704	Inventories	26	4,998	4,998
16,876	16,876	Short-term Debtors	24	15,829	15,867
4,002	4,002	Cash and Cash equivalents	21	7,753	8,715
26,139	**26,139**	**Current Assets**		**28,785**	**29,785**
(18,620)	(18,620)	Short-term Creditors	25	(20,407)	(20,573)
(1,378)	(1,378)	Short-term Provisions	27	(3,769)	(3,769)
(197)	(197)	Grant Receipts in Advance - Revenue	12	(48)	(48)
(20,195)	**(20,195)**	**Current Liabilities**		**(24,224)**	**(24,390)**
(41,202)	(41,202)	Long-term Borrowing	19	(49,164)	(49,164)
(165,171)	(165,171)	Pension Liability	29	(209,906)	(209,906)
(579)	(579)	Long-term Provisions	27	(203)	(203)
(44,321)	(44,321)	PFI and Similar Contracts	18	(43,098)	(43,098)
(5,702)	(5,702)	Other Long-term Liabilities	19	(5,590)	(5,590)
(256,975)	**(256,975)**	**Long-Term Liabilities**		**(307,961)**	**(307,961)**
551,337	**551,337**	**Net Assets**		**533,298**	**532,557**
(249,797)	(249,797)	Usable Reserves	8	(369,167)	(368,252)
(301,540)	(301,540)	Unusable Reserves	13	(164,131)	(164,305)
(551,337)	**(551,337)**	**Total Reserves**		**(533,298)**	**(532,557)**

The unaudited financial statements were issued on 26 June 2019 and the audited financial statements were authorised for issue by the Council on 25 September 2019.

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Jamie Manson CPFA
Executive Manager - Finance
25 September 2019

Cash Flow Statement for year ended 31 March 2019

This statement shows the changes in cash and cash equivalents of the Council and Group during the financial year. It shows how the Council and Group 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 and Group are funded by way of taxation and grant income, or from the recipients of services provided by the Council and Group.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council and Group'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 and Group.

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
		Operating activities		
25,491	25,491	Net deficit (surplus) on the provision of services	(94,447)	(90,888)
(52,886)	(52,886)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	62,242	62,064
9,738	9,738	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	7,171	7,208
(17,657)	**(17,657)**	**Net cash flows from Operating Activities**	**(25,034)**	**(21,616)**
27,088	27,088	Investing activities	27,984	27,947
(9,524)	(9,524)	Financing activities	(6,701)	(6,701)
(93)	**(93)**	**Net increase in cash and cash equivalents**	**(3,751)**	**(370)**
3,909	3,909	Opening Cash and Cash Equivalents	4,002	4,002
0	0	Acquisition of Subsidiary	0	4,343
93	93	Net movement of Cash and Cash Equivalents during the year	3,751	370
4,002	**4,002**	**Closing Cash & Cash Equivalents**	**7,753**	**8,715**

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
(2,437)	(2,437)	Interest received	(2,262)	(2,267)
4,068	4,068	Interest paid	5,481	5,481
(3,456)	(3,456)	Dividends received	(4,585)	(4,585)
(1,825)	**(1,825)**	**Total**	**(1,366)**	**(1,371)**

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

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
(24,100)	(24,100)	Depreciation, impairment and revaluations	(18,243)	(20,002)
(1,355)	(1,355)	Amortisation	(1,515)	(1,515)
16	16	Decrease in impairment for bad debts	(190)	(190)
(2,792)	(2,792)	Increase in creditors	(1,489)	592
2,711	2,711	Increase in debtors	(945)	(1,177)
193	193	Decrease in inventories	294	294
(13,699)	(13,699)	Movement in pension liability	(15,760)	(15,760)
(5,429)	(5,429)	Carrying amount of non-current assets sold or de-recognised	(5,642)	(5,668)
(8,431)	(8,431)	Other non-cash items charged to the net surplus or deficit on the provision of services	105,732	105,492
(52,886)	**(52,886)**	**Total**	**62,242**	**62,064**

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

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
2,079	2,079	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	783	820
7,659	7,659	Any other items for which the cash effects are investing or financing cash flows	6,388	6,388
9,738	**9,738**	**Total**	**7,171**	**7,208**

Investing Activities

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
27,775	27,775	Purchase of property, plant and equipment, investment property and intangible assets	23,156	23,156
11,608	11,608	Purchase of short-term and long-term investments	12,546	12,546
(2,079)	(2,079)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(783)	(820)
(2,557)	(2,557)	Proceeds from short-term and long-term investments	(547)	(547)
(7,659)	(7,659)	Other receipts from investing activities	(6,388)	(6,388)
27,088	**27,088**	**Total**	**27,984**	**27,947**

Financing Activities

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
(10,155)	(10,155)	Cash receipts of short and long-term borrowing	(7,999)	(7,999)
613	613	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,270	1,270
18	18	Repayments of short and long-term borrowing	28	28
(9,524)	**(9,524)**	**Total**	**(6,701)**	**(6,701)**

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 (HRA) 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, Housing Support Grant) 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

2017/18 £000		2018/19 £000
	Expenditure	
2,368	Repairs and maintenance	2,701
592	Supervision and management	788
2,235	Depreciation and impairment of non-current assets	1,707
60	Movement in the allowance for bad debts	24
206	Other expenditure	261
5,461	**Total expenditure**	**5,481**
	Income	
(6,577)	Dwelling rents	(6,694)
(221)	Non-Dwelling rents	(222)
(22)	Other Income	(41)
(6,820)	**Total income**	**(6,957)**
(1,359)	**Net income of HRA services as included in the CIES**	**(1,476)**
89	HRA services' share of Corporate and Democratic Core	65
(1,270)	**Net Income of HRA Services**	**(1,411)**
	HRA share of operating income and expenditure included in the CIES	
(114)	Taxation and non-specific grant income	0
1,764	(Gain) or Loss on sale of HRA non-current assets	2,786
497	Interest payable and similar charges	515
(836)	Interest and investment income	(1,733)
99	Pension interest cost and expected return on pension assets	74
1,410	**Net HRA share of operating expenditure**	**1,642**
140	**(Surplus) / Deficit for the year on HRA services**	**231**

Movement on the Housing Revenue Account Statement

2017/18 £000		2018/19 £000
(15,614)	**Opening balance on the HRA**	**(17,335)**
140	(Surplus) / Deficit on the HRA Income and Expenditure Statement	231
(2,023)	Adjustment between accounting basis and funding basis under statute	(321)
(1,883)	**Increase in year on the HRA**	**(90)**
162	Transfers to reserves	0
(17,335)	**Closing balance on the HRA**	**(17,425)**

The adjustments between accounting basis and funding basis for the HRA are shown in disclosure Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations and transfers to or from reserves are shown in Note 8: 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:

2017/18 Number	Housing Stock	2018/19 Number
78	1 Apartment	76
412	2 Apartment	412
521	3 Apartment	523
615	4 Apartment	611
33	5 Apartment	34
1	6 Apartment	1
2	8 Apartment	2
1,662	**Total**	**1,659**

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. The trend shown below is a slight increase in the amount of arrears per property.

2017/18 £000		2018/19 £000
232	Total value of rent arrears	235

2017/18		2018/19
520	Number of properties in arrears	514
31.3%	Properties in arrears as share of total stock	31.0%
£446	Average amount per property in arrears	£457

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The Expected Credit Loss impairment which includes HRA is detailed in Note 20: Nature and Extent of Risks arising from Financial Instruments.

Void Rents

The following table summarises the income lost due to voids in 2018/19. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2017/18 £000		2018/19 £000
68	General needs void rents and charges	101
45	Sheltered housing void rents and charges	41
113	**Total**	**142**

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

2017/18 £000		2018/19 £000
(11,056)	Gross Council Tax levied and contributions in lieu	(11,473)
625	Council Tax Reduction Scheme	651
1,299	Other discounts and reductions	1,393
51	Write-offs of uncollectable debts	26
39	Adjustment to previous years' Community Charge and Council Tax	31
(9,042)	**Transfer to General Fund**	**(9,372)**

Council Tax Base

The table below shows the Council Tax base used to set the 2018/19 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.

2018/19	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2018/19 Band D equivalents	2017/18 Band D equivalents
Band A*			11	(1)	(2)	8	0.56	4	4
Band A	2,956	(118)	4	(458)	(285)	2,099	0.67	1,399	1,388
Band B	1,830	(75)	8	(227)	(167)	1,369	0.78	1,065	1,063
Band C	2,793	(82)	11	(312)	(217)	2,193	0.89	1,949	1,953
Band D	1,816	(30)	5	(140)	(45)	1,606	1.00	1,606	1,599
Band E	1,397	(11)	1	(71)	(12)	1,304	1.31	1,708	1,685
Band F	282	(6)	1	(8)	(1)	268	1.63	437	429
Band G	64	(4)	0	(4)	(1)	55	1.96	108	112
Band H	1	(1)	0	0	0	0	2.45	0	0
Sub-total								**8,276**	**8,233**
Less Bad Debt provision								(58)	(247)
Council Tax Base								**8,218**	**7,986**

** 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

2017/18 £000		2018/19 £000
29,875	Gross rates levied and contributions in lieu	30,740
(4,569)	Reliefs and other deductions	(4,607)
(16)	Write-offs of uncollectable debts	(47)
25,290	**Net non-domestic rate income**	**26,086**
(409)	Adjustment to previous years' national non-domestic rates	(465)
24,881	**Contribution to non-domestic rate pool**	**25,621**
(23,240)	Distribution from non-domestic rate pool	(23,851)
(23,240)	**Transfer to Comprehensive Income & Expenditure Statement**	**(23,851)**

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 2018/19 is 48.0p (46.6p in 2017/18) with a large business supplement of 2.6p (2.6p in 2017/18) for all subjects with a rateable value above £51,000 (£51,000 in 2017/18).

The large business supplement contributes to the cost of the Small Business Bonus Scheme, which was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme and applies to properties with a rateable value of £18,000 or less.

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 2018	Number of Subjects	Rateable Value £000
Commercial	570	8,720
Industrial	492	37,425
Other	1,314	15,669
Total	**2,376**	**61,814**

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.

2018/19	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,597	2,882	(1,212)	4,267
Children's Services	42,887	4,746	(174)	47,459
Community Care Services	20,064	3,364	1,106	24,534
Corporate Services	9,556	1,500	230	11,286
Development Services	17,869	4,184	(588)	21,465
Infrastructure Services	21,011	6,201	(2,267)	24,945
Housing Revenue Account	1,644	(2,541)	(514)	(1,411)
Harbour Account	(13,652)	3,839	(556)	(10,369)
Net Cost of Services	**101,976**	**24,175**	**(3,975)**	**122,176**
Other income and expenditure	(89,857)	3,075	(129,841)	(216,623)
(Surplus) or Deficit	**12,119**	**27,250**	**(133,816)**	**(94,447)**
Opening General Fund and HRA balance*		**77,653**		
Add (Surplus) / Deficit in the year		12,119		
Add other items not charged to the (Surplus) / Deficit		102,914		
Closing General Fund and HRA balance		**192,686**		

2017/18	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	(Restated) Present-ational Adjustments £000	(Restated) Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,706	198	411	2,315
Children's Services	40,417	10,127	1,217	51,761
Community Care Services	19,229	3,021	1,006	23,256
Corporate Services	9,411	1,870	(1,457)	9,824
Development Services	13,997	2,309	(751)	15,555
Infrastructure Services	24,426	7,935	(2,892)	29,469
Housing Revenue Account	(1,048)	274	(539)	(1,313)
Harbour Account	(11,324)	3,127	454	(7,743)
Net Cost of Services	**96,814**	**28,861**	**(2,551)**	**123,124**
Other income and expenditure	(89,841)	3,686	(11,478)	(97,633)
(Surplus) or Deficit	**6,973**	**32,547**	**(14,029)**	**25,491**
Opening General Fund and HRA balance*		**70,031**		
Add (Surplus) / Deficit in the year		6,973		
Add other items not charged to the (Surplus) / Deficit		649		
Closing General Fund and HRA balance		**77,653**		

**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:

2018/19	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	36	2,846	0	2,882
Children's Services	3,363	1,347	36	4,746
Community Care Services	457	2,747	160	3,364
Corporate Services	591	898	11	1,500
Development Services	3,446	737	1	4,184
Infrastructure Services	4,376	1,753	72	6,201
Housing Revenue Account	(2,687)	161	(15)	(2,541)
Harbour Account	3,121	665	53	3,839
Net Cost of Services	**12,703**	**11,154**	**318**	**24,175**
Other income and expenditure	(1,531)	4,606	0	3,075
Total adjustments between accounting basis and funding basis	**11,172**	**15,760**	**318**	**27,250**

2017/18	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	56	142	0	198
Children's Services	9,188	1,103	(164)	10,127
Community Care Services	858	2,479	(316)	3,021
Corporate Services	1,044	925	(99)	1,870
Development Services	1,706	621	(18)	2,309
Infrastructure Services	6,365	1,613	(43)	7,935
Housing Revenue Account	148	147	(21)	274
Harbour Account	2,666	603	(142)	3,127
Net Cost of Services	**22,031**	**7,633**	**(803)**	**28,861**
Other income and expenditure	(4,309)	6,066	1,929	3,686
Total adjustments between accounting basis and funding basis	**17,722**	**13,699**	**1,126**	**32,547**

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 include year-end internal recharges. These are removed from

Gross Expenditure and Gross Income in the CIES and net to nil overall; i.e. income to one service line is a cost to another. Some items of investment income and expenditure are not reported internally and therefore must also be presented here.

Note 2: Change in Accounting Policy

IFRS 15 Revenue from Contracts with Service Recipients

The adoption of IFRS 15 has resulted in a change in accounting policy for the treatment of revenue from contracts with service recipients. The impact on the Council is limited to additional disclosure requirements. This is to disclose enough information to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with service recipients.

Further information is detailed in Note 11: Revenue from Contracts with Service Recipients.

IFRS 9 Financial Instruments

The adoption of IFRS 9 has resulted in a change in accounting policy for the treatment of Financial Instruments. The Council has assessed which business model applies to each category of financial asset held by the Council and classified its financial instruments into the appropriate IFRS 9 categories as demonstrated in the below table. The adoption of IFRS 9 has resulted in a change in classification for Available for sale financial instruments to fair value through profit or loss. The change in classification is due to the cash flows of this class of financial asset which do not represent solely payments of principal and interest. Further information is detailed in Note 19: Financial Instruments.

Reclassification of financial assets	Carrying amount brought forward at 1 April 2018 £000	New classification at 1 April 2018		
		Amortised cost £000	Fair value through other comprehensive income £000	Fair vlaue through profit or loss £000
Previous classifications				
Loans and Receivables	2,305	2,305	0	0
Available for sale	345,392	0	0	345,392
	347,697	**2,305**	**0**	**345,392**

Internal Recharges

A change in the 2018/19 Code of Practice has resulted in a change in accounting policy for the treatment of internal transactions. The Code no longer permits internal transactions to be included in the Comprehensive income and Expenditure Statement (CIES) as the service segments in the CIES are not intended to cover the reporting requirements for IFRS 8 (segmental reporting) and as a result, transactions between segments are not permitted in the service analysis section of the Statement. Previously the Council has included transactions between Directorates within the CIES. As a result of this change, the 2017/18 comparative figures within the CIES and Expenditure and Funding Analysis have been restated. This has resulted in a reduction of £38.4m in both the gross expenditure and gross income reported in the CIES. The overall net impact is Nil. The below table illustrates the change by Directorate in the CIES.

CIES Service Line	Gross Expenditure £000	Gross Income £000
Chief Executive and Cost of Democracy	(3,854)	6,092
Children's Services	(6,399)	3,592
Community Care Services	(4,616)	2,531
Corporate Services	(5,057)	8,511
Development Services	(5,119)	3,285
Infrastructure Services	(12,296)	12,604
Housing Revenue Account	(305)	305
Harbour Account	(731)	1,457
Removal of internal recharges	38,377	(38,377)

Note 3: Accounting Standards Issued and Adopted in Year

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

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

The Code required implementation in the financial statements from 1 April 2018. The amendments to IAS12 and IAS7 has not had any significant impact on the Council's financial statements. The adoption of IFRS 9 has had significant impact resulting in the reclassification of 'Available for Sale' financial instruments as Fair Value through Profit and Loss (see Note 8: Transfers to / (from) Earmarked Reserves for further information). IFRS 15 has had limited impact on the Council's financial statements. Further details are provided in Note 11: Revenue from Contracts with Service Recipients.

Note 4: Accounting Standards Issued not Adopted

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

- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle;
- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- IFRIC23: Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation; and
- IFRS 16 Leases.

The Code requires implementation in the accounts from 1 April 2019 and there is therefore no impact on the 2018/19 financial statements.

The new standards are expected to have negligible impact on the Council's financial statements, except for IFRS 16: Leases. Under this new accounting standard, operating leases for which the Council is a lessee will require to be recognised as a 'right of use' asset and related lease liability. The value of operating leases at 31 March 2019 is £12.8m. Implementation of IFRS 16 was previously expected to take effect from 1 April 2019, however this has been delayed with implementation now effective from 1 April 2020.

Note 5: Material Items of Income and Expenditure

The CIES includes an actuarial loss on the pension liability of £29m (see Note 13: Unusable Reserves).

Note 6: Judgements and 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties - Estimates	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 29: 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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £70.1m; 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 £32.7m by an independent broker at 31 March 2019. 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 probably that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations, however the transitional period to 31 December 2020 provides some short-term assurance.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.
Financial Instruments	At 31 March 2019, the Council had external investments with Fund Managers amounting to £341m. 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 £11.2m 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 £1.4m.
Item	**Uncertainties - Judgements**	**Effect if actual results differ from assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in anticipated spending on repairs and maintenance may reduce the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation accelerates and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives were reduced.

Note 7: 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.

2018/19	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(16,161)	(2,082)	0	**(18,243)**	18,243
Charges for impairment of non-current assets	(153)	402	0	**249**	(249)
Amortisation of intangible assets	(1,492)	(23)	0	**(1,515)**	1,515
Capital grants and contributions applied	5,642	0	746	**6,388**	(6,388)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,731)	(2,911)	0	**(5,642)**	5,642
Capital repayment in respect of finance leases	105	0	0	**105**	(105)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,258	808	0	**3,066**	(3,066)
Capital expenditure charged against the General Fund and HRA balances	52	3,585	0	**3,637**	(3,637)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	746	0	(746)	**0**	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	2,162	**2,162**	(2,162)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	658	125	0	**783**	(783)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,417	**1,417**	(1,417)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(28,817)	(433)	0	**(29,250)**	29,250
Employer's pensions contributions and direct payments to pensioners payable in the year	13,297	193	0	**13,490**	(13,490)
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	(333)	15	0	**(318)**	318
Total Adjustments	**(26,929)**	**(321)**	**3,579**	**(23,671)**	**23,671**

2017/18	General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
	Usable Reserves				
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(14,901)	(2,059)	0	**(16,960)**	16,960
Charges for impairment of non-current assets	(6,987)	(153)	0	**(7,140)**	7,140
Amortisation of intangible assets	(1,332)	(23)	0	**(1,355)**	1,355
Capital grants and contributions applied	7,537	114	8	**7,659**	(7,659)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,008)	(3,421)	0	**(5,429)**	5,429
Capital repayment in respect of finance leases	99	0	0	**99**	(99)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	968	827	0	**1,795**	(1,795)
Capital expenditure charged against the General Fund and HRA balances	268	1,260	0	**1,528**	(1,528)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	10	0	(10)	**0**	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	103	**103**	(103)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	422	1,657	0	**2,079**	(2,079)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,221	**1,221**	(1,221)
Adjustments involving the Financial Instruments Adjustment Account:					
Transfer of former Shetland Development Trust balances to the Local Investment Fund	(1,929)	0	0	**(1,929)**	1,929
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(26,009)	(429)	0	**(26,438)**	26,438
Employer's pensions contributions and direct payments to pensioners payable in the year	12,556	183	0	**12,739**	(12,739)
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	781	21	0	**802**	(802)
Total Adjustments	**(30,525)**	**(2,023)**	**1,322**	**(31,226)**	**31,226**

Note 8: 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 2018/19.

	Balance at 31 March 2018 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2019 £000
General Fund Balance (unearmarked)	(22,878)	24,543	(26,508)	**(24,843)**
Unrealised Investment Gains (earmarked)	0	0	(110,988)	**(110,988)**
Equalisation Fund (unearmarked)	(16,928)	0	(1,691)	**(18,619)**
Revenue Spend to Save Fund	(2,011)	346	(201)	**(1,866)**
Council Tax Second Homes Receipts	(1,328)	355	(305)	**(1,278)**
Welfare Reform Fund	(219)	0	(22)	**(241)**
Hansel Funds	(160)	5	0	**(155)**
School Funds	(235)	(58)	0	**(293)**
Central Energy Efficiency Fund	(76)	38	0	**(38)**
Community Care Fund	(229)	187	(21)	**(63)**
Local Investment Fund	(16,254)	0	(623)	**(16,877)**
Total General Fund	**(60,318)**	**25,416**	**(140,359)**	**(175,261)**
Capital Fund	(66,330)	3,784	(7,165)	**(69,711)**
Repairs & Renewals Fund	(40,693)	6,298	(4,066)	**(38,461)**
Housing Revenue Account	(17,335)	1,642	(1,732)	**(17,425)**
Harbour Reserve Fund	(63,221)	13,652	(16,400)	**(65,969)**
Insurance Fund	(1,900)	0	(440)	**(2,340)**
Total Statutory Reserves	**(189,479)**	**25,376**	**(29,803)**	**(193,906)**
Total Usable Reserves	**(249,797)**	**50,792**	**(170,162)**	**(369,167)**

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: The adoption of IFRS 9 changed the measurement basis of 'Available for Sale' financial instruments to Fair Value through Profit and Loss. This resulted in the transfer of reserves from the Unusable Available for Sale Financial Instruments Reserve to the Usable General Fund Unrealised Investment Gains. 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 2019 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. 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. The following table shows the movement of 'Available for Sale' Financial Instruments.

	Balance at 31 March 2018 £000	Transfer between Reserves £000	Movement in year £000	Balance at 31 March 2019 £000
Unusable - Available for Sale Financial Instruments Reserve	(108,464)	108,464	0	0
Usable - General Fund Unrealised Investment Gains (earmarked)	0	(108,464)	(2,524)	(110,988)
Total	**(108,464)**	**0**	**(2,524)**	**(110,988)**

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.

Community Care Fund: balances relating to the Integrated Joint Board.

Local Investment Fund: income from Shetland Development Trust for investment in local

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 **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.

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.

Note 9: Other Operating Income and Expenditure

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
3,357	3,357	Losses on the disposal of non-current assets	4,859	4,848
3,357	**3,357**	**Total**	**4,859**	**4,848**

Note 10: Financing and Investment Income and Expenditure

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
3,959	3,959	Interest payable and similar charges	5,596	5,596
6,066	6,066	Pensions interest cost and expected return on pensions assets	4,606	4,606
(2,312)	(2,312)	Interest receivable and similar income	(2,129)	(2,134)
(3,401)	(3,401)	Other investment income	(4,384)	(4,384)
(7,854)	(7,854)	Realised gains in relation to available for sale financial assets	(17,523)	(17,523)
0	0	Unrealised gains in relation to available for sale	(110,988)	(110,988)
(77)	(77)	Income from transferred SDT financial instruments	(247)	(247)
(3,619)	**(3,619)**	**Total**	**(125,069)**	**(125,074)**

Note 11: Revenue from Contracts with Service Recipients

The Council has recognised £46m in 2018/19 (£43m in 2017/18) 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, 70% on average was within the standard 30 day payment terms.

Timing of Payment	Average %
Paid at point of use	2.04%
Paid in advance	15.13%
Paid in arrears	82.83%

Performance obligations which are partially unsatisfied include ferry fare multi-journey tickets. The Council expects to satisfy the performance obligation within 12 months.

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.

2018/19	Central Gover-nment £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £000
Agency Income	0	0	(24)	(944)	(620)	(1,588)
Care home fees	0	0	0	0	(2,356)	(2,356)
Course Fees	(1)	0	(2)	0	(698)	(701)
Other Income	(56)	(72)	(76)	(22)	(2,473)	(2,699)
Sale of materials / equipment	0	0	(2)	0	(1,009)	(1,011)
Sale of Meals	(1)	0	(1)	0	(1,222)	(1,224)
Transport Income	(77)	(15)	(1)	(16)	(1,960)	(2,069)
Waste disposal	(3)	(435)	(17)	(217)	(1,112)	(1,784)
General Fund	**(138)**	**(522)**	**(123)**	**(1,199)**	**(11,450)**	**(13,432)**
Dues	0	0	0	0	(1,655)	(1,655)
Jetty and Spur Booms Income	0	0	0	0	(3,159)	(3,159)
Other Income	(27)	(12)	0	0	(736)	(775)
Tanker Income	0	0	0	0	(20,146)	(20,146)
Harbour Account	**(27)**	**(12)**	**0**	**0**	**(25,696)**	**(25,735)**
Rental Income	0	0	0	0	(6,918)	(6,918)
Other Income	0	0	0	0	(48)	(48)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(6,966)**	**(6,966)**
Total	**(165)**	**(534)**	**(123)**	**(1,199)**	**(44,112)**	**(46,133)**

2017/18	Central Gover-nment £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £000
Agency Income	0	(30)	(26)	(808)	(474)	(1,338)
Care home fees	0	0	0	0	(1,941)	(1,941)
Course Fees	0	0	0	0	(702)	(702)
Other Income	(24)	0	(36)	(20)	(2,476)	(2,556)
Sale of materials / equipment	0	0	0	0	(1,065)	(1,065)
Sale of Meals	0	0	0	0	(1,267)	(1,267)
Transport Income	(78)	(15)	(2)	(18)	(1,965)	(2,078)
Waste disposal	(3)	(381)	(15)	(208)	(992)	(1,599)
General Fund	**(105)**	**(426)**	**(79)**	**(1,054)**	**(10,882)**	**(12,546)**
Dues	0	0	0	0	(1,658)	(1,658)
Jetty and Spur Booms Income	0	0	0	0	(3,903)	(3,903)
Other Income	(27)	0	0	0	(688)	(715)
Tanker Income	0	0	0	0	(17,499)	(17,499)
Harbour Account	**(27)**	**0**	**0**	**0**	**(23,748)**	**(23,775)**
Rental Income	0	0	0	0	(6,799)	(6,799)
Other Income	0	0	0	0	(37)	(37)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(6,836)**	**(6,836)**
Total	**(132)**	**(426)**	**(79)**	**(1,054)**	**(41,466)**	**(43,157)**

Note 12: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2018/19:

2017/18 £000		2018/19 £000
	Credited to Taxation and Non-Specific Grant Income	
(57,428)	Revenue Support Grant	(56,729)
(23,240)	Non-domestic Rates	(23,851)
(9,042)	Council Tax	(9,372)
(7,648)	Capital Grants and Contributions	(6,461)
(13)	Donated Assets	0
(97,371)	**Total**	**(96,413)**
	Credited to Services	
0	Support for Ferries	(5,000)
(1,601)	Scottish Government PFI Support	(3,299)
(3,134)	Housing Benefit funding	(3,137)
(2,752)	FE and HE funding	(2,615)
0	Rural Care Model	(2,092)
(527)	EU grants	(885)
(312)	Sports Development and Facilities funding	(659)
(184)	Expansion of early learning and childcare	(519)
(360)	Skills Development Scotland	(353)
(336)	NHS grants	(332)
(336)	Criminal Justice grant	(323)
(157)	Energy grants	(255)
(187)	Educational attainment / Pupil equity funding	(233)
(25)	Transport grants	(211)
(186)	Active Schools funding	(185)
(515)	Household Recycling Charter	(159)
(82)	Employability funding	(158)
(98)	Training grants	(145)
0	Support for Lecturer's National Pay Bargaining	(144)
(148)	Other grants and contributions	(140)
(88)	Education Maintenance Allowance funding	(96)
(71)	Department of Work and Pensions funding	(90)
0	Grants for Economic Development	(83)
(78)	Youth Music funding	(76)
(39)	Languages funding	(62)
(10)	Housing grants	(52)
(50)	Empowering Communities	(49)
(62)	Electric Vehicle funding	(48)
(11,338)	**Total**	**(21,400)**

(197)	**Value of grants received in advance not recognised**	**(48)**

Note 13: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
(96,359)	(96,359)	Revaluation Reserve	(116,953)	(117,127)
(108,464)	(108,464)	Available for Sale Financial Instruments Reserve	0	0
165,171	165,171	Pensions Reserve	209,906	209,906
(264,267)	(264,267)	Capital Adjustment Account	(259,781)	(259,781)
2,379	2,379	Employee Statutory Adjustment Account	2,697	2,697
(301,540)	**(301,540)**	**Total Unusable Reserves**	**(164,131)**	**(164,305)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council and Group 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.

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
(89,850)	**(89,850)**	**Opening balance**	**(96,359)**	**(96,359)**
(10,305)	(10,305)	Surplus on revaluation of non-current assets	(23,701)	(23,876)
		Amounts written off to the Capital Adjustment		
2,672	2,672	Difference between fair value depreciation and historical cost depreciation	2,603	2,603
1,124	1,124	Assets sold or scrapped	504	504
(96,359)	**(96,359)**	**Closing balance**	**(116,953)**	**(117,128)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the market price value of its investments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised. The balance on the reserve has been transferred to the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement. This is due to a change in measurement basis to Fair Value through Profit or Loss following the adoption of IFRS 9 from 1 April 2018.

2017/18 £000		2018/19 £000
(98,700)	**Opening balance**	**(108,464)**
(57,555)	Surplus on revaluation of available for sale financial assets	(16,965)
47,791	Removal of previously unrealised gains in relation to assets sold	14,441
0	Amounts written out to Usable Reserves	110,988
(108,464)	**Closing balance**	**0**

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. The debit balance on the Pensions Reserve therefore shows a substantial 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.

2017/18 £000		2018/19 £000
229,675	**Opening balance**	**165,171**
(78,203)	Actuarial (gains) and losses on pensions assets and liabilities	28,975
26,438	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	29,250
(12,739)	Employer's pensions contributions and direct payments to pensioners payable in the year	(13,490)
165,171	**Closing balance**	**209,906**

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.

2017/18 £000		2018/19 £000
3,181	**Opening balance**	**2,379**
(3,181)	Settlement or cancellation of accrual made at the end of the preceding year	(2,379)
2,379	Amounts accrued at the end of the current year	2,697
2,379	**Closing balance**	**2,697**

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.

2017/18 £000		2018/19 £000
(276,871)	**Opening balance**	**(264,267)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
16,960	Charges for depreciation of non-current assets	18,243
7,140	Charges for impairment of non-current assets	5,019
1,355	Amortisation of intangible assets	1,515
(99)	Repayment of capital on finance leases	(105)
(514)	Repayment of capital on PFI contract	(1,165)
5,429	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	374
(3,796)	Adjustment amounts written out of the Revaluation Reserve	(3,107)
	Capital financing applied in the year:	
(3,300)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,403)
(7,651)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(6,388)
(8)	Application of grants to capital financing from the Capital Grants Unapplied Account	0
(1,281)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,901)
(1,528)	Capital expenditure charged against the General Fund and HRA balances	(3,637)
(103)	Capital Fund Reserve	(2,959)
(264,267)	**Closing balance**	**(259,781)**

Note 14: Property, Plant and Equipment

Movements in 2018/19	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000	Group £000
Cost or Valuation										
Opening Balance at 1 April 2018	**62,269**	**207,274**	**56,345**	**169,298**	**7,482**	**247**	**5,661**	**508,576**	**46,000**	**508,576**
Acquisition of Subsidiary	0	0	0	0	0	0	0	0	0	9,987
Additions	3,482	1,648	13,934	1,631	0	0	2,456	23,151	181	23,151
Revaluation increases recognised in the Revaluation Reserve	5,473	4,663	11	0	0	0	0	10,147	0	10,147
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	89	(1,365)	(621)	0	0	0	0	(1,897)	0	(1,897)
Derecognition – disposals	(48)	(117)	(1,404)	0	(4)	0	0	(1,573)	0	(1,573)
Derecognition – other	(2,756)	(1,225)	(1,038)	0	0	0	0	(5,019)	(181)	(5,019)
Assets reclassified (to) / from Assets Held for Sale	39	0	0	0	0	(51)	0	(12)	0	(12)
Other movements in cost or valuation	0	5,678	81	0	0	(45)	(5,714)	0	0	0
Closing Balance at 31 March 2019	**68,548**	**216,556**	**67,308**	**170,929**	**7,478**	**151**	**2,403**	**533,373**	**46,000**	**543,360**
Depreciation and Impairment										
Opening Balance at 1 April 2018	**(1,965)**	**(8,210)**	**(22,292)**	**(53,030)**	**0**	**(27)**	**0**	**(85,524)**	**(630)**	**(85,524)**
Acquisition of Subsidiary	0	0	0	0	0	0	0	0	0	(592)
Depreciation charge	(2,002)	(7,258)	(4,636)	(4,319)	0	(14)	0	(18,229)	(1,284)	(18,262)
Depreciation written out to the Revaluation Reserve	3,652	2,100	0	0	0	4	0	5,756	0	5,930
Depreciation written out to the Surplus/ Deficit on the Provision of Services	312	1,597	233	0	0	2	0	2,144	0	2,144
Derecognition – disposals	3	9	1,310	0	0	0	0	1,322	0	1,322
Derecognition – other	0	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	(4)	0	0	0	4	0	0	0	0
Closing Balance at 31 March 2019	**0**	**(11,766)**	**(25,385)**	**(57,349)**	**0**	**(31)**	**0**	**(94,531)**	**(1,914)**	**(94,982)**
Net Book Value as at 31 March 2019	**68,548**	**204,790**	**41,923**	**113,580**	**7,478**	**120**	**2,403**	**438,842**	**44,086**	**448,378**
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**	**423,052**

Movements in 2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000	Group £000
Cost or Valuation										
Opening Balance at 1 April 2017	**62,159**	**144,262**	**47,703**	**167,438**	**6,919**	**255**	**15,099**	**443,835**	**0**	**443,835**
Additions	3,167	49,035	10,481	1,860	0	0	9,208	73,751	46,000	73,751
Revaluation increases/(decreases) recognised in the Revaluation Reserve	8	3,303	(415)	0	563	17	0	3,476	0	3,476
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(153)	(7,041)	(15)	0	0	(2)	0	(7,211)	0	(7,211)
Derecognition – disposals	(641)	(64)	(626)	0	0	(71)	0	(1,402)	0	(1,402)
Derecognition – other	(2,277)	(745)	(433)	0	0	0	0	(3,455)	0	(3,455)
Assets reclassified (to)/ from Assets Held for Sale	(78)	0	(350)	0	0	10	0	(418)	0	(418)
Other movements in cost or valuation	84	18,524	0	0	0	38	(18,646)	0	0	0
Closing Balance at 31 March 2018	**62,269**	**207,274**	**56,345**	**169,298**	**7,482**	**247**	**5,661**	**508,576**	**46,000**	**508,576**
Accumulated Depreciation and Impairment										
Opening Balance at 1 April 2017	**0**	**(4,799)**	**(19,137)**	**(48,825)**	**0**	**(22)**	**0**	**(72,783)**	**0**	**(72,783)**
Depreciation charge	(1,987)	(6,381)	(4,451)	(4,205)	0	(5)	0	(17,029)	(630)	(17,029)
Depreciation written out to the Revaluation Reserve	2	2,800	690	0	0	1	0	3,493	0	3,493
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	61	10	0	0	0	0	71	0	71
Derecognition – disposals	20	24	596	0	0	0	0	640	0	640
Derecognition – other	1	82	0	0	0	0	0	83	0	83
Other movements in depreciation or impairment	(1)	3	0	0	0	(1)	0	1	0	1
Closing Balance at 31 March 2018	**(1,965)**	**(8,210)**	**(22,292)**	**(53,030)**	**0**	**(27)**	**0**	**(85,524)**	**(630)**	**(85,524)**
Net Book Value										
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**	**423,052**
Net Book Value as at 31 March 2017	**62,159**	**139,463**	**28,566**	**118,613**	**6,919**	**233**	**15,099**	**371,052**	**0**	**371,052**

Capital Commitments

At 31 March 2019 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 £8.2m. Similar commitments at 31 March 2018 were £3.3m. Major projects are detailed in the table below.

Major commitments at 31 March	£m
Scalloway Fishmarket Rebuild	5.139
Housing Quality Standard	1.192
Terminal Life Extension	1.014

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 CIPFA Code of Practice. 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 properties are all freehold with the exception of the Waste to Energy Plant which is held on a ground lease;
- 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 properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their 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 the 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; and
- that there are no outstanding statutory notices affecting any of the properties.

The following table shows useful lives have been used in the calculation of depreciation and also details of revaluation programmes. The basis of valuation is set out in Note 40: 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)	1-120 years	32 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Valued on 5-year rolling programme
Vehicles, Furniture, Plant & Equipment	1-32 years	7 years	Operational Manager	Existing Use Value	31 March 2016
Infrastructure Assets	2-47 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	2-20 years	17 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 15: Investment Properties

The following table summarises the movement in fair value of investment properties of the Group:

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
0	**0**	**Opening balance at 1 April**	**0**	**0**
0	0	Acquisition of Subsidiary	0	5,512
0	0	Additions	0	0
0	0	Disposals/Derecognition	0	(26)
0	0	Net gains/(losses) from fair value adjustments	0	(1,055)
0	**0**	**Closing balance at 31 March**	**0**	**4,431**

Note 16: Heritage Assets

Net Value	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2018	**1,571**	**3,282**	**4,853**
Depreciation	(14)	0	**(14)**
Closing Balance at 31 March 2019	**1,557**	**3,282**	**4,839**

2017/18	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2017	**1,585**	**3,269**	**4,854**
Other movements	0	13	**13**
Depreciation	(14)	0	**(14)**
Closing Balance at 31 March 2018	**1,571**	**3,282**	**4,853**

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.

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 17: 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. Quota 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 2019 is £32.7m. 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 £15.5m.

Fishing licences provide authority for a registered fishing vessel to fish for sea fish, subject to limitations stated in the licence. The licences were transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. There were no disposals in 2018/19 (£0m in 2017/18). The market value as at 31 March 2019 was £0.1m (£0.1m in 2017/18). This is amortised on a straight-line basis over a 10-year period.

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 £1.5m was charged directly to the Net Cost of Services in the CIES for 2018/19 (£1.4m in 2017/18).

Council As at 31 March 2019 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2018 £000
		Balance at 1 April:		
27,301	27,301	Gross carrying amounts	29,495	29,495
(2,187)	(2,187)	Accumulated amortisation	(2,335)	(2,335)
25,114	**25,114**	**Net carrying amount at start of year**	**27,160**	**27,160**
14	14	Purchases	71	71
0	0	Disposals	(409)	(409)
0	0	Disposal amortisation	401	401
2,180	2,180	Revaluation increases	6,414	6,414
1,207	1,207	Revaluation amortisation	1,386	1,386
(1,355)	(1,355)	Amortisation for the period	(1,515)	(1,515)
0	0	Goodwill	0	1,772
27,160	**27,160**	**Net carrying amount at end of year**	**33,508**	**35,280**
		Comprising:		
29,495	29,495	Gross carrying amounts	35,571	37,343
(2,335)	(2,335)	Accumulated amortisation	(2,063)	(2,063)
27,160	**27,160**	**Balance at 31 March**	**33,508**	**35,280**

Note 18: 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 14: 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 2019 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Contingent Rent £000	Total £000
Payable in 2019/20	258	1,223	2,235	60	**3,776**
Payable within 2 to 5 years	1,340	5,352	8,285	327	**15,304**
Payable within 6 to 10 years	3,222	7,335	8,740	307	**19,604**
Payable within 11 to 15 years	3,563	9,529	6,594	480	**20,166**
Payable within 16 to 20 years	6,101	10,976	3,971	(227)	**20,821**
Payable within 21 to 25 years	3,571	9,906	915	348	**14,740**
Total	**18,055**	**44,321**	**30,740**	**1,295**	**94,411**

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:

	2017/18 £000	2018/19 £000
Opening balance	**0**	**45,486**
Addition - asset brought into use	46,000	0
Capital payments incurred in the year	(514)	(1,165)
Closing balance	**45,486**	**44,321**

Note 19: Financial Instruments

Categories of Financial Instruments

Following the introduction of IFRS 9 on 1 April 2018, where Financial Instruments are to be reclassified according to the business model to which they relate, the Available for Sale Financial Instruments category has been reclassified as Fair Value through Profit and Loss.

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

Financial Assets	Investments				Debtors				Council	Group
	As at 31 March 2018		As at 31 March 2019		As at 31 March 2018		As at 31 March 2019		As at 31 March 2019	As at 31 March 2019
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000	Total £000
Fair value through profit or loss	0	0	357,778	0	0	0	0	0	357,778	340,464
Amortised cost	345,392	0	0	0	1,867	438	1,665	319	1,984	2,037
Total Financial Assets	**345,392**	**0**	**357,778**	**0**	**1,867**	**438**	**1,665**	**319**	**359,762**	**342,501**

Financial Liabilities	Borrowings / Other Long Term Liabilities				Creditors				Council	Group
	As at 31 March 2018		As at 31 March 2019		As at 31 March 2018		As at 31 March 2019		As at 31 March 2019	As at 31 March 2019
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000	Total £000
Amortised cost	(85,523)	(1,694)	(92,262)	(1,768)	(5,702)	(105)	(5,590)	(112)	(55,411)	(55,445)
Total	**(85,523)**	**(1,694)**	**(92,262)**	**(1,768)**	**(5,702)**	**(105)**	**(5,590)**	**(112)**	**(55,411)**	**(55,445)**

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 2018			As at 31 March 2019	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
2,305	2,310	Loans and receivables	1,984	1,984
(93,024)	(106,059)	Financial liabilities at amortised cost	(99,732)	(115,279)

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. These fair values are considered to be Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Market conditions are such that similar assets are actively sold and the level of observable inputs are significant, leading to this classification. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Income, Expense, Gains and Losses

	2017/18 Surplus or Deficit on the Provision of Services £000	2018/19 Surplus or Deficit on the Provision of Services £000
Net gains on:		
Financial assets measured at fair value through profit or loss	(17,618)	(20,047)
Total net gains/losses	**(17,618)**	**(20,047)**
Interest revenue:		
Financial assets measured at amortised cost	(5,704)	(6,765)
Total interest revenue	**(5,704)**	**(6,765)**
Interest expense	3,054	4,458
Total interest expense	**3,054**	**4,458**
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(195)	(71)
Total fee income	**(195)**	**(71)**
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	861	893
Financial assets measured at amortised cost	153	127
Total fee expense	**1,014**	**1,020**

There were gains for available-for-sale financial assets on revaluation of £17m as at 31 March 2019 (£57.6m at 31 March 2018) and no other indicators of impairment have been identified.

Note 20: 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. This risk is minimised through the Annual Investment and Treasury Strategy, which is available on the Council's website at http://www.shetland.gov.uk/about_finances/. The Council's credit risk management practices are set out on page 8 of the Annual Investment and Treasury Strategy.

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 2019, £1.6m of this balance was loaned to local businesses, leaving £13.4m available for future lending.

As at 31 March 2018 £000	Shetland Investment Fund	As at 31 March 2019 £000
439	Less than 1 year	319
883	2-5 years	793
591	6-10 years	471
54	Over 10 years	0
1,967	**Total**	**1,583**

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default. The Council has determined that the credit risk of these financial instruments has not increased since initial recognition. These financial assets present a low credit risk and therefore no impairment has been recognised for 2018/19.

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	General Fund £000	HRA £000
Opening Balance at 1 April 2018	**(55)**	**(71)**
Individual financial assets transferred to lifetime expected credit losses credit impaired	(198)	(16)
Amounts written off	37	33
Financial assets that have been derecognised	0	0
Closing Balance at 31 March 2019	**(216)**	**(54)**

Comparative year information for 2017/18 has not been provided. This is due to a change in impairment loss allowance measurement from 1 April 2018 as a result of the introduction of IFRS 9.

Liquidity Risk

The Council has external investments with Fund Managers amounting to £341m at 31 March 2019. 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 2019 the Council had fixed rate borrowings amounting to £49m from the Public Works Loan Board. The balance of £0.2m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2018 £000	Borrowing	As at 31 March 2019 £000
11,229	Less than 10 years	11,202
18,000	10-20 years	26,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
41,229	**Total**	**49,202**

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 2019 the composition of these funds was diversified between the following asset classes:

- UK Equities
- Overseas Equities;
- Diversified Growth Fund;
- Emerging Market Equities;
- UK Index Linked Gilts;
- UK Corporate Bonds;
- Other Bonds; 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 £1.4m for 2018/19. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 19: Financial Instruments.

At 31 March 2019, the Council had external fixed rate borrowing amounting to £49.2m 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 Treasury Section actively assesses interest rate exposure to determine the impact on the Council's financial reserves strategy and medium to longer-term financial strategy, which in turn informs the annual budget setting process. 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 £341m of investments as at 31 March 2019 in the form of equity, bonds, diversified growth fund, 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 £11.2m gain or loss being recognised in the CIES for 2018/19.

Foreign Exchange Risk

The Council has £168m 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 21: Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
54	54	Cash held by the Council	55	55
3,948	3,948	Bank current accounts	7,698	8,660
4,002	**4,002**	**Total**	**7,753**	**8,715**

Note 22: Assets Held for Sale

2017/18 £000		2018/19 £000
1,355	**Opening balance**	**557**
	Assets newly classified as held for sale:	
428	Property, plant and equipment	90
	Assets declassified as held for sale:	
(10)	Property, plant and equipment	(78)
(1,216)	**Assets sold**	(364)
557	**Closing balance**	**205**

Note 23: Long-term Debtors

As at 31 March 2018 £000		As at 31 March 2019 £000
343	Sub Debt Investment	402
1,524	Development loans	1,263
44	Other long-term debtors	66
1,911	**Total**	**1,731**

Note 24: Short-term Debtors

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
3,366	3,366	Central Government Bodies	4,595	4,595
2,403	2,403	Other Local Authorities	348	348
590	590	NHS Bodies	153	153
1,176	1,176	Public Corporations and Trading Funds	1,013	1,013
9,341	9,341	Other Entities and Individuals	9,720	9,758
16,876	**16,876**	**Total**	**15,829**	**15,867**

Movements in impairment allowance

The Council has made an allowance for expected credit loss on its General Fund and Housing Revenue Account. Debtor figures in the Balance Sheet are shown net of this allowance and the movement is shown in Note 20: Nature and Extent of Risks arising from Financial Instruments.

Note 25: Short-term Creditors

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
(4,708)	(4,708)	Central Government Bodies	(4,459)	(4,459)
(2,254)	(2,254)	Other Local Authorities	(397)	(397)
(238)	(238)	NHS Bodies	(225)	(225)
(781)	(781)	Public Corporations and Trading Funds	(803)	(803)
(10,639)	(10,639)	Other Entities and Individuals	(14,523)	(14,689)
(18,620)	**(18,620)**	**Total**	**(20,407)**	**(20,573)**

Note 26: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Balance at 1 April	**2,979**	**2,870**	**1,490**	**1,399**	**235**	**242**	**4,704**	**4,511**
Purchases	846	894	2,743	2,618	300	186	3,889	3,698
Recognised as an expense in the year	(701)	(785)	(2,588)	(2,526)	(275)	(193)	(3,564)	(3,504)
Balances written off	0	0	(31)	(1)	0	0	(31)	(1)
Balance at 31 March	**3,124**	**2,979**	**1,614**	**1,490**	**260**	**235**	**4,998**	**4,704**

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale) and items of ICT equipment.

Note 27: 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 for asset decommissioning costs:

Long-term Provisions	Decommis-sioning £000
Balance at 1 April 2018	**(579)**
Unused amounts reversed in 2018/19	257
Unwinding of discounting in 2018/19	(24)
Transfer to Short-term Provisions	143
Balance at 31 March 2019	**(203)**

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 2019 and 2025.

The short-term element of this liability is estimated at £0.3m, which represents the expected payment due in 2019/20. Total estimated costs are adjusted in the year when events indicating a change become known.

The Council's short-term provisions are:

Short-term Provisions	Decommissioning £000	Pension Cessation £000	Carbon Reduction Commitment £000	Symbister Peerie Dock £000	Other Provisions £000	Total £000
Balance at 1 April 2018	**(786)**	**0**	**(119)**	**(75)**	**(398)**	**(1,378)**
Additional provisions made in 2018/19	0	(3,271)	(81)	0	(8)	(3,360)
Amounts used in 2018/19	7	0	116	0	358	481
Unused amounts reversed in 2018/19	608	0	0	0	23	631
Transfer from Long-term Provisions	(143)	0	0	0	0	(143)
Balance at 31 March 2019	**(314)**	**(3,271)**	**(84)**	**(75)**	**(25)**	**(3,769)**

Following a review of the Tertiary Education Sector, the Council is to meet the one-off pension cessation costs of the North Atlantic Fisheries College. This is expected to happen in 2019/20. An actuarial estimate of this liability at 31 March 2019 is the basis for the short-term provision of £3.3m.

The Council participates in the Carbon Reduction Commitment Energy Efficiency Scheme where it is required to purchase and surrender allowances, currently retrospectively, on the basis of carbon emissions. As carbon dioxide is emitted (i.e. as energy is used), a liability is recognised and then discharged by surrendering allowances. A provision of £0.1m is recognised, calculated on the basis of the current market price of allowances needed to meet the Council's liability at 31 March 2019.

A provision of £0.1m is recognised in relation to a grant payment for works at the Symbister Peerie Dock. The grant will only be paid out if certain conditions are met. The deadline for the drawdown of the grant is March 2020.

Other provisions include amounts provided for outstanding legal cases and financial guarantees. The estimates are based on information available as at 31 March 2019. The Council is required to respond to legal claims raised against it. The potential liabilities that arise from this consist of an estimate of legal fees and an estimate of the settlement of any actions. A number of financial guarantees transferred to the Council as part of the wind-up of the Shetland Development Trust. The likelihood of these guarantees being called have been assessed and a provision recognised.

Note 28: Leases

The Council and Group as a Lessee

Finance Leases

The Council acquired its office headquarters and a music, cinema and creative industries centre under finance leases. The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
7,102	7,102	Property, plant and equipment	5,327	832
7,102	**7,102**		**5,327**	**832**

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:

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
(75)	(75)	Current	(75)	(46)
(1,516)	(1,516)	Non-current	(1,441)	(790)
(2,221)	(2,221)	Finance costs payable in future years	(1,961)	(246)
(3,812)	**(3,812)**		**(3,477)**	**(1,082)**

The present value of minimum lease payments is payable over the following periods:

Council	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2018 £000	As at 31 March 2019 £000	As at 31 March 2018 £000	As at 31 March 2019 £000
Not later than one year	(337)	(314)	(75)	(75)
Later than one year and not later than five years	(1,117)	(1,037)	(300)	(300)
Later than five years	(2,358)	(2,126)	(1,216)	(1,141)
	(3,812)	**(3,477)**	**(1,591)**	**(1,516)**

Group	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2018 £000	As at 31 March 2019 £000	As at 31 March 2018 £000	As at 31 March 2019 £000
Not later than one year	(337)	(76)	(75)	(46)
Later than one year and not later than five years	(1,117)	(276)	(300)	(183)
Later than five years	(2,358)	(730)	(1,216)	(607)
	(3,812)	**(1,082)**	**(1,591)**	**(836)**

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 £0.9m 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:

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2018 £000
3,097	3,097	Not later than one year	2,121	1,448
6,840	6,840	Later than one year and not later than five years	5,152	4,505
5,627	5,627	Later than five years	5,486	4,336
15,564	**15,564**	**Total**	**12,759**	**10,289**

The expenditure charged to the CIES during the year in relation to these leases was:

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
2,310	2,310	Minimum lease payments	2,820	2,147
(1,033)	(1,033)	Sub-lease payments receivable	(881)	(881)
1,277	**1,277**	**Total**	**1,939**	**1,266**

The Council and Group as a Lessor

Operating Leases

The Council rents out property and equipment 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 5 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 2018 £000		As at 31 March 2019 £000
(1,001)	Not later than one year	(821)
(4,709)	Later than one year and not later than five years	(3,285)
(2,404)	Later than five years	(1,248)
(8,114)	**Total**	**(5,354)**

The total value of rental income, excluding sub-leases, recognised in 2018/19 was £1.8m (£1.4m in 2017/18).

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

Council As at 31 March 2018 £000	Group As at 31 March 2018 £000		Council As at 31 March 2019 £000	Group As at 31 March 2019 £000
(904)	(904)	Not later than one year	(1,799)	(2,210)
(4,197)	(4,197)	Later than one year and not later than five years	(6,093)	(7,421)
(12,127)	(12,127)	Later than five years	(20,997)	(25,023)
(17,228)	**(17,228)**	**Total**	**(28,889)**	**(34,654)**

Note 29: 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. Prior 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 administrating 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 40: Accounting Policies.

Impact of McCloud Judgement

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

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. LGPS benefits accrued from 2015 may therefore need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. There will therefore be a retrospective increase to members' benefits, which in turn will give rise to a past service cost for the Fund employers.

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

The Fund's actuary has adjusted GAD's estimate to better reflect the Shetland Islands Council Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to Shetland Islands Council is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.40% higher as at 31 March 2019, an increase of approximately £2.5m.

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

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

Transactions Relating to Post-Employment Benefits

The 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 charge required to be made in the CIES, however, is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

2017/18 £000	Local Government Pension Scheme	2018/19 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
20,157	Current service cost	21,882
215	Past service cost (including curtailments)	2,762
	Financing and Investment Income and Expenditure:	
6,066	Net interest expense	4,606
26,438	**Total pension benefit charged to the Surplus/Deficit on the Provision of Services**	**29,250**
	Other pension benefit charged to the CIES	
13,741	Return on plan assets (excluding the amount included in the net interest expense)	21,780
1,200	Actuarial (gains) and losses arising from changes in demographic assumptions	0
(43,830)	Actuarial (gains) and losses arising on changes in financial assumptions	(50,093)
(49,314)	Actuarial (gains) and losses arising from other experience	(662)
(51,765)	**Total pension benefit charged to the CIES**	**275**
	Movement in Reserves Statement	
(26,438)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(29,250)
12,739	Employer's contributions and direct payments to pensioners payable in the year	13,490

The amount included in the Balance Sheet arising from the Council's obligation in respect of the Pension Fund is as follows:

2017/18 £000		2018/19 £000
(570,338)	Present value of the defined benefit obligation	(651,601)
405,167	Fair value of assets in the Local Government Pension Scheme	441,695
(165,171)	**Net liability arising from Defined Benefit Obligation**	**(209,906)**
(133,233)	Local Government Pension Scheme	(177,017)
(14,998)	Unfunded liabilities for Pension Fund	(15,654)
(16,940)	Unfunded liabilities for Teachers	(17,235)
(165,171)	**Total**	**(209,906)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2017/18 £000		2018/19 £000
406,114	**Opening balance**	**405,167**
10,580	Interest income	10,982
	Re-measurement gains and (losses):	
(13,741)	Return on assets excluding amounts included in net interest	21,780
12,739	Employer contributions	13,490
3,310	Contributions by scheme participants	3,453
(13,835)	Benefits paid	(13,177)
405,167	**Closing balance**	**441,695**

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

2017/18 £000		2018/19 £000
635,789	**Opening balance**	**570,338**
20,157	Current service cost	21,882
16,646	Interest cost	15,588
3,310	Contributions by scheme participants	3,453
	Remeasurement (gains) and losses:	
1,200	Actuarial (gains) and losses from changes in demographic assumptions	0
(43,830)	Actuarial (gains) and losses from changes in financial assumptions	50,093
(49,314)	Actuarial (gains) and losses from other experience	662
(13,835)	Benefits paid	(13,177)
215	Past service costs including curtailments	2,762
570,338	**Closing balance**	**651,601**

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2019 comprised:

2017/18 £000	Quoted Prices not in Active Markets	2018/19 £000
2,021	**Cash and cash equivalents**	**3,634**
	Property:	
47,120	UK property	50,781
440	Overseas property	325
47,560	**Sub-total Property**	**51,106**
	Investment Funds and Unit Trusts:	
254,562	Equities	279,641
34,563	Bonds	35,383
66,461	Other	71,932
355,586	**Sub-total Investment Funds and Unit Trusts**	**386,956**
405,167	**Total Assets**	**441,696**

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 2018, projected forward to 31 March 2019.

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

The principal assumptions used by the actuary have been:

2017/18		2018/19
	Long-term expected rate of return on assets in the Scheme:	
2.6%	Investment Funds and Unit Trusts	2.5%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.1	Men	22.1
24.0	Women	24.0
	Longevity at 65 for future pensioners (in years):	
23.9	Men	23.9
26.1	Women	26.1
3.4%	Rate of inflation	3.5%
3.0%	Rate of increase in salaries	3.1%
2.4%	Rate of increase in pensions	2.5%
2.7%	Rate for discounting scheme liabilities	2.4%
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	2018/19	
	%	£000
0.5% decrease in real discount rate	11%	70,187
0.5% increase in the salary increase rate	2%	12,257
0.5% increase in the pension increase rate	9%	56,568

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 most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £450m, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51m.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability as per the 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 66% chance that the Fund will return to full funding over 14 years.

The employers' common contribution rate was set at 20.8% for 2018/19. Rates for the next two years, set out in the latest triennial valuation as at 31 March 2017, are as follows:

Year	Employer contributions
2019/20	20.80%
2020/21	20.80%

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2020 are £11.7m.

The weighted average duration of the defined benefit obligation for Scheme members is 20.6 years for 2018/19.

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 2018/19 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/

Note 30: Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA).

The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. 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. The SPPA uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities.

Valuations of the notional fund are undertaken every four years. The Scheme has in excess of 160 participating employers and consequently, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of these annual accounts it is therefore accounted for on the same basis as a defined contribution scheme.

As a proportion of the total contributions into the Teachers' Pension Scheme, the Council's own contributions equated to approximately 0.6% in 2018/19 (0.6% for 2017/18).

In 2018/19, the Council paid £2.7m to the SPPA in respect of teachers' pension costs, representing 17.2% of pensionable pay (£2.6m and 17.2% for 2017/18). There were no contributions remaining payable at the year-end. The estimated contribution for 2019/20 is £3.7m.

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 2018/19 these amounted to £0.9m, representing 5.8% of teachers' pensionable pay (£0.9m and 5.7% for 2017/18). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 31: External Audit Costs

The Council and Group has incurred the following costs in respect of external audit and non-audit services provided in accordance with the Code:

Council 2017/18 £000	Group 2017/18 £000		Council 2018/19 £000	Group 2018/19 £000
212	212	Fees payable with regard to external audit services carried out by the appointed auditor for the year	247	281
0	0	Non-audit services fee	24	24
212	**212**	**Total**	**271**	**305**

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 allows readers to assess 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; 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 12: Grant Income.

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 by inspecting each individual Member at https://www.shetland.gov.uk/coins/allMembers.asp?sort=0. The Register details the bodies where Members are represented or for which they have declared an interest. The Council made payments totalling £1.4m in 2018/19 (£6.0m in 2017/18) to these bodies. The amount outstanding to be paid at 31 March 2019 was £4k (£482k at 31 March 2018).

Officers

At the end of the financial year all senior managers were required to disclose any involvement with related parties of the Council. The Principal of North Atlantic Fisheries College (NAFC) and Joint Principal of Shetland College and Train Shetland is a member of key management of the Council. The Council made payments totalling £1.3m in 2018/19 (£0.6m in 2017/18) to the NAFC. The amount outstanding to be paid at 31 March 2019 was £82k (£32k at 31 March 2018).

Local Government Pension Scheme

The Local Government Pension Scheme is administered locally by Shetland Islands Council for the benefit of employees. The Council has made payments to the Local Government Pension Scheme as detailed in Note 29: Defined Benefit Pension Schemes.

Group Entities

On 23 October 2018 the Council acquired 100% interest in SLAP. The Council is the only shareholder in the company, representing 100% of the issued share capital. Under accounting standards, the Council has the controlling interest in this company, and therefore falls under the criteria of a subsidiary as at 31 March 2019. The entity has been consolidated into the Group Statements.

The Integration Joint Board (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. The Council made payments totalling £21.2m (£20.6m in 2017/18) to the IJB.

Zetland Transport Partnership (ZetTrans) is a Regional Transport Partnership set up to deliver transport services for Shetland. It is an associate of the Council and is deficit funded by them. The Council made payments totalling £3.7m (£2m in 2017/18) to ZetTrans.

The Orkney and Shetland Valuation Joint Board provides the valuation service for Orkney and Shetland and is funded by both Councils. The Council made payments totalling £0.3m (£0.3m in 2017/18) to the VJB.

For details of members' influence on these entities and the transactions between them and the Council, please refer to Note 39: Group Interests.

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 Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2017/18 £000		2018/19 £000
33,702	**Opening Capital Financing Requirement**	**92,993**
	Capital investment:	
73,761	Property, plant and equipment	23,085
14	Intangible assets	71
0	Revenue Expenditure Funded from Capital	0
	Sources of finance:	
(3,300)	Capital receipts	(1,403)
(7,659)	Government grants and other contributions	(6,388)
(103)	Funding from reserves	(2,959)
	Sums set aside from revenue:	
(1,528)	Direct revenue contributions	(3,637)
(99)	Lease principal	(105)
(514)	PFI contract principal repayments	(1,901)
(1,281)	Loans fund principal	(1,165)
92,993	**Closing Capital Financing Requirement**	**98,591**
	Explanation of movements in year:	
13,899	Increase/(decrease) in underlying need to borrow	6,942
(99)	Assets acquired under finance leases	(105)
45,487	Assets acquired under PFI contracts	(1,165)
4	Assets acquired under Decommissioning Obligations	(73)
59,291	**Increase in Capital Financing Requirement**	**5,599**

Note 34: Contingent Liabilities

Shetland Islands Council has one outstanding claim under the Equal Pay Act 1970 for past pay inequalities. It is not yet possible to provide any financial quantification at this stage, however, no material loss is anticipated.

There are a number of current legal claims against the Council that are being contested. For cases where there is uncertainty of any potential liability, no value has been attributed to these claims in the financial statements.

There are a number of admitted bodies within Shetland Islands Council Pension Fund. One body has defaulted on their obligations, the shortfall will likely have to be met by the Council over time and through an adjustment to employer contribution rates.

Note 35: Contingent Assets

The Scottish Government is committed to re-distributing to relevant local authorities 100% of the net income generated by Crown Estate assets within 12 months. It is not yet possible to provide an estimate of the amount receivable.

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 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 2019, the remaining assets held by the Brae Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2018/19, the ZET received receipts of £0.030m and made payments of £0.024m.

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

As at 31 March 2018 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2019 £000
(668)	Bare Trust	0	0	(567)	(567)
(673)	Zetland Educational Trust	(19)	(657)	0	(676)
(3)	Others	(3)	0	0	(3)
(1,344)	**Total**	**(22)**	**(657)**	**(567)**	**(1,246)**

Note 37: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 25 September 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

These annual accounts differ from the published unaudited annual accounts due to amendments arising from audit.

One of the amendments required was due to the Supreme Court's decision to deny the UK Government's leave to appeal regarding the McCloud rulling, resulting in an increase to the pension liability of £2.5m. See Note 29: Defined Benefit Scheme for further information.

Note 38: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 40, 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, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate, 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.

- Following the adoption of IFRS 9, the Council has determined the classification of its financial assets by assessing the business model within which the financial assets are held. The Council has classified the measurement basis of its available for sale financial instruments as fair value through profit or loss. During 2018/19 the gain recognised in the CIES was £110.988m.
- The Council has considered the impairment loss on its financial assets based on the expected credit loss model as per IFRS 9. The Council has judged that apart from trade receivables, the Council's financial assets present a low credit risk and therefore no impairment has been recognised for these financial instruments for 2018/19. A simplified approach has been used to make a judgement on the impairment loss of £270k on trade receivables assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions.
- The Council has considered all entities in which it has an interest for consolidation in the group accounts. The most significant of these entities is SLAP which has been included in the group accounts as a subsidiary. The Council has made judgement on which properties should be classified as investment property within the group accounts.
- 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 £40.086m at 31 March 2019) which is recognised as Property, Plant and Equipment on the Council's Balance Sheet.

Note 39: Group Interests

Introduction

The Code of practice on Local Authority Accounting in the United Kingdom 2018/19 requires the Council to prepare group accounts where the Council has interests in subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality. The Council is required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The financial statements in the group accounts are prepared in accordance with the accounting policies set out in Note 40.

Disclosure of Interest and Non-Material Interest in Other Entities

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.

Where the financial impact of omitting an entity from the group accounts would not cause a user of the accounts to form a different view on the accounts, the Council has opted not to include these entities within the group boundary.

Subsidiaries

The Code defines a subsidiary as an entity that is controlled by another entity. The Council has identified two entities that meet the definition of a subsidiary. These are:

- Zetland Educational Trust; and
- SLAP.

Zetland Educational Trust (ZET)

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. On the grounds of materiality, the ZET has not been consolidated in the Group Accounts.

SLAP

On 23 October 2018 the Council acquired 100% interest in SLAP, a property investment and development company. The Council is the principal shareholder in the company holding all shares, representing 100% of the issued share capital. The Council holds all seats on the board, with each director entitled to one vote. Under accounting standards, the Council has the controlling interest in this company, and therefore falls under the criteria of subsidiary as at 31 March

2019. The entity has been consolidated into the Group Statements.

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 Shetland Health and Social Care Partnership (IJB) meets the definition of a joint venture. On the grounds of materiality, the (IJB) has not been consolidated into the Group Accounts.

Integration Joint Board (IJB)

The Integration Joint Board (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 45.5% of the Board's operating costs in 2018/19 (46.1% in 2017/18). It has three out of six voting members on the board. The Council's share of the net surplus of the Integration Joint Board was £0.27m as at 31 March 2019 (£0.12m at 31 March 2018), 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:

2017/18 £000	Integration Joint Board	2018/19 £000
(23,665)	Gross Income	(24,956)
23,545	Gross Expenditure	24,686
(120)	**Net (Surplus) / Deficit**	**(270)**
182	Current Assets	453
0	Current Liabilities	0
182	**Net Assets**	**453**

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).

On the grounds of materiality the Orkney and Shetland Valuation Joint Board and Zetland Transport Partnership has not been consolidated in the Group Accounts.

Orkney and Shetland Valuation Joint Board (OSVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2018/19, the Council held five Board places out of ten and contributed 49.7% of the Board's operating costs (49.2% in 2017/18).

The Council's share of the year-end net liability is £1.1m as at 31 March 2019 (£1.0m at 31 March 2018), 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:

2017/18 £000	Orkney and Shetland Valuation Joint Board	2018/19 £000
373	Gross Income	392
(339)	Gross Expenditure	(352)
34	**Net (Surplus) / Deficit**	**40**
24	Current Assets	13
(26)	Current Liabilities	(16)
(967)	Non-current Liabilities	(1,118)
969	Capital and Reserves	1,121
0	**Net Assets**	**0**

Zetland Transport Partnership (ZetTrans)

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 96.4% of the Partnership's operating costs in 2018/19 (93.7% in 2017/18) and holds four out of six seats on the Partnership.

The Council's share of the net liability is nil at 31 March 2019 (nil at 31 March 2018) and is therefore considered not material for consolidation in group accounts.

The table below details Shetland Islands Council's share of ZetTrans' financial results for the year:

2017/18 £000	Zetland Transport Partnership	2018/19 £000
(1,839)	Gross Income	(2,848)
1,839	Gross Expenditure	2,848
0	**Net (Surplus) / Deficit**	**0**
128	Current Assets	0
(128)	Current Liabilities	0
0	**Net Assets**	**0**

Nature of combination

The Group Accounts have been prepared on the basis of a full consolidation of financial transactions and balances of the Council and its subsidiary. The subsidiary has been consolidated on a line by line basis. The values stated in the Group Accounts have been adjusted for the elimination of intergroup transactions and balances including debtors and creditors. As the Group didn't exist in 2017/18, the 2017/18 values are of the Council only and don't include SLAP.
No Group column exists in the preceding Notes where there is no impact of consolidation on the Group.

Group Accounting Policies

The group accounting policies are those specified for the parent entity financial statements. Where materially different, accounting policies of group members are to be aligned to those of the parent entity. SLAP is a private company limited by shares and incorporated and domiciled in Scotland. It is not required to prepare its annual accounts on an IFRS basis. During 2018/19 the company changed its accounting policy with respect to the basis of preparation of the financial statements and the treatment of the valuation of investment properties. SLAP has prepared its accounts on a breakup basis as the Directors intend to liquidate the company in the 2019/20 financial year.

The accounting policies of the group member is materially the same as those of the parent entity.

Financial impact of Consolidation

The effect of inclusion of the subsidiary on the Group Balance Sheet is to decrease both Reserves and Net Assets by £0.7m.

Note 40: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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;
- 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; and
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

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
- unitised 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 Balance Sheet date

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

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the 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.

The fair value measurements of the 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 Insight. 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 Insight and Baillie Gifford receive and record income during the year. The income is re-invested into their units.
- No income is generated by Blackrock out with their units.

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 Capital Receipts Reserve.

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 Capital Receipts Reserve.

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 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's internal reporting arrangements for accountability and financial performance. In line with LASAAC guidance, these are removed from gross income and expenditure in the CIES.

Q 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 - 120 years
- vehicles, plant, furniture and equipment: 1 - 32 years
- infrastructure: 2 - 47 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.

R 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 or paid to transfer a liability 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 or liability.

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. Inputs to the valuation techniques in respect of assets and liabilities 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.

S 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.

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.

T 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.

U 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.

V Revenue Expenditure funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of Council Tax.

W 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 Financial Statements 2019

OSCR
Scottish Charity Regulator
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Registered Charity
SC001146

Shetland Islands Council

Contents

Introduction

The trustees present their Annual Report together with the financial statements for the year ended 31 March 2019.

Administration Information

Trust 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	
Current Trustees	Malcolm Bell Mark Burgess Peter Campbell Alastair Cooper Steven Coutts Allison Duncan John Fraser Amanda Hawick Catherine Hughson Stephen Leask Emma MacDonald	Robbie McGregor Andrea Manson Alec Priest Davie Sandison Ian Scott Duncan Simpson Cecil Smith George Smith Theo Smith Ryan Thomson Beatrice Wishart*

*Subsequent to the year-end, Beatrice Wishart resigned as an elected member of the Shetland Islands Council following successful election as MSP for the Shetland Islands. The Council is currently organising a by-election to fill the vacant seat.

Auditor	Deloitte LLP 110 Queen Street Glasgow G1 3BX

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.

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 ZET 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 ZET 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.

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 2019, the Trust received bank interest of £126 (2017/18: £941). The decrease in bank interest earned is due to the change of Trust reserves from a fixed term deposit to a Corporate Bond Fund. This occurred on 28 April 2017.

The Corporate Bond Fund generated investment income of £25,838 (2017/18: 22,005) and resulted in £1,948 of Fund manager fees (2017/18: £1,218). The increase in income earned and fees from 2017/18 is mainly due to timing differences, date the bond commenced and receipt of fee invoices.

There were 12 bursaries (2017/18: 14) awarded to university students in support of their studies, totalling £2,400 (2017/18: £2,800). These bursaries are issued in the name of the original donors: E & M Gair (8 awards) and Arthur Anderson (4 awards). 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 9 grants awarded totalling £18,887 in the year to 31 March 2019 (2017/18: £12,784).

Financial Review

Overview

In the year to 31 March 2019, the Trust made a surplus of £5,578 (2017/18: £6,139).

At 31 March 2019 the Trust held cash of £19,037 (2017/18: £13,459) and investments of £657,161 (2017/18: £660,000).

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 25 September 2019 and were signed on its behalf by:

....
Steven Coutts - Trustee

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the statement of accounts of Zetland Educational Trust Scheme 1965 for the year ended 31 March 2019 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 a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In our opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2019 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

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine 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

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

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

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

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

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In our 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 Charities Accounts (Scotland) Regulations 2006.

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

………………………………………………………………..
Sarah Anderson, FCCA (for and on behalf of Deloitte LLP)
1 City Square
Leeds
LS1 2AL
United Kingdom
25 September 2019
Deloitte LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

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	Unrestricted Funds £	Restricted Funds £	2018/19 £	2017/18 £
Receipts					
Donations	2	0	2,711	2,711	0
Grants	4	940	0	940	0
Investment Income	5	25,838	0	25,838	22,005
Bank Interest		126	0	126	941
Total receipts		**26,904**	**2,711**	**29,615**	**22,946**
Payments					
Disbursements	6	18,576	2,711	21,287	15,584
Fund Manager Fees	5	1,948	0	1,948	1,218
Service Charges	7	802	0	802	5
Total payments		**21,326**	**2,711**	**24,037**	**16,807**
Surplus for the year		**5,578**	**0**	**5,578**	**6,139**

STATEMENT OF BALANCES AS AT 31 MARCH 2019

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	Unrestricted Funds £	Restricted Funds £	2018/19 £	2017/18 £
Cash and Bank				
Opening cash balance	13,459	0	13,459	7,320
Surplus for the year	5,578	0	5,578	6,139
Closing cash balance	**19,037**	**0**	**19,037**	**13,459**

	Note	2018/19 £	2017/18 £
Investments at market value			
Baillie Gifford Corporate Bond	5	657,161	660,000
Total Investments		**657,161**	**660,000**

The financial statements were approved by the Board of Trustees on 25 September 2019 and signed on its behalf by:

....
Steven Coutts - 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 Trust.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes. During the year, the ZET received donations of £2,711 from parents towards the provision of an educational excursion.

3. Trustee Remuneration, Expenses and Related Party Transactions

a) No remuneration or expenses were paid during the period to any trustee or persons connected to a trustee during 2018/19;

b) Shetland Islands Council has not charged the Trust any fees for legal, financial or administrative services provided during the year; and

c) Two ZET trustees are trustees of The Swan Trust. During the year, £5,000 was disbursed to the Swan Trust to provide schoolchildren with sailing opportunities (2017/18: nil).

4. Grants received

Shetland Island Council paid £940 in grants to the ZET (2017/18: nil).

5. Cash and Investments

Investment balances are held in a Baillie Gifford Corporate Bond Fund.

Fund manager fees of 3% on the daily market value of the fund is 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. Disbursement of Bursaries and Grants

Disbursements: bursaries	2018/19		2017/18	
	Number	£	Number	£
Disbursements				
E & M Gair student bursaries	8	1,600	8	1,600
Arthur Anderson student bursaries	4	800	6	1,200
Total	**12**	**2,400**	**14**	**2,800**

Disbursements: grants	2018/19		2017/18	
	Number	£	Number	£
Type of activity or project supported				
Special equipment	4	7,987	18	4,491
Promotion of knowledge of Shetland	3	6,080	14	2,091
Educational Excursions	1	4,711	9	4,522
Educational experiments and research	1	109	1	1,680
	9	**18,887**	**42**	**12,784**

All 9 grants awarded in the year were to local clubs and schools. No individuals were awarded grants.

7. Audit Fees

Shetland Islands Council has an agreement with ZET whereby the independent 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 2018/19 and audit fees of £400 (2017/18: £400) are chargeable to ZET. Both the 2018/19 and 2017/18 audit fee have been paid in 2018/19.

8. Taxation

The ZET is not liable to income or capital gains tax on its activities. Irrecoverable VAT is included in any expense to which it relates.

Agenda Item
2

Shetland Islands Council

Meeting(s):	Audit Committee Pension Fund Committee Pension Board	25 September 2019
Report Title:	Annual Audit Report on the 2018/19 Audit – Shetland Islands Council Pension Fund	
Reference Number:	F-052-F	
Author / Job Title:	Jamie Manson, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee and Pension Board:

a) NOTES the findings of the 2018/19 audit as contained in the External Auditor's annual report at Appendix 1;

b) CONSIDERS a verbal report by the External Auditor;

c) CONDIDERS the audited Annual Accounts for 2018/19 (Appendix 2) for Shetland Islands Council Pension Fund.

1.2 That the Pension Fund Committee RESOLVES to:

a) NOTE the findings of the 2018/19 audit as contained in the External Auditor's Annual report at Appendix 1; and

b) APPROVE the Audited Annual accounts for 2018/19 (Appendix 2) for Shetland Islands Council Pension Fund for signature.

2.0 High Level Summary:

2.1 The Local Authority Accounts (Scotland) Regulations 2014 ("the Regulations") require the Pension Fund to prepare and publish annual accounts that are subject to external audit. The appointed External Auditor is Deloitte LLP.

2.2 Section 10 of the Regulations requires the Committee / Board to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.

2.3 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.

2.4 The External Auditor's findings, otherwise known as their ISA260 report, are included in the Annual Audit Report at Appendix 1. For the 2018/19 financial year, the External Auditor has confirmed an unmodified opinion, which means that the Pension Fund's annual accounts are free from material misstatement and present a true and fair view of the Fund's financial position at 31 March 2019.

2.5 The unaudited accounts for the year to 31 March 2019 were approved by Pension Fund Committee on 26 June 2019 and there is no change to the accounting surplus or net assets in the audited annual accounts

3.0 Corporate Priorities and Joint Working:

3.1 The preparation and presentation of the annual accounts is a key element of the Pension Fund's overall governance and reporting arrangements.

4.0 Key Issues:

4.1 The Pension Fund's accounts for the year to 31 March 2019 were submitted to the External Auditor by the statutory deadline of 30 June 2019. The External Auditor was required to complete the audit by 30 September 2019 and to report on certain matters arising to those charged with governance.

4.2 The Audit Report (Appendix 1) highlights one significant risk and two areas of audit focus areas that were considered, as follows:

- Risk – Management override of controls;
- Focus area – Completeness of investments;
- Focus area – Accuracy and timeliness of contributions.

4.3 Pages 7 – 10 of the report at Appendix 1 presents how the result of the audit control testing was satisfactory for each of these three areas.

4.4 As well as reviewing the annual accounts, the scope of the audit includes wider audit dimensions such as governance, transparency and financial sustainability. Some of the key audit findings (detailed in Appendix 1) in these areas are:

- Financial sustainability – we are satisfied the Fund has sufficient plans in place to continue to be financially sustainable in the medium and long term.
- Financial management – we are satisfied that appropriate financial reports are provided to both the Audit and Pension Fund Committee to challenge variances and underperformance and that this is performed.
- Governance and transparency – from our testing performed we have no issues to note. The Annual Governance Statement and Governance Compliance Statement contains the required information.
- Value for money – we are satisfied that there is sufficient scrutiny over expenditure of the Fund, in particular investment management fees.

5.0 Exempt and/or confidential information:

5.1 None.

6.0	**Implications :**
6.1	None arising from this report.

Service Users, Patients and Communities:	
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Pension Fund to approve the audited Annual Accounts for signature no later than 30 September each year.
6.5 Finance:	None arising from this report.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	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:	The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity. The preparation and presentation of the Annual Accounts is a key element of the Pension Fund's overall governance and reporting arrangements.
6.11 Previously considered by:	N/A

Contact Details:
Jacqueline Johnson, Senior Assistant Accountant, 01595 744625
Jacqueline.johnson@shetland.gov.uk

Appendices:
Appendix 1 – *Annual Audit Report 2018/19 for Shetland Islands Council Pension Fund*
Appendix 2 – *Audited Annual Accounts 2018/19 for Shetland Islands Council Pension Fund*

Background Documents:
The Local Authority Accounts (Scotland) Regulations 2014

Shetland Islands Council Pension Fund

Final report to the Controller of Audit for the year ended 31 March 2019

Issued 30 August 2019 for the meeting on 25 September 2019

Contents

Partner introduction
The key messages in this report

I have pleasure in presenting our final report for the 2019 audit of Shetland Islands Council Pension Fund ("the Fund"). The areas of significant risk identified in that report have remained consistent throughout our testing and have been focal to the performance of our audit. I would like to draw your attention to the following key messages:

Audit quality is our number one priority.

We plan our audit to focus on audit quality and have followed the following audit quality objectives for this audit:

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

Significant audit risk and areas of audit focus

In our planning report we identified management override of controls as our significant risk. Further details of the audit procedures on the significant audit risk can be found on page 6.

The audit procedures on the areas of focus can be found on pages 8 to 10.

Status of the audit

We are currently progressing the audit towards completion. We have detailed the procedures still to be completed in appendix 4 and our final opinion is subject to completion of these items.

Audit Quality & Insight

We have completed our audit in line with our planning report dated February 2019.

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well planned audit that raises findings early with those charged with governance.

A detail of unadjusted misstatements can be found in appendix 3.

Subject to the satisfactory receipt and the completion of the items in appendix 4 we expect to issue an unmodified audit opinion on the financial statements.

Pat Kenny
Audit Lead

Materiality
Our approach to materiality - Fund

Basis of our materiality benchmark

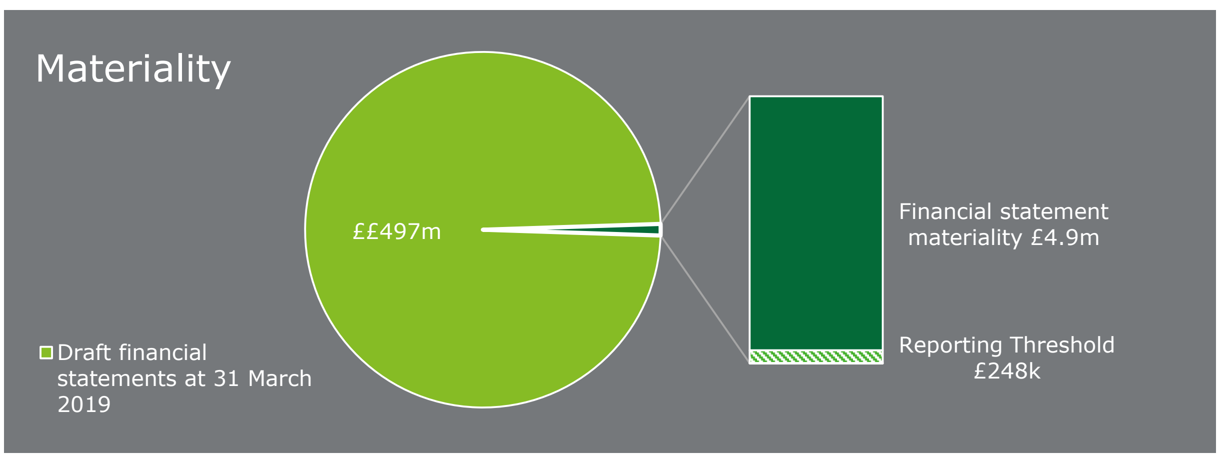
- We have determined financial statement materiality to be £4.97m based on professional judgement, the requirement of auditing standards, and the net assets of the Fund. During the audit we have considered, together with the Shetland Islands Council audit team, whether any reduction is required to the level of materiality applied to the Fund.
- We have used 1% of Fund net assets.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of financial statement materiality. We will report to you misstatements below this threshold if we consider them to be material by nature.

Materiality calculation

Although materiality is the judgement of the audit partner, the Audit and Pension Fund Committee members must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



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Significant audit risks and other areas of audit focus

An overview

Risk Identified	Material Balance	Management Judgement	Proposed Approach	Fraud Risk	Further Details
Significant risk Management override of controls	✗	△	**D&I**	✓	Pg. 7
Other Focus Area Completeness of investments	✓	△	**D&I**	✗	Pg. 9
Other Focus Area Accuracy and timeliness of contributions	✓	△	**D&I**	✗	Pg. 10

Significant risk

Other area of audit focus

Low levels of management judgement/complexity

Medium levels of management judgement/complexity

High degree of management judgement/complexity

D&I Design and Implementation

OE Operating Effectiveness

Significant audit risk

Significant risks

Management override of controls

Significant Risk

D&I

Risk identified

In accordance with ISA 240 (UK) management override is a presumed significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance	Deloitte response to significant risk identified
The financial reporting process in place has an adequate level of segregation of duties.	In order to address the significant risk our audit procedures consisted of the following: • Used our Excel data analytics tool in our journals testing to interrogate the journals posted across the Fund. This selects journals meeting specific pre-determined parameters determined during our audit planning; • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements; • Assessed whether that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; • Tested the design and implementation of controls around the journals process; • Reviewed related party transactions and balances to identify if any inappropriate transactions have taken place; and • Reviewed the significant and unusual transactions and accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.

Findings

There are no issues arising from our testing performed that would indicate that there have been any instances of management override of controls during the year.

Audit focus areas

Audit focus areas

Completeness of investments

Focus Area

D&I

Area of focus identified

The Fund holds a large and highly material portfolio of investments, which is diversified with several investment managers. As a result of this we consider the existence of these investments to be an area of audit focus.

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments. These parties have strong control environments in place.

Findings

We did not note any significant issues from our testing performed.

Deloitte response to the focus area identified

In order to address this area of audit focus, we have performed the following audit procedures:

- Reviewed the design and implementation of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed year end valuations, sales and purchases amounts in the accounts to the reports received directly from the investment managers;
- Performed valuation testing on the valuation of the investments held at 31 March 2019 by using a range of techniques depending on the type of investment.
  - Where the investment was not directly quoted on an exchange we confirmed if it is a registered fund and obtained an independent price.
  - Where this was not the case we confirmed if the fund was structured as a unitised insurance policy or used sales transactions close to year end as an estimate of the price.
  - Where none of these options are available we obtained audited financial statements and compered the price per the statement to the audited accounts.
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year, (i.e. sales, purchases, change in market value); and
- Tested the completeness of investments by agreeing a sample of sales and purchases transactions to underlying documentation.

Audit focus areas

Accuracy and timeliness of contributions

Focus Area

D&I

Area of focus identified

There is some complexity surrounding the completeness and accuracy of employer and employee contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay, this can vary month to month and the Fund has no oversight of the individual employer payrolls.

In addition, while no opinion is issued on timely payment of contributions, it remains an area of focus, as LGPS Regulations stipulate due dates for payment. Late payments could cause reputational damage.

As a result of this we would expect the accuracy and timeliness of contributions to be an area of audit focus.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Findings

From our audit testing, we have noted the following control deficiency:

- In our sample of payslip testing, we noted that for one employee, both employer and employee contributions were calculated incorrectly, due to unauthorised sick leave. When an employee gets reduced pay due to authorised sick leave, he/she gets flagged on the system, as contributions are based on actual pay. As the sick leave was unauthorised, the employee was not flagged and contributions were calculated on the wrong amount of pay. We recommend that a monthly control is put in place to check that employees who have taken unauthorised sick leave are flagged, so that contributions are amended accordingly.

We did not note any other issues from our testing performed.

Deloitte response to the focus area identified

In order to address this area of audit focus, we performed the following audit procedures:

- Considered the design and implementation of key controls over the contribution process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- Tied a sample of employer contributions received during the year back to the contribution rates stipulated in the 31 March 2017 actuarial valuation;
- Tested that the correct definition of pensionable salary was being used per the LGPS Regulations to calculate contribution deductions;
- For a sample of monthly contributions, checked that they were paid within the time limits stipulated in the Local Government Pension Scheme (Scotland) Regulations 2014 (“LGPS Regulations”); and
- For a sample of active members across the Fund, we recalculated individual contribution deductions to confirm that these were calculated in accordance with the rates stipulated by the Scottish Public Pensions Agency and in the 31 March 2017 actuarial valuation;

Audit dimensions

Wider Scope Requirements

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. We have considered how the Pension Fund addresses these areas as part of our audit work as follows:

Audit dimension	Audit work completed	Audit conclusion
Financial sustainability looks forward to the medium and longer term to consider whether the Pension Fund is planning effectively to continue to deliver its services or the way in which they should be delivered.	• We reviewed the financial planning systems in place by the Pension Fund to ensure that its services can continue to be delivered. • We also reviewed the arrangements in place to address any funding gaps. • We looked at the affordability and effectiveness of funding and investment decisions made. This included: • a review of the latest actuarial valuation of the Pension Fund (dated 31 March 2017) and the plans in place to reduce the deficit over the shorter and medium term; and • A review of the funding policy as set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027 ("Investment Strategy"), which aims to ensure the long-term solvency of the Pension Fund, so that there are sufficient funds available to meet all benefits as they fall due.	From our work completed we are satisfied the Fund has sufficient plans in place to continue to be financially sustainable in the medium and long term. We did not identify any issues regarding non-payment of contributions due from the Scheduled and Admitted Bodies which would have an impact on the financial sustainability of the Fund. In addition from our review of the Investment Strategy 2014-2027, the Fund has taken investment advice on how best to use its resources appropriately to ensure future benefits can be settled when the liability arises and the Fund will be 100% funded by 2027.

Wider Scope Requirements
Audit Dimensions

Audit dimension	Audit work completed	Audit conclusion
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	• We reviewed the budget and monitoring reporting by the Pension Fund during the year to assess whether financial management and budget setting is effective; • We ensured that there is a proper officer who have sufficient status to be able to deliver good financial management, that monitoring reports contain information linked to performance as well as financial data, and that members have the opportunity to provide a sufficient level of challenge around variances and under-performance; and • We reviewed the design and implementation of the Pension Fund and third party advisers controls in place to ensure they were operating effectively.	From our testing completed we can confirm that an Executive Manager – Finance has been appointed who has the appropriate status to act in that role and complies with the five principles outlined in the CIPFA guidance. From our review of the budget process we are satisfied that appropriate financial reports are provided to both the Audit and Pension Fund Committee to challenge variances and underperformance and that this is performed. Although for our audit purposes, we did not perform operating effectiveness testing, our implementation walkthroughs of controls in place did not show evidence of failing controls. In addition, our review of the investment managers' published controls reports did not raise any matters.

Wider Scope Requirements
Audit Dimensions

Audit dimension	Audit work completed	Audit conclusion
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	• We reviewed the Pension Fund Committee meeting minutes to assess the effectiveness and scrutiny of governance arrangements. • We reviewed other aspects of governance around the Pension Fund including Codes of Conduct for officers and members, fraud and corruption arrangements, and arrangements for reporting regulatory breaches to the Pensions Regulator. • In addition we reviewed the Annual Governance Statement and Governance Compliance Statement to confirm the governance arrangements observe the guidance issued by Scottish Ministers.	From our testing performed we have no issues to note. The Annual Governance Statement and Governance Compliance Statement contains the required information. The procedures and policies around governance, Codes of Conduct, etc. are clear and transparent and available for all Members to read on the Shetland Island Council website.
Value for money is concerned with using resources effectively and continually improving services.	• We gained an understanding of how the Pension Fund demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. • We reviewed the scrutiny that is in place to challenge the Pension Fund's investment managers on fees and performance.	From our review of the budget process we are satisfied that there is sufficient scrutiny over expenditure of the Fund, in particular investment management fees. In addition the Investment Strategy document outlines how the Fund will achieve value for money in where the assets are invested, ultimately aiming for 100% funding by 2027.

Purpose of our report and responsibility statement
Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Fund.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

This report has been prepared for the Audit Committee and Pension Fund Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Other relevant communications

We will update you if there are any additional findings resulting from the concluding of the outstanding audit procedures.

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | XX August 2019

Appendices

Appendix 1: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Audit and Pension Fund Committees, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the management override of controls as the key audit risk for the Fund.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Audit and Pension Fund Committees:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Audit and Pension Fund Committees regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

The Audit and Pension Fund Committees

- How the Audit and Pension Fund Committees exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit and Pension Fund Committees have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Audit and Pension Fund Committees on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees

A Fair and Transparent Fee

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Fees	Our audit fee for the year ended 31 March 2019 is £29,100 for the Fund. The above fees exclude VAT and include out of pocket expenses.
Non-audit fees	There are no non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 3: Audit adjustments

Unadjusted misstatements and disclosure deficiencies

We have identified the following misstatements and disclosure deficiencies from our audit work to date, most of which have been corrected by management but we nonetheless bring to your attention.

	Debit/ (credit) in Fund Account £	Debit/ (credit) in net assets £	If applicable, control deficiency identified
Uncorrected misstatements			
None			
Corrected misstatements			
None			
Total			

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure misstatements to enable Audit Committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we consider require consideration by the Audit and Pension Fund Committee.

1) We have not identified deficiencies from our work.

Appendix 4: Outstanding items

Items outstanding at the date of draft report and still being worked on

- Clearance of queries raised from various reviews on various sections, notably on contributions and investments
- Finalisation of our internal quality control procedures
- Final partner and technical review clearance
- Receipt of signed management representations letter
- Satisfactory completion of our post year-end events review

Pension Fund Annual Report and Accounts **2018/19**

Shetland Islands Council

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Management Structure

Administering Authority	Shetland Islands Council Town Hall Lerwick Shetland ZE1 0HB
Fund Custodian	The Northern Trust Company
Investment Advisor	KPMG
Investment Managers	Blackrock Schroders M & G Investments KBI Global Investors Limited Newton Investment Management Limited
Fund Actuary	Hymans Robertson LLP
Banker	Bank of Scotland
AVC Providers	Prudential Equitable Life (closed to new members)
Independent Auditor	Deloitte LLP

Introduction

I am pleased to introduce the accounts of the Pension Fund.

This year, I am pleased to report that the Fund continued to grow in terms of value, and also of membership. The Fund is valued at £497m and total membership of the Fund increased to 7,499. The total membership figure is the equivalent to a third of the Shetland population.

As a Pension Fund we have worked hard in the past year, in a challenging environment. We saw the continuing challenging market conditions with some significant areas of uncertainty, Brexit and trade wars being two of these. We also have the increasingly complex nature of pension administration and governance. To provide the Pension Fund Committee and Pension Board with the necessary knowledge and skills to carry out their duties effectively, a formal Training Policy was adopted in March 2019.

Nationally the options of retaining the status quo (11 Scottish Funds), greater collaboration, merging or pooling of pension funds are subject to consultation. Our officers already work hard to learn and share best practice with their contemporaries in Scotland. As a Pension Committee, we responded to this consultation to promote the status quo and in doing so highlight the good performance of our fund and our desire to retain control of local decision-making.

Thank you

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our advisers, and our Investment Managers for their hard work during the year and their ongoing commitment to ensuring the Fund performs well, along with sound administration and governance of the Fund.

Steven Coutts
Chair, Pension Fund Committee

Management Commentary

Welcome to Shetland Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2019. The purpose of the Management Commentary is to present an overview of the Pension Fund's financial performance during the year 2018/19 and to help readers understand its financial position at 31 March 2019. In addition, it outlines the main uncertainties facing the Pension Fund for the financial year 2018/19 and beyond.

Background

The Shetland Islands Council Pension Fund is part of the Local Government Pension Scheme (LGPS). It is administered by Shetland Islands Council for the purposes of providing pensions and other benefits for current members, deferred members, retired members and dependents of a range of Scheduled and Admitted bodies within Shetland.

The Pension Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

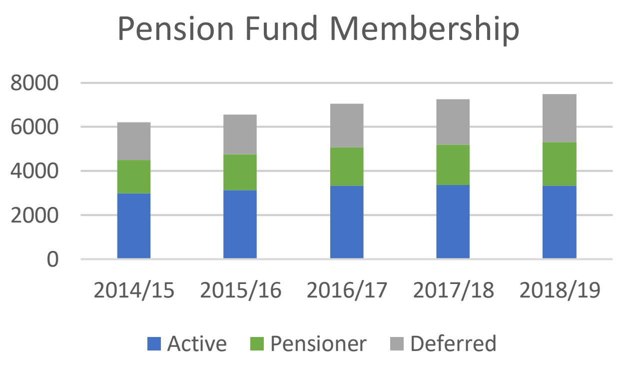
- the Local Government Pension Scheme (Scotland) Regulations 2018;
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014; and
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015;
- The LGPS (Management and Investment of Funds) Regulations 2010.

Teachers are not included as they are members of the Scottish Teachers' Pension Scheme.

Membership

The Pension Fund is made up of:

- **Active members** – are employees who currently contribute to the LGPS;
- **Retired members** – are in receipt of a pension, including spouses or dependents in receipt of a pension in respect of a former member; and
- **Deferred members** – are former active members who have elected to retain the rights in the LGPS until they become payable.



Employers with active members at 31 March 2019

Scheduled Bodies:

Shetland Islands Council

Orkney & Shetland Valuation Joint Board

Admitted Bodies:

Lerwick Port Authority

Shetland Recreational Trust

Shetland Fisheries Training Centre Trust

Shetland Islands Tourism (Visit Scotland)

Shetland Amenity Trust

Shetland Seafood Quality Control

Shetland Charitable Trust

Shetland Arts Development Agency

Shetland Care Attendant Scheme (previously Crossroads)

Employers with no active members at 31 March 2019

Admitted Bodies:

Shetland Enterprise Co Ltd (Highlands & Island Enterprise)

Employers pay regular monthly contributions to the Pension Fund, based on the salaries of active members. Where an employer has no active employees, but continues to participate in the Scheme, an annual monetary amount calculated by the actuary covers the cost of ongoing and future pension payments.

Valuation

The triennial valuation was carried out at 31 March 2017, resulting in an actuarial value of the Pension Fund of £450m, an increase of £117m on the previous valuation at March 2014. This increase is due to better than expected asset returns and lower actual pay growth than anticipated.

The triennial valuation showed that the Pension Fund is 90% funded, with a deficit of £51m. This compares unfavourably to the 2014 valuation, which was 92% funded, with a deficit of £30m. The fall in funding level is due to a fall in real gilt yields, which had the impact of increasing the value of the Pension Fund liabilities (i.e. pensions payable in the future). This was offset by better than expected asset returns and lower costs.

Investment Review

Global economic review

2018 was a year in which global markets experienced extreme volatility. Despite a positive start to the year following on from a buoyant performance throughout 2017, investor confidence was shaken by a range of factors in the year ended 31 March 2019, which included:

- signs of a global economic slowdown, particularly in China;
- concerns about the tightening of monetary policy and increased regulation of the technology sector;
- political dysfunction; and
- escalating tensions relating to trade tariffs between the United States and China, Canada, Mexico and the EU.

Throughout the year, tensions increased between the United States and China as the United States increased trade tariffs on a range of industrial and consumer items imported into the United States. In retaliation, China responded by increasing trade tariffs on a range of chemicals, coal and medical equipment. The fear of further tariffs being imposed hit stock markets mid-way through the year. The two sides agreed to talks in December, after months of increasing hostility, with a degree of optimism of a deal being reached to de-escalate the situation.

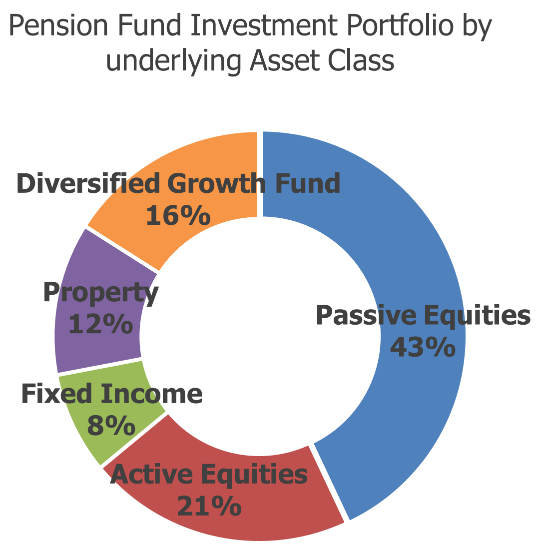
Monetary policy decisions by the US Federal Reserve and the European Central Bank created uncertainty in the markets and indicated a shift that investors had not anticipated. The US Federal Reserve rattled markets by increasing interest rates four times during 2018, with a further three increases planned for 2019. Markets suffered significant losses during December 2018, which were largely driven by concerns about trade tariffs, unconstrained growth in the technology sector, the decision to increase interest rates.

Closer to home, the lack of progress relating to the UK's withdrawal from the European Union and the development of post-Brexit trading relationships continued to suppress the value of sterling. In December, the European Central Bank announced the end of quantitative easing across the Eurozone. Tensions between the European Commission and the Italian Government and civil unrest in France also played a part in dampening investment returns on European holdings.

The volatility experienced in the third quarter (September – December 2018) meant that any gains made earlier in the year were generally wiped out by the end of the calendar year. In the final quarter (January – March 2019), stocks and markets have seen a strong recovery, as optimism with the United States reaching a trade deal with China allays trade war concerns and the US Federal Reserve revising its outlook for future interest rate increases.

For the Pension Fund, this translates as:

Investment Summary



What does the Pension Fund invest in?

Equities
Almost two thirds of the Fund's investment portfolio is held as equity investments. An equity investment refers to the buying and holding of shares in a company which generates income in the form of dividends or capital gains when the shares are sold. The Fund uses the services of two investment fund managers to manage a large portfolio of equity investments in both UK-based and global companies:

- Blackrock manage the Fund's investments in UK and global equities; and
- KBI Global Investors manage the Fund's investments in global equities

Fixed Income
Fixed income investments pay a steady rate of interest per year and are debt instruments issued by companies and governments. The Fund invests into a broad range of fixed income investments through an alternative credit mandate, which is managed by M & G Investments. The mandate is a multi-asset fund which invests in a mix of fixed income investments such as investment grade corporate bonds, leveraged loans, high yield bonds, asset backed securities and cash.

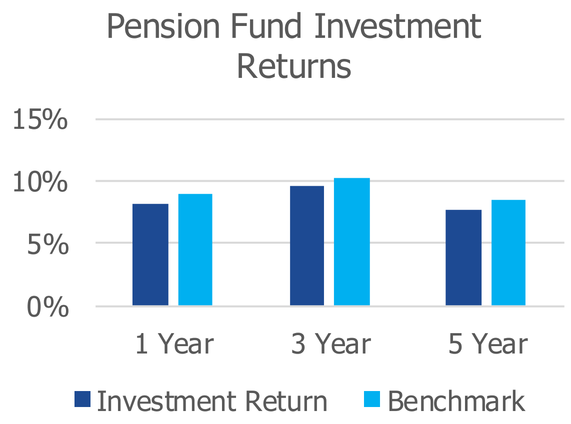
Property
The Fund invests in a range of real estate and property assets across the UK, with stakes in retail units, shopping centres, industrial units and offices. Investments are made through a variety of property unit trusts and funds, which are managed by Schroders on the Fund's behalf. During the year, the Pension Fund approved an amendment to the property investment mandate with Schroders allowing the diversification of the portfolio by investing in real estate debt funds. It is expected that investments in this sector would generate returns of up to 6-7% per annum.

Diversified Growth Fund
A diversified growth fund is an asset class that seeks to achieve similar returns to an equity investment but without the same risk of volatility. The growth fund does this by investing across a wide range of assets. The Fund's investments are a combination of traditional assets, such as government bonds and listed equities, and fixed income, such as private equity and commodities. Newton Investment Management manage the Diversified Growth Fund investments on the Fund's behalf.

Investment Performance

Investment performance is monitored against an agreed benchmark return on a quarterly and annual basis, however, the performance of fund managers over the longer-term is the ultimate measure of achievement.

For the year to 31 March 2019, Pension Fund assets collectively generated a return of 8.1% compared to a combined benchmark return of 8.9%. The Fund faced a volatile investment market throughout 2018/19 with a strong performance from equity investments driving returns. The value of Pension Fund net assets at the end of the year totalled £497m.



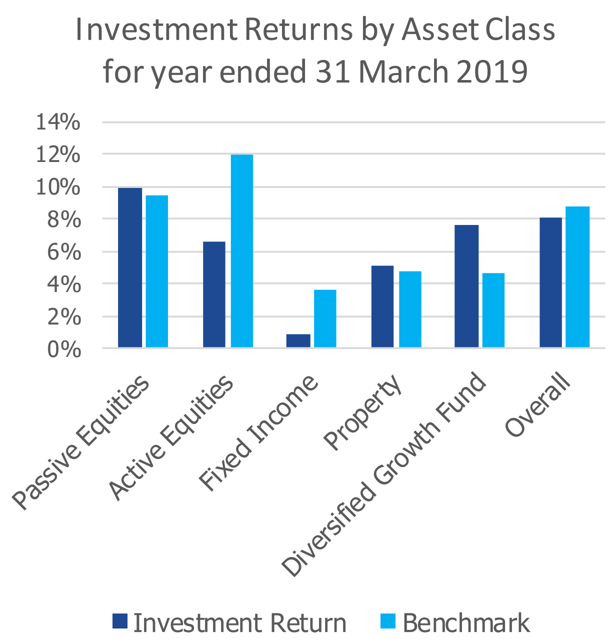
Investment performance across the different asset classes reflects a mixed picture and representative of the nature of the different types of investment.

The Fund's investments in equities, which are passively managed, returned 9.9%, which was above the agreed benchmark by 0.4%. Active global equity investments generated a positive return of 6.6% but this was below the set benchmark of 12%.

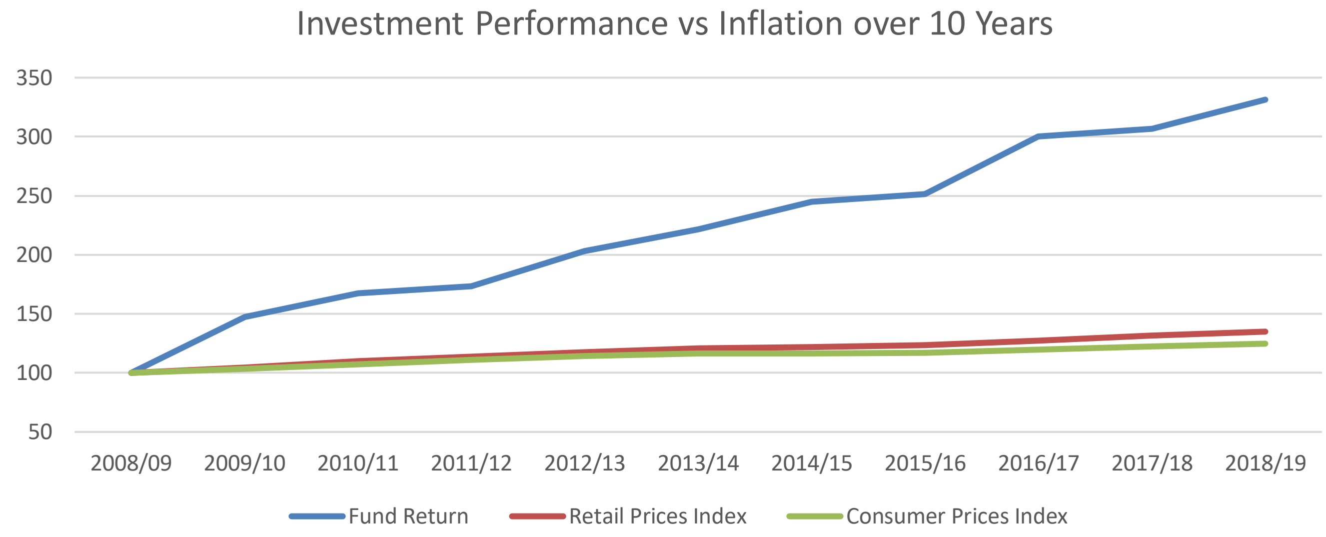
The Fund's investments in fixed income returned a positive 0.9%, which was below the benchmark of 3.6%.

The diversified growth fund generated a positive a return of 7.6%, outperforming the agreed benchmark by 2.9%.

The Fund's property investment portfolio delivered a return of 5.1%, which was slightly ahead of the agreed benchmark of 4.8%.



The chart below shows the Fund's investment performance over the last ten years versus inflation. Over the longer term, the Fund's assets have grown positively in value by 10.3% on an annualised basis. However, actual returns vary on an annual basis reflecting the volatile nature of the Fund's investment portfolio.



Investment arrangements and policies

The Pension Fund has a range of arrangements and policies in place to ensure the Council, as the administering authority, fulfils its fiduciary duty to scheme members in maximising the Funds' investment returns balanced against an appropriate level of risk.

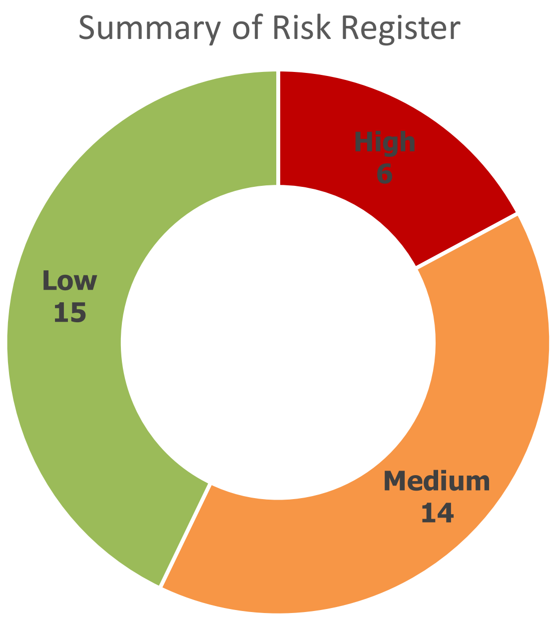
The Fund utilises the service of fund managers, who have delegated powers for the acquisition and realisation of investments. As part of their internal investment decision-making processes, fund managers are expected to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long-term prospects of such companies.

All the fund managers have signed up to the United Nations Principles on Responsible Investment Management. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty.

The focus of the Pension Fund's **Investment Strategy** is to achieve a 100% funding level before the Pension Fund's incoming contributions equal the benefits payable, by 2027. Beyond this point, it is expected that benefit payments will exceed the level of contributions made by employers and employees into the Pension Fund. The investment strategy advocates a diversified approach to investments made across different asset categories in order to reduce the exposure to risk and volatility.

Risk

The Pension Fund maintains a risk register which is updated regularly. The latest iteration of the register contained a total of 35 risks, summarised by risk level in the following chart.



The key risks to the Fund are:

- staff unable to access workplace leading to staff downtime and loss of service delivery;

- fund investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities;
- fall in bond yields, leading to risk in value placed on liabilities;
- employers leaving scheme/closing to new members due to cost or cessation;
- failure in world stock markets; and
- underperformance by active fund managers.

The full risk register can be found at: https://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23778

The Pension Fund Committee and Pension Board are made aware of any changes, so that action can be taken to mitigate the risks.

The proposed exit of the United Kingdom from the European Union may impact the Pension Fund in various ways for example constraints on withdrawal of funding, political and economic uncertainty, legislative and regulatory uncertainty, impact on investments and uncertainty of non-UK EU nationals employed in Shetland. The Pension Fund will continue to monitor this, regularly reviewing and updating its risk register, having in place contingency plans and reporting to the Pension Fund Committee and Pension Board.

Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund from £460m in 2017/18 to £497m in 2018/19. The Fund's investment strategy aims to achieve a fully funded Pension Scheme by 2027. The Funding Strategy and Investment Strategy are inextricably linked, in order for the Fund to meet all benefit payments as and when they fall due. Other objectives of the Pension Fund are:

- to secure and maintain sufficient assets to meet liabilities which fall due by the Pension Fund;
- to minimise the risk of assets failing to meet these liabilities, through an investment strategy, specifically tailored to the Pension Fund's requirements; and
- to maximise investment returns within an acceptable level of risk and providing stability in the level of employers' contribution rates.

Funding Strategy Statement

The regulations covering management of the Pension Funds require the administering authority to prepare, maintain and publish a written Funding Strategy Statement. A revised Funding Strategy Statement was adopted in March 2018, as part of the triennial valuation process. Details of the Funding Strategy Statement are found in Note 16: Funding Arrangements, on page 32.

The Funding Strategy Statement can be found here: https://www.shetlandpensionfund.org/media/4480/funding-strategy-statement.pdf

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employee contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities

The most recent actuarial valuation was carried out as at 31 March 2017. It showed that the Pension Fund is valued at £450m and 90% funded, with a deficit of £51m. The triennial valuation includes setting the employer contribution rates for the next three years. The primary employer contribution rate across the whole fund is 22.1%, with additional secondary rates that make up the final contribution rates payable by individual employers.

Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings on 26 October 2015 approved the current Shetland Islands Council Pension Fund Statement of Investment Principles. This statement includes administration details, the objective of the Pension Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investments, securities lending and compliance.

The Pension Fund also complies with the six Myners Principles, which were contained in a schedule to the Statement of Investment Principles.

The Statement of Investment Principles can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18529 – Appendix A.

The Statement of Investment Principles is due to be updated following the conclusion of the Investment Strategy Review, which will be undertaken during the first half of 2019/20.

Performance Management

The Annual Accounts satisfy the requirements of the Local Government Pension Scheme (Scotland) Regulation 55 (1) of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), to prepare a Pension Fund Annual Report for the financial year from 1 April 2018 to 31 March 2019. In addition, quarterly Management Accounts are presented to the Pension Fund Committee, which shows the year to date position and the projected year-end outturn.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2019. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (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).

The two primary statements, the Pension Fund Account and Net Assets Statement, as at 31 March 2019, include a description of their purpose. Accompanying the two primary statements, are Notes to the Accounts, which set out the Accounting Policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed in 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 auditor's certificate and opinion.

Financial Performance 2018/19

The Pension Fund accounts present the full economic cost of providing Pension Fund services for 2018/19 and this shows a net income of £36.9m. This differs from the draft outturn position, shown below. The draft outturn was reported to the Pension Fund Committee and the Pension Board on 9 May 2019.

The report can be found on Shetland Islands Council's website here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24024

Description	2018/19 Annual Budget £000	2018/19 Draft Outturn £000	2018/19 Variance £000
Total Expenditure	15,322	17,056	(1,734)
Total Income	(22,063)	(22,806)	743
Net Income	**(6,741)**	**(5,750)**	**(991)**

The main difference between the draft outturn and the final accounts is that the Pension Fund Account includes the value of the growth of the fund and income automatically reinvested into the fund. This income is not included in the table above.

Expenditure was higher than budgeted due to a greater number of lump sums paid out during the year than had been estimated. More people than anticipated retired during 2018/19 resulting in an increase in benefits payable. Income was higher than budgeted due to a number of high value transfers in to the Fund.

Budgets were set for lump sums, transfers in and out, death benefits and all other income and expenditure. It is difficult to estimate these items accurately as there is a huge amount of personal choice or life events involved in what is received and paid out, and therefore these transactions cannot be fully predicted. Expenditure, such as lump sums and transfers are based on a number of variables and will be different for each individual transaction.

Administration Strategy

The Pension Fund's Pension Administration Strategy highlights the duties of, and sets the performance for, both the Fund and all of the participating employers.

Employers must provide accurate information to the Pension Fund in a timely manner, to ensure that information provided to Scheme members is also accurate and timely. The information received by employers to the Pension Fund, such as new starts, leavers, retirements and deaths was delivered in a timely manner during 2018/19.

All employer contributions were received by the 19th of the month following deduction.

Administration Performance

Shetland Islands Council, as administering authority, is also committed to providing a high quality service to both members and employers and to ensure members receive their correct pension benefit entitlement.

To ensure excellent customer care is provided, retiring members and employers are invited to complete a customer satisfaction survey.

Eight employer surveys were returned which indicated 100% of respondents rated the service received as either excellent or good.

The chart shows the latest satisfaction survey results.

As well as administering employer contributions, retirements and pension payments, the Pension Section also processes the pensioners' payroll. The table below shows the summarised budget and spend for the Pension Fund's administration costs for 2018/19.

Administration Expenses	2018/19 Annual Budget £000	2018/19 Draft Outturn £000	2018/19 Variance £000
Staff Time Allocations	264	255	9
Supplies, Services & Systems	93	103	(10)
Printing & Publications	5	2	3
Consultancy Costs	30	25	5
Total	**392**	**385**	**7**

Staff Time Allocations were underspent due to a flexible working request being granted. An overspend on supplies, services & systems relates to costs associated with tax charged on benefits that exceed HMRC's Life Time Allowance. An underspend on printing & publications is due to fewer paper mail shots being issued than anticipated, and the underspend on consultancy costs relates to the Pension Fund investment strategy which is still in process.

Several Key Performance Indicators (KPI's) have been introduced in 2018/19 with reference to recent CIPFA Pensions Panel guidance. Of the nine KPI's established, four have not been met in 2018/19. Reasons for not meeting these were primarily due to staff sickness and requiring advice on how to calculate the benefit in question.

The KPI's for 2018/19 are:

KPI's	Target	Number	Number within target	% within target
New starts	2 months from date of joining scheme	564	547	97%
Leavers	2 months from leaving scheme	195	191	98%
Transfer in quotes	2 months from date of transfer quotation	25	24	96%
Transfer out quotes	3 months from date of request	24	24	100%
Notifying members of benefits on retirement	1 month from date of retirement	139	139	100%

KPI's (cont.)	Target	Number	Number within target	% within target
Retirement estimates	2 months from date of request	58	54	93%
Calculation of dependants benefits	2 months from notification	21	21	100%
Annual Benefits statement - to all active and deferred members	by 31st August each year	5,532	5,532	100%
Contributions from employers	by 19th of month following deduction	120	120	100%

There are no 2017/18 comparator KPI's since the collation of data for these commenced in 2018/19.

Monitoring Arrangements

The Pension Fund Committee and Pension Board receive regular updates on performance and the Committee papers and minutes are available via the Council's committee management system website: http://www.shetland.gov.uk/coins/.

Reports are prepared on a quarterly basis for the Pension Fund Committee and Pension Board that give an overview of the position of the Pension Fund's external investments and present a summary of each Fund Manager's performance for the quarter and over a three-year period.

In line with the Pension Fund's governance arrangements to monitor and review Fund Managers, the Pension Fund Committee and Pension Board invite Fund Managers to attend the quarterly meetings to give presentations on their mandates and investment performance. At the meeting of 22 May 2018, Newton Investment Management gave a presentation on the management of their diversified growth fund and on 5 March 2019, KBI Global Investors and BlackRock both gave presentations on their equity funds.

A group that includes Pension Fund Committee, Pension Board and officer representation undertakes an annual visit to each Fund Manager in April each year. The Fund Managers also supply a quarterly audited performance review report and monthly valuation report.

Remuneration Report

There is no requirement for a remuneration report for the Pension Fund, as the Pension Fund does not directly employ any staff.

All staff are employed by Shetland Islands Council and its costs are reimbursed by the Pension Fund. The Councillors who are members of the Pension Fund Committee and Pension Board are also remunerated by Shetland Islands Council. They do not receive any additional allowance for being members of the Pension Fund Committee or Pension Board.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Shetland Islands Council.

Pension Fund Outlook

The investment strategy review is well underway and will be concluded during 2019/20. The investment strategy review will assess and quantify the risk and identify whether any refinements could better align the investment strategy with the Pension Fund's objectives.

A Shetland Islands Council Pension Fund website has been created and is now live. This is an off-the-shelf package supplied by Hymans Robertson and tailored to suit the Shetland Islands Council Pension Fund. Several of the other 11 Scottish Pension Funds are also using this package.

The website can be found at www.shetlandpensionfund.org

During 2018/19, the Scottish Scheme Advisory Board commissioned a national consultation about the structure of the Scottish LGPS, which was put before the Pension Fund Committee and the Pension Board. The consultation aimed to establish the views of employer and employee representatives on whether the SLGPS can be improved by altering the structure of the scheme. Four options were proposed:

- to retain the current structure with 11 Local Authority Pension Funds;
- to promote co-operation in investing and administration among the 11 funds;
- to pool investments among the 11 funds; and

- to merge the 11 funds into one or more funds.

Shetland Islands Council Pension Fund responded to the consultation with a view to retain the current structure of 11 funds.

Following the end of contracted out employment on 5 April 2016, all registered pension schemes who permitted members to opt out of the State Pension Scheme required to participate in a national reconciliation exercise with HMRC. This exercise is now near completion with Shetland Islands Council Pension Fund having reconciled some 7,000 member records.

On 5 March 2019, The Pension Fund Committee and Pension Board approved the introduction of a training policy for all members of the Pension Fund Committee and Pension Board, and the senior management team. This is to ensure that those responsible for governance have the appropriate levels of knowledge and skills. Failure to comply with the training policy could result in removal of individuals from the relevant committee/board.

The 2019/20 budget for the Pension Fund was approved on 5 March 2019. It shows a net income of £6.167m. A number of assumptions and historical trends are used to develop the budget for the Pension Fund. Due to the level of individual choice involved in choosing when to retire, the budget represents the most reasonable estimates of income and expenditure.

Pension Fund	2019/20 Approved Budget £000
Employee Costs	270
Operating Costs	184
Investment Expenses	1,711
Benefits Payable	10,602
Transfer Out	550
Lump Sums	2,520
AVC Out	650
Total Expenditure	**16,487**
Contibutions Received	(18,778)
Investment Income	(2,776)
Transfer In	(450)
AVC In	(650)
Total Income	**(22,654)**
Net Income	**(6,167)**

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Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

....
Jamie Manson, CPFA
Executive Manager – Finance
25 September 2019

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Maggie Sandison
Chief Executive
25 September 2019

Annual Governance Statement

Introduction

This Statement sets out the governance arrangements for the Shetland Islands Council Pension Fund.

Administering Authority

Shetland Islands Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Shetland Islands geographic area.

Regulatory Framework

The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with these regulations.

The Council manages the Pension Fund under the terms of The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended). The objectives of the Pension Fund are discharged through the Pension Fund Committee. The Administering Authority is assisted in its duties by the Pension Board.

Financial transactions are conducted in compliance with the Council's Financial Regulations.

The Pension Fund is invested in compliance with the Council's Statement of Investment Principles.

Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

- conducts business in accordance with the law and appropriate standards;
- is safeguarded and properly accounted for; and
- is invested and utilised economically, efficiently and effectively.

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Pension Fund. Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the regulations and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The management of the Pension Fund is a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the Funding Strategy Statement and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the Pension Fund;
- performance management arrangements, especially for Pension Fund investments and customer responsiveness;
- systems of internal control to safeguard assets and ensure best value;
- engagement with stakeholders and clear policy on representative roles and responsibilities;
- the Annual Governance Statement, reviewed regularly;
- maintaining a risk register and business continuity plans;
- support for cash and treasury management;
- training plans; and
- independent and objective scrutiny.

To this end, the Pension Fund is managed within the overall governance arrangements of Shetland Islands Council.

Governance Framework

The governance framework consists of the systems, processes, cultures and values by which the Pension Fund is directed and controlled. It describes the way in which staff and representatives inform all the stakeholders and ask for their views on any key issues. It is important to monitor the achievements of the Pension Fund, particularly with regard to the long-term investment strategy. From a service perspective, as with other service areas, there is a need to ensure that the service is delivered efficiently and effectively and in line with best practice.

Critical to the success of a well-managed Pension Fund is appropriate internal control arrangements. The systems of internal financial control are intended to ensure that:

- assets are safeguarded;

- transactions are authorised and properly recorded; and
- material errors or irregularities are either prevented or detected within a reasonable timescale.

The system is based on a framework of skilled staff who are aware of their responsibilities, good management information, financial regulations and effective systems and procedures.

Within Shetland Islands Council, there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund. The Pension Fund relies on the same systems of internal control as those in place for Shetland Islands Council (which are internally audited and assessed on an annual basis).

The effective arrangements include:

- an appropriate level of knowledge for Pension Fund Committee and Pension Board members to ensure that they have adequate knowledge to oversee the governance of the Pension Fund business;
- clear objectives, good decision making at committee level, clear delegations to committee and staff, with appropriate, independent scrutiny of decision making and performance;
- a clear set of objectives for the Pension Fund, as described in the Funding Strategy Statement and Investment Principles;
- good performance monitoring arrangements, with committee members being able to directly question those responsible for all aspects of the business on a regular basis;
- a clear statement of risk (risk register), combined with effective risk management arrangements;
- an annual review of compliance against regulation, guidance and best practice arrangements;
- the Monitoring Officer ensuring compliance with regulation and guidance;
- clear monitoring arrangements;
- compliance with LGPS Investment Regulations;
- compliance with the CIPFA / Myners investment principles;
- appropriate custodian arrangements for investments;
- codes of conduct to support good relationships between committee members and staff who support the work of the Pension Fund;
- a demonstrable best value service, including good use of benchmarking data on the cost and quality of service provided; and
- effective internal control arrangements, including appropriate segregation of duties for the Pension Fund staff.

The governance framework cannot eliminate all risks of failure to meet policy objectives. An effective framework can, however, provide a reasonable (but not absolute) assurance of effectiveness.

Review of Effectiveness

The Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The Pension Fund approaches this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and externally through the group entities; the assurance and recommendations provided by internal audit; external audit and other external scrutiny reports; and self-evaluation compliance.

Management Assurance

Administration of the Pension Fund is directly within the remit of the Director of Corporate Services and assurance has been sought from the Director in relation to the effectiveness of internal financial controls. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be considered. For 2018/19, no areas of weakness or concern were raised.

In relation to the effectiveness of the Council's arrangements to its statutory officers, both the Executive Manager – Finance (Chief Financial Officer) and Executive Manager – Governance & Law (Monitoring Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council Committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Pension Fund Committee oversees the business of the Pension Fund; the Administering Authority being supported by the Pension Board. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit Committee's remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised. As well as an annual audit plan, the Committee can request one-off reviews to investigate a particular issue if necessary. The Council's Chief Internal Auditor reports directly to the Council.

Assurance from Internal Audit

The Council provides internal audit arrangements to the Pension Fund both as a tool of management and with direct reporting to the Council's Audit Committee. The Internal Audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). The service works to an approved Annual Plan, based on the approved Audit Strategy, based on the Audit Universe and an annual assessment of the known and potential risks.

External Audit and Other External Scrutiny

Each year, the external auditors assess the design and implementation of relevant internal controls in operation within the Council.

The Local Government Pension Scheme (LGPS) regulations require LGPS administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement.

Investments

The Custodian for the Pension Fund is the Northern Trust Company, who provide a global custody service. The custodian holds for safekeeping the Pension Fund's investment assets such as electronic certificates. The custodian also provides secure settlement of any global transactions that a Fund Manager may undertake, ensuring that all money and legal rights transfer to the appropriate customer as per the transaction in the correct timeframe. The custodian also provides other services such as reclaiming tax, short term cash investment, securities lending, collection of dividends and valuation reports.

All Fund Managers must be registered with, and comply with the Financial Conduct Authority. At the outset of any investment, the mandate details are agreed by the fund management company and the Pension Fund, and documented in an Investment Management Agreement or an Application Form depending on the type of investment. These initial documents cover all aspects of the operation of the mandate, such as investment objectives and restrictions, custody and banking, fees and charges, reporting and communication and dealing arrangements. Any changes to the mandate must be agreed by both the fund management company and the Pension Fund.

Self-Evaluation of Compliance

The Governance Compliance Statement set out below describes the extent to which the Pension Fund's governance arrangements comply with best practice and highlights any actions required to implement improvements.

Principle	Compliance	Comments
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	✓	The Pension Fund Committee has delegated responsibility for overseeing the management and administration of the LGPS and managing the investments of the Pension Fund.
Representatives of participating LGPS employers (scheduled and admitted bodies) and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✓	The Pension Board, which meets concurrently with the Pension Fund Committee, includes representatives from employers (Councillors), admitted bodies (a Board Member) and scheme members (Trade Unions).
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	✓	The Pension Fund Committee and Pension Board meet concurrently to aid easy and open communication.
Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	✓	The Pension Board is not a secondary committee, both the Pension Fund Committee and Pension Board meet concurrently and have access to the same agenda papers. There is therefore no need for a Pension Board member to be on the Committee.
Committee Membership and Representation		
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies)	i) ✓	i) Representation on both Pension Fund Committee and Pension Board.
ii) scheme members (including deferred and pensioner scheme members)	ii) ✓	ii) Representation on the Pension Board.
iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	iii) ✓	iii) Professional advisors (investment fund managers, investment advisors, actuary etc.) are regularly invited to attend Pension Committee and Board meetings.
Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given opportunities to contribute to the decision-making process, with or without voting rights.	✓	Pension Board members have the same access to information, papers and training as Committee members.

Selection and role of lay members		
Committee or board members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	✓	Committee and Board members induction training provided during 2017/18, following the Scottish Local Government elections.
At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✓	'Declarations of Interest' is a standing item on all agendas.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	✓	The Terms of Reference for both Pension Fund Committee and Pension Board sets out this principle.

Significant Governance Issues

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

Following a review of the effectiveness of the code of governance there are no significant governance issues that require to be reported.

Certification

It is our opinion that the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of the principal objectives of the Pension Fund will be identified and actions taken to avoid or mitigate their impact.

....
Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

....
Maggie Sandison
Chief Executive
Shetland Islands Council
25 September 2019

Statement of Responsibilities for the Statement of Accounts

The administering authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to ensure 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, that 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 2018), 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 can confirm that these Annual Accounts were approved for signature by the Council on 25 September 2019.

Signed on behalf of Shetland Islands Council.

The Executive Manager – Finance's responsibilities

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

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2019.

....
Steven Coutts
Leader of the Council
Chair of the Pension Fund Committee
25 September 2019

....
Jamie Manson, CPFA
Executive Manager – Finance
Shetland Islands Council
25 September 2019

Independent auditor's report to the members of Shetland Islands Council as administering authority for Shetland Islands Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Shetland Islands Council Pension Fund (the fund) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Executive Manager – Finance and Shetland Islands Council Pension Fund 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 fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Shetland Islands Council Pension Fund is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, 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;

- 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); and
- the information given in the Governance Compliance 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 Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

Pat Kenny, CPFA (for and on behalf of Deloitte LLP)

110 Queen Street

Glasgow

G1 3BX

United Kingdom

25 September 2019

Pension Fund Account 2018/19

The Pension Fund Account sets out all income and expenditure of the Pension Fund.

2017/18 £000		Notes	2018/19 £000	2018/19 £000
	Dealings with members, employers and others directly involved in the scheme			
(16,917)	Contributions	6	(17,694)	
(1,422)	Transfers in from other pension funds	7	(1,503)	
(28)	Other income		(1)	
(18,367)	**Total Additions**			**(19,198)**
13,194	Benefits payable	8	14,509	
567	Payments to and on account of leavers	9	525	
49	Other payments		170	
13,810	**Total Withdrawals**			**15,204**
(4,557)	**Net (additions)/withdrawals from dealings with members**			**(3,994)**
1,876	Management expenses	10		1,917
(2,681)	**Net additions including Fund Management Expenses**			**(2,077)**
	Return on investments			
(3,407)	Investment income	11	(3,417)	
(4,232)	(Profits) and losses on disposal of investments and changes in market value of investments	14b	(31,419)	
(7,639)	**Net return on investments**			**(34,836)**
(10,320)	**Net increase in the net assets available for benefits during the year**			**(36,913)**
(449,899)	**Opening net assets of the scheme**			**(460,219)**
(460,219)	**Closing net assets of the scheme**			**(497,132)**

Net Assets Statement as at 31 March 2019

The Net Assets Statement sets out the value, as at the Statement date, of all assets and current liabilities of the Pension Fund. The net assets of the Pension Fund (assets less current liabilities) represent the funds available to provide for pension benefits at the statement date.

The financial statements summarise the transactions of the Pension Fund during the year and its net assets at the year-end. It should be noted, however, that they do not take account of the obligations to pay pensions and benefits that fall due after the end of the year. The actuarial position of the Pension Fund, which does take account of such obligations, is discussed in the Actuarial Statement. These financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

2017/18 £000		Notes	2018/19 £000
	Investment Assets		
459,420	Investment Assets	12	495,465
459,420	**Total Investment Assets**		**495,465**
	Current Assets		
0	Long-term debtors	18a	54
1,647	Debtors	18	1,916
735	Bank current accounts	18	1,788
2,382	**Total Current Assets**		**3,758**
	Current Liabilities		
(470)	Sundry creditors	20	(495)
(1,113)	Benefits payable	20	(1,596)
(1,583)	**Total Current Liabilities**		**(2,091)**
460,219	**Net assets of the scheme available to fund benefits at the reporting period end**		**497,132**

....
Jamie Manson, CPFA
Executive Manager – Finance
25 September 2019

Notes to the Accounts

Note 1: Description of Pension Fund

The Shetland Islands Council Pension Fund is part of the Local Government Pension Scheme and is administered by Shetland Islands Council. The Council is the reporting entity for this Pension Fund.

General

The Pension Fund is governed by the Superannuation Act 1972 and by the Public Service Pensions Act 2013. The Pension Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015; and
- The LGPS (Management and Investment of Funds) Regulations 2010.

It is a contributory defined benefit pension scheme administered by Shetland Islands Council to provide pensions and other benefits for pensionable employees of scheduled bodies, Shetland Islands Council, Orkney and Shetland Valuation Joint Board and admitted bodies within Shetland. Teachers are not included as they are members of the Scottish Teachers' Pension Scheme.

The Pension Fund is overseen by the Pension Fund Committee and Pension Board.

Membership

Membership of the LGPS is automatic, but employees are free to choose to opt out of the Scheme and make their own personal pension arrangements outside the Scheme.

Organisations participating in the Shetland Islands Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar statutory bodies whose staff are automatically entitled to be members of the Pension Fund; and
- Admitted bodies, which are other organisations that participate in the Pension Fund under an admission agreement between the Pension Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 11 employer organisations with active members within Shetland Islands Council Pension Fund including the Council itself; a summary of membership is shown below.

31 March 2018	Shetland Islands Council Pension Fund	31 March 2019
11	**Number of employers with active members**	**11**
	Number of employees in scheme:	
2,976	Shetland Islands Council	2,984
382	Other employers	355
3,358	**Total**	**3,339**
	Number of pensioners/dependants	
1,702	Shetland Islands Council	1,801
149	Other employers	166
1,851	**Total**	**1,967**
	Deferred pensioners	
1,710	Shetland Islands Council	1,826
334	Other employers	367
2,044	**Total**	**2,193**
7,253	**Scheme Total**	**7,499**

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are topped up by employers' contributions, which are set, based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2017 set these employers' contribution rates, which range from 18.8% to 40.6% of pensionable pay.

Benefits

Pension benefits under the LGPS are calculated as per the table below:

Service pre 1 April 2009	Service post 31 March 2009	Service Post 31 March 2015
Each year worked is worth 1/80 x final FTE pensionable salary	Each year worked is worth 1/60 x final FTE pensionable salary	Each year worked is worth 1/49 x actual pensionable salary
Automatic lump sum of 3 x salary	No automatic lump sum	No automatic lump sum
In addition, part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, ill health retirement and death benefits. For more details, please refer to http:\\www.scotlgps2015.org/ or contact Shetland Islands Council Pension Section on 01595 744644.

Benefits are index-linked in line with the consumer price index.

Note 2: Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Pension Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed at Note 17.

The accounts have been prepared on a going concern basis.

Note 3: Accounting Standards Issued and Adopted in year

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

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

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

Note 4: Accounting Standards Issued not Adopted

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

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

The Code requires implementation in the accounts from 1 April 2019 and there is therefore no impact on the 2018/19 Pension Fund.

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

The Statement of Accounts contains 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. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

The table below highlights the approximate impact that a small change in the assumptions used would have on the liabilities of the fund:

Item	Uncertainties - Estimate	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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. An actuary to the Fund is appointed to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £81m. A 0.5% increase in salary increase rate assumption would increase the value of liabilities by approximately £13m, and a 0.5% increase in pension increase rate assumption would increase the liability by approximately £62m.

Note 6: Contributions Receivable

By category:

31 March 2018 £000		31 March 2019 £000
(12,941)	Employers - normal	(13,481)
(86)	Employers - augmentation	(203)
(3,890)	Members - normal	(4,010)
(16,917)	**Total**	**(17,694)**

By authority:

31 March 2018 £000		31 March 2019 £000
(14,495)	Administering authority	(15,356)
(135)	Scheduled bodies	(128)
(2,287)	Admitted bodies	(2,210)
(16,917)	**Total**	**(17,694)**

Note 7: Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 March 2018 £000		31 March 2019 £000
(1,422)	Individual transfers in	(1,503)
(1,422)	**Total**	**(1,503)**

The Pension Fund received 42 transfers in during 2018/19 with an average value of £35,781, compared to 46 transfers in during 2017/18 with an average value of £30,903.

Note 8: Benefits Payable

By category:

31 March 2018 £000		31 March 2019 £000
10,006	Pensions	10,807
2,965	Commutation and lump sum retirement benefits	3,093
223	Lump sum death benefits	609
13,194	**Total**	**14,509**

By authority:

31 March 2018 £000		31 March 2019 £000
12,029	Administering authority	12,889
191	Scheduled bodies	129
974	Admitted bodies	1,491
13,194	**Total**	**14,509**

Note 9: Payments to and on Account of Leavers

31 March 2018 £000		31 March 2019 £000
40	Refunds to members leaving service	32
527	Individual transfers	493
567	**Total**	**525**

Note 10: Management Expenses

31 March 2018 £000		31 March 2019 £000
310	Administration Expenses	386
83	Oversight and Governance Expenses	38
	Investment Management	
1,418	Management Fees	1,425
33	Performance Fees	33
32	Custody Fees	35
1,876	**Total**	**1,917**

Note 10a: External Audit Costs

31 March 2018 £000		31 March 2019 £000
29	Payable in respect of external audit	29
29	**Total**	**29**

Note 11: Investment Income

31 March 2018 £000		31 March 2019 £000
(3,042)	Pooled investment vehicles	(2,759)
(5)	Interest on cash deposits	(9)
(360)	Other	(649)
(3,407)	**Total**	**(3,417)**

Note 12: Investments

31 March 2018 Restated £000		Fair Value As at 31 March 2019 £000
171,580	Managed Funds	183,335
197,989	Unit Linked Insurance Policies	214,098
39,157	Fixed income unit trusts	39,425
48,267	Pooled property unit trusts	52,367
203	Unitised Liquidity Fund	1,952
0	Property Debt	205
2,116	Cash deposits	4,076
108	Property income due	7
459,420	**Total investment assets**	**495,465**

The 31 March 2018 Investments notes were restated to reflect the correct categorisation of the Unitised Liquidity Fund. The overall totals of the investments have not changed.

Note 12a - Reconciliation of movements in investments

	Market Value at 1 April 2018 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2019 £000
Investment Assets:					
Pooled funds - managed funds	171,290	0	(1)	11,655	182,944
- unit linked insurance policies	197,989	0	(2,992)	19,101	214,098
Fixed income unit trusts	39,157	764	0	(496)	39,425
Pooled property unit trusts	48,267	5,360	(2,417)	1,157	52,367
Unitised Liquidity Fund	203	0	0	2	205
Property Debt	0	1,952	0	0	1,952
Total Pooled Investment Vehicles	**456,906**	**8,076**	**(5,410)**	**31,419**	**490,991**
Other investment balances:					
Diversified Growth income due	121				126
Fixed income due	169				265
Property income due	108				7
Cash income due	2,116				4,076
Net investment assets	**459,420**				**495,465**

Comparative movements in 2017/18 Restated	Market Value at 1 April 2017 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value at 31 March 2018 £000
Investment Assets:					
Pooled funds - managed funds	172,375	78,941	(77,744)	-2,282	171,290
- unit linked insurance policies	194,032	0	(37)	3,994	197,989
Fixed income unit trusts	38,019	701	0	437	39,157
Pooled property unit trusts	42,889	4,646	(1,347)	2,079	48,267
Unitised Liquidity Fund	1,172	0	(973)	4	203
Property Debt	0				
Total Pooled Investment Vehicles	**448,487**	**84,288**	**(80,101)**	**4,232**	**456,906**
Other investment balances					
Diversified Growth income due	0				121
Fixed income due	187				169
Property income due	237				108
Cash income due	46				2,116
Net investment assets	**448,957**				**459,420**

Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

Note 12b - Analysis of Pooled Investment Vehicles

As at 31 March 2018 £000	Additional analysis	As at 31 March 2019 £000
95,995	Managed Funds	102,381
197,989	Unit Linked Insurance Polices	214,098
75,295	Diversified Growth	80,562
39,157	Alternative Credit	39,425
47,770	Pooled property unit trust (UK)	52,004
498	Pooled property unit trust (Overseas)	364
0	Unitised Liquidity Fund	205
0	Property Debt	1,952
456,704	**Total Pooled Investment Vehicles**	**490,991**

Note 12c - Analysis by Fund Manager

Market Value 31 March 2018 £000	%		Market Value 31 March 2019 £000	%
192,386	42	BlackRock	211,314	43
56,297	12	Schroders	61,391	12
75,417	16	Newton Asset Management	80,689	16
95,994	21	Kleinwort Benson	102,381	21
39,326	9	M & G Investments	39,690	8
459,420	**100**	**Total investment assets**	**495,465**	**100**

The following investments represent more than 5% of the net assets of the scheme:

Market Value 31 March 2018 £000	%		Market Value 31 March 2019 £000	%
83,049	18	Aquila Life UK equity index	88,389	18
39,157	9	M & G Alpha Opp Fd AGBP	39,425	8
95,994	21	KBI 1 Dividend Plus	102,381	21
75,295	16	Newton Real Rtrn X ACC NAV	80,562	16
109,327	24	Aquila Life World EX UK Fund Series 1	122,914	25

Note 13: Fair Value Hierarchy

Asset and liability valuations have been classified into three levels according to the quality and reliability of information used to determine their fair values. Transfers between levels are recognised in the accounts in the year in which they occur.

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 classified 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.

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.

The following table provides an analysis of the financial assets of the pension fund, grouped into Levels 1 and 2, based on the level at which the fair value is observable. The Pension Fund has no Level 3 investments.

As at 31 March 2018 £000	Fair value through profit and loss	As at 31 March 2019 £000
2,515	Level 1	4,474
456,905	Level 2	490,991
459,420	**Net Investment assets**	**495,465**

Basis of Valuation

The basis of valuation for each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques that represent the highest and best price available at the reporting date.

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Note 14: Financial Instruments

Note 14a - Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2018 (restated)				As at 31 March 2019		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
			Pooled funds			
171,580	0	0	- managed funds	183,209	0	0
197,989	0	0	- unit linked insurance policies	214,098	0	0
39,157	0	0	Fixed income unit trusts	39,425	0	0
48,267	0	0	Pooled property unit trusts	52,367	0	0
203	0	0	Unitised liquidity funds	204	0	0
0	0	0	Property debt	1,952	0	0
0	0	0	Diversified growth	127	0	0
2,116	735	0	Cash	4,076	1,788	0
108	0	0	Property income due	7	0	0
0	1,647	0	Debtors	0	1,916	0
459,420	**2,382**	**0**	**Total Financial assets**	**495,465**	**3,704**	**0**
			Financial liabilities			
0	0	(1,583)	Creditors	0	0	(2,091)
0	**0**	**(1,583)**	**Total Financial liabilities**	**0**	**0**	**(2,091)**
459,420	**2,382**	**(1,583)**	**Total**	**495,465**	**3,704**	**(2,091)**

Note 14b - Net gains and losses on financial instruments

As at 31 March 2018 Restated £000	Financial assets	As at 31 March 2019 £000
(4,232)	Fair value through profit and loss	(31,419)
(4,232)	**Total**	**(31,419)**

Note 14c - Value of financial instruments

As at 31 March 2018 Restated		Financial assets	As at 31 March 2019	
Book value £000	Market value £000		Book value £000	Market value £000
339,527	457,304	Fair value through profit and loss	344,170	491,389
339,527	**457,304**	**Total**	**344,170**	**491,389**

Note 15: Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Pension Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Pension Fund and to maximise the opportunity for gains across the whole Pension Fund portfolio. The Pension Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Pension Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Pension Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Pension Fund's risk management strategy rests with the Council. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity, bond and property prices, interest and foreign exchange rates and credit spreads. The Pension Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market condition, expectations of future price and yield movements and the asset mix.

The objective of the Pension Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industrial sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument, or its issuer, or factors affecting all such instruments in the market.

The Pension Fund's investment managers mitigate this price risk through diversification and the selection of investments, which is monitored by the Council, as the administering authority, and the Fund Managers to ensure it is within limits specified in the Pension Fund investment strategy.

Other Pension Fund price risk - sensitivity analysis

In agreement with the Pension Fund's performance analyst and following analysis of historical data and expected investment return during the financial year, the Pension Fund has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2018/19 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	16.6%
Overseas Equities	16.9%
Property	14.3%
Cash	0.5%
Diversified Growth	12.5%
Alternative Credit	7.3%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Pension Funds' asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

Had the market price of the Pension Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the following table (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	4,281	0.50%	4,302	4,260
Investment portfolio assets:				
UK Equities	88,389	16.6%	103,062	73,716
Global Equities (ex UK)	225,294	16.9%	263,369	187,219
Property	57,122	14.3%	65,290	48,954
Diversified Growth	80,689	12.5%	90,775	70,603
Alternative Credit	39,690	7.3%	42,587	36,793
Total assets	**495,465**		**569,385**	**421,545**

Asset Type (Restated)	Value as at 31 March 2018 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	2,319	0.50%	2,331	2,307
Investment portfolio assets:				
UK Equities	83,049	16.8%	97,001	69,097
Global Equities (ex UK)	205,321	17.9%	242,073	168,569
Property	53,988	14.3%	61,708	46,268
Diversified Growth	75,417	12.6%	84,920	65,914
Alternative Credit	39,326	6.7%	41,961	36,691
Total assets	**459,420**		**529,994**	**388,846**

Interest rate risk

The Pension Fund invests in financial assets for the primary purpose of obtaining a return on investments.

These investments are subject to interest rate risks, which represent the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund's direct exposure to interest rate movements are set out below:

31 March 2018 Restated £000		31 March 2019 £000
	Asset type	
2,319	Cash and cash equivalents	4,281
735	Cash balances	1,788
39,157	Fixed income unit trusts	39,425
42,211	**Total**	**45,494**

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is viewed as a reasonable level of risk sensitivity for the Pension Fund under current interest rate circumstances. The Pension Fund's performance analyst has also agreed that the long-term average rates are expected to move less than 110 basis points (hence 100 basis points used in the examples below) from one year to the next and experience suggests that such movements are possible.

The analysis that follows assumes the total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type	£000	£000	£000
Cash and cash equivalents	4,281	43	-43
Cash balances	1,788	18	-18
Fixed income unit trusts	39,425	394	-394
Total change in assets available	**45,494**	**455**	**-455**

	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type	£000	£000	£000
Cash and cash equivalents	2,319	23	-23
Cash balances	735	7	-7
Fixed income unit trusts	39,157	392	-392
Total change in assets available	**42,211**	**422**	**-422**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Pension Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Pension Fund (£ sterling).

The Pension Fund holds both monetary and non-monetary assets denominated in currencies other than £ sterling.

The following table summarises the Pension Fund's currency exposure as at 31 March 2019 and as at the previous period end.

31 March 2018 £000		31 March 2019 £000
	Asset type	
205,321	Pooled Funds - overseas equities	225,294
39,326	Pooled Property Unit Trusts - overseas	39,690
0	Diversified Growth Fund	127
244,647	**Total**	**265,111**

Currency risk - sensitivity analysis

Following analysis of data provided by the Pension Fund's performance analysts, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% strengthening/weakening of the pound against the various currencies in which the Pension Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Carrying amount as at 31 March 2019 £000	Change to net assets available to pay benefits +10.0% £000	-10.0% £000
Pooled Funds - overseas equities	225,294	247,823	202,765
Pooled Property Unit Trusts - overseas	39,690	43,659	35,721
Diversified Growth Fund	127	140	114
Total change in assets available	**265,111**	**291,482**	**238,486**

Asset Type	Carrying amount as at 31 March 2018 £000	Change to net assets available to pay benefits +10.0% £000	-10.0% £000
Pooled Funds - overseas equities	205,321	225,853	184,789
Pooled Property Unit Trusts - overseas	39,326	43,259	35,393
Total change in assets available	**244,647**	**269,112**	**220,182**

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities.

In essence, the Pension Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they meet the Council's credit criteria. The Council has also set limits on the value of these deposits, which can be placed with any bank or financial institution, apart from the bank the Council uses for its daily operations.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years.

The Pension Fund's cash holding under its treasury management arrangements at 31 March 2019 was £6.069m (31 March 2018: £3.054m). This was held with the following institutions:

31 March 2018 Restated £000		31 March 2019 £000
	Fund manager deposits	
2,309	Schroders cash	4,270
10	BlackRock cash	11
	Bank current accounts	
735	Bank of Scotland Plc	1,788
3,054	**Total**	**6,069**

Liquidity risk

Liquidity risk represents the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. The Pension Fund takes steps to ensure that it has adequate cash resources to meet its commitments.

The Pension Fund has immediate access to all its cash holdings. The Pension Fund also has an overdraft facility to cover any unexpected short-term cash needs. The overdraft facility has not been used over the past five years and therefore the Pension Fund's exposure to liquidity risk is considered negligible.

The Pension Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert into cash. As at 31 March 2019, the value of illiquid assets was £57.1m, which represented 11.5% of the Pension Fund assets (31 March 2018: £54.0m, which represented 11.8% of the Pension Fund assets).

Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Note 16: Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended), the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation for the current accounting period took place as at 31 March 2017.

The funding policy is set out in the Pension Fund's Funding Strategy Statement (FSS), dated February 2018.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Pension Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/ dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. This will also minimise the costs to be borne by Council Tax payers;
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

Employee benefits are guaranteed and employee contributions are fixed, so employers need to pay the balance of the cost of delivering the benefits to members and dependants. The Funding Strategy Statement sets out how the Administering Authority has balanced the conflicting aims of affordability and stability of employer contributions and prudence in the funding basis with regard to employer liabilities.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2014 was at 31 March 2017. This valuation revealed that the Pension Fund's assets, which at 31 March 2017 were valued at £450m, were sufficient to meet 90% (£333m and 92% at 31 March 2014 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51m (2014 valuation: £30m).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the 2014 Regulations for the period 1 April 2018 to 31 March 2021 is 22.1% of pensionable pay, (i.e. the rate which all employers in the Pension Fund pay).

Individual employers' rates are adjusted under regulation 32(4) (b) from the common contribution rate. The contribution rates payable for the period 1 April 2018 to 31 March 2021 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

During this period, the employers' rate due by Shetland Islands Council is 20.8% per annum for each of the three years.

Copies of the 2017 Valuation Report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used in the valuation

Full details of the method used are described in a valuation report from the actuaries, Hymans Robertson LLP, available on request from Shetland Islands Council, the Administering Authority to the Pension Fund, at 8 North Ness Business Park, Lerwick.

Method

The valuation approach recognises the uncertainties inherent in the valuation process. The actual cost of future benefits is unknown, due to the long time period. The first process in calculating the valuation is to set a funding target, which defines the target amount of assets to be held to meet future cashflows. Next, a time horizon is set over which the funding target is to be reached. Finally, a contribution is set to give a sufficiently high likelihood to meet the funding target over the time horizon. The calculations separately identify past service and future service costs.

Assumptions

The assumptions are required to place value on the benefits earned to date and the benefits that will be earned in the future. To this end, the assumptions fall broadly into two categories; financial assumptions and demographic assumptions. Financial assumptions relate to the size of members' benefits, and information affecting these assumptions are discount rate, price inflation, which affects benefit increases, and salary increases. Demographic assumptions relate to longevity of current pensioners and future pensioners.

A market-related approach was taken when valuing the liabilities, for consistency with the valuation of the Fund assets at their 31 March 2017 market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	% per annum
Discount rate	3.5%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.4%

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were based on the Fund's VitaCurves. An allowance for future improvements in mortality based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% per annum. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption at age 65	Males	Females
Current Pensioners	22.1 yrs	24.0 yrs
Future Pensioners	23.9 yrs	26.1 yrs

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash post-April 2009 service.

50:50 Option assumption

It is assumed that 1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option. This is where members pay 50% of contributions in return for 50% of benefits. Employers still pay the full contribution.

Note 17: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 26 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also used ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2019 was £710m (31 March 2018: £622m). The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2017.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below:

31 March 2018 % p.a.	Year ended	31 March 2019 % p.a.
2.4	Inflation/pension increase rate	2.5
3.0	Salary increase rate	3.1
2.7	Discount rate	2.4

Note 18: Current Assets

31 March 2018 £000		31 March 2019 £000
	Debtors:	
324	Contributions due - employees	452
1,104	Contributions due - employers	1,463
163	Transfer values receivable	0
3	Sundry debtors	1
53	Prepayments	0
735	Bank current accounts	1,788
2,382	**Total**	**3,704**

Note 18a: Long Term Debtor

31 March 2018 £000		31 March 2019 £000
	Long Term Debtors	
0	Reimbursement of lifetime tax allowance	54
0	**Total**	**54**

Note 19: Unfunded Pension

31 March 2018 £000		31 March 2019 £000
695	Added years pension	718

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows local authorities and admitted bodies to pay additional pension on a voluntary basis. Additional pension in respect of added years' enhancement is awarded from the body or service where the employee retired and costs are paid directly by the employer and not the Pension Fund.

Note 20: Current Liabilities

31 March 2018 £000		31 March 2019 £000
(470)	Sundry creditors	(495)
(1,113)	Benefits payable	(1,596)
(1,583)	**Total**	**(2,091)**

Note 21: Contingent Liabilities

McCloud Judgement

There is still uncertainty over the impact of the McCloud judgement which came about after two employment tribunal cases were brought against the government in relation to the reformed 2015 public service pension schemes.

In the unfunded schemes, transitional protection enabled some members to remain in the pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The Court of Appeal ruled that the transitional protections gave rise to unlawful discrimination. The legal process is ongoing with the Government currently seeking permission to appeal the ruling of the Court of Appeal. It is therefore not possible to quantify at this stage the impact that this may have.

GMP Equalisation

Following a High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise guaranteed minimum pension (GMP) for men and women. There is insufficient data at present to estimate reliably the impact this will have on scheme liabiltiies.

Note 22: Additional Voluntary Contributions

31 March 2018 £000		31 March 2019 £000
5,317	Prudential	5,268
45	Equitable Life	47
5,362	**Total**	**5,315**

AVC contributions of £0.649m were paid directly to Prudential during the year (2017/18: £0.708m).

In accordance with regulation 4 (2) (b) of the Local Authority Government Pension Scheme (Management of Funds) (Scotland) Regulations 2010, AVCs are not included in the Pension Fund financial statements.

Note 23: Related Party Transactions

Shetland Islands Council

The Shetland Islands Council Pension Fund is administered by Shetland Islands Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.395m (2017/18: £0.363m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

The investments of the Pension Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations. Costs incurred were £0.033m (2017/18: £0.033m) in relation to investment of the Pension Fund and the Council was subsequently reimbursed by the Pension Fund for these expenses.

The Council processed pensioner payments of £10.807m (2017/18: £10.006m). Such payments are reimbursed in full by the Pension Fund.

In addition, the Council is the single largest employer of Pension Fund members, and contributed £11.903m to the Pension Fund (2017/18: £11.185m).

Governance

Four members of the Pension Fund Committee receive pension benefits from the Shetland Islands Council Pension Fund. These and other committee members are active members of the Pension Fund.

Each member of the Pension Fund Committee and Pension Board is required to declare their interests at each meeting.

Key management personnel

Key Management personnel for the Pension Fund include the Shetland Islands Council Councillors, who sit on the Pension Fund Committee and Pension Board.

Membership is as follows.

Pension Fund Committee Membership
Steven Coutts (Chair)
Alistair Cooper
Allison Duncan (until 28 June 2018)
Stephen Leask
Robbie McGregor
George Smith
Theodore G C Smith
Ryan Thomson
Emma Louise MacDonald
Ian Scott
Pension Board Membership
Malcolm Bell
John Fraser
Amanda Hawick

All Committee and Board members are remunerated by Shetland Islands Council.

Key management personnel also includes the Section 95 Officer of Shetland Islands Council; the Executive Manager – Finance. A recharge is made to the Pension Fund each year to reflect the cost of time spent. For 2018/19 this amounted to £0.021m (2017/18: £0.021m).

Note 24: Changes in Actuarial Present Value of Promised Retirement Benefits

Actuarial Present Value of Promised Retirement Benefits	Vested Benefits £000	Total £000
Balance at 31 March 2019	**710**	**710**
Decrease in value during 2018/19	88	88
Balance at 31 March 2018	**622**	**622**
Increase in value during 2017/18	(71)	(71)
Balance at 31 March 2017	**693**	**693**

Note 25: Critical Judgements in Applying Accounting Policies

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years, if required. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 26: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 25 September 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 10 April 2019 EU leaders agreed to an extension of article 50 which may delay the date the UK will exit the EU until 31 October 2019. Whilst there is little agreement on the terms of a final exit deal it is likely that there will be long-term and short-term ramifications of the decision. The Trustees continue to monitor progress carefully and are taking appropriate professional advice on the expected impact to the investment portfolio.

Note 27: Accounting Policies

Pension Fund account - revenue recognition

A Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accrual basis at the percentage rate recommended by the Pension Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets. Amounts not due until future years are classed as long-term financial assets.

B Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Pension Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 7 and 9).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

C Investment income

- **Interest income** is recognised in the Pension Fund account as it accrues.
- **Distributions from pooled funds** are recognised on the date of issue. Any amount not received by the end of the reporting period

is disclosed in the net assets statement as a current financial asset.

- **Changes in the value of investments** (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs, representing management time spent by officers on investment management, is charged to the Pension Fund in accordance with Council policy.

Pension Fund account - expense items

D Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

E Taxation

The Pension Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of the investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

F Management expenses

All costs relating to staff of the pension administration team are charged direct to the Pension Fund. Associated management, accommodation and other overheads are apportioned to the Pension Fund in accordance with Council policy.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

One of the investment managers invests using a fund of funds approach and within these unit trusts, managers levy charges.

Any fees due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

G Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Pension Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the value of the asset are recognised by the Pension Fund.

The values of investments shown in the net assets statement are outlined in the following paragraphs.

H Pooled investment vehicles

These are valued at closing bid price if both bid and offer prices are published; or if single priced, at closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the Pension Fund, net of applicable withholding tax.

I Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the market rates at the date of transaction. End-of-year market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchase and sales outstanding at the end of the reporting period.

J Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

K Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual/ a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the net assets statement (Note 17).

L Additional voluntary contributions

Shetland Islands Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Pension Fund has appointed Prudential and Equitable Life (closed to new members) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22)

M Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

Appendix 1:

Actuarial Statement for 2018/19

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2018. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. 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 66% likelihood that the Fund will return to full funding over 14 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £450 million, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	31 March 2017
Discount rate	3.5%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.0 years
Future Pensioners*	23.9 years	26.1years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been positive asset returns over the 2 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA
For and on behalf of Hymans Robertson LLP
14 May 2019

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Shetland Islands Council

Agenda Item

3

Meeting(s):	**Audit Committee**	**25 September 2019**
Report Title:	**Audit Scotland and other External Audit Reports**	
Reference Number:	**ACP-07-19F**	
Author / Job Title:	Robert Sinclair - Executive Manager, Assets, Commissioning and Procurement.	

1.0 Decisions / Action required:

1.1 That the Audit Committee considers the progress statements provided by Lead Officers in Appendix 1, and make any relevant comment on the reports / action plans.

2.0 High Level Summary:

2.1 This report, presented every second cycle, provides an opportunity for the Audit Committee to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports which have been or will be presented to the functional Committees. It also provides an opportunity for the Audit Committee to monitor compliance with the external advisors reports reporting policy and procedures.

2.2 The reports produced by the Council's External Auditors and Advisers provide valuable information for Committees and officers throughout the Council.

2.3 This report promotes good governance by helping to ensure all external advisers reports are considered by relevant officers and reported to the correct Committee.

2.4 It is expected that each report will result in a Council action plan that deals with all the report's recommendations. In the event that no action plan is required, that decision and the report should be reported to the relevant Committee.

2.5 Progress against the agreed action plan should be monitored by the relevant Service Committee and the Audit Committee.

2.6 It is for the Audit Committee to be satisfied that appropriate and timely action is being taken in relation to Audit Scotland and other external audit reports together with relevant action plans, in accordance with Council Policy.

3.0 Corporate Priorities and Joint Working:

3.1 Our Plan 2016 to 2020 states that, *"People who use our services will experience excellent standards of customer care." and*

"Our performance as an organisation will be managed effectively, with high standards being applied to the performance of staff and services. Poor performance will be dealt with, and good service performance will be highlighted and shared."

3.2 This report helps to improve the arrangements for Member engagement in monitoring Council performance and contributes to a high standard of governance.

4.0 Key Issues:

4.1 Appendix 1 contains a list of the current reports. The lead officer for each report is responsible for the Progress Statement and ensuring that policy deadlines are adhered to.

4.2 The Audit Committee is required to monitor the consideration of external audit reports by Committees. The role of the Joint Governance Group includes the provision of advice and support to staff, promotion of best practice in relation to clinical audit activity whilst monitoring, promoting and reporting on clinical audit, patient survey and service improvement for Shetland Health Board and Shetland islands Council.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :	
6.1 Service Users, Patients and Communities:	This report helps to highlight and monitor that recommended actions advised by the external body are completed. This ensures that our customers are getting the best possible service and that we are committed to improving our services across Shetland.
6.2 Human Resources and Organisational Development:	None arising directly from this report.
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	None arising directly from this report.
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:	External advisors reports provide useful information on best practice. A failure to deliver effective external engagement,

	comply with directions or to learn from best practice elsewhere increases the risk of the Council working inefficiently.	
6.10 Policy and Delegated Authority:	As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations, the remit includes *"... to consider a selection of performance and inspection reports from internal audit, external audit and other relevant agencies"*. This delegation supports the policy requirement and procedure for presenting External Adviser reports as set out above. It is a matter for the Audit Committee to monitor and ensure compliance with this policy.	
6.11 Previously considered by:	None	

Contact Details:
Melissa Mullay
Performance & Improvement Officer
melissa.mullay@shetland.gov.uk
15 August 2019

Appendices: *Appendix 1 – External Advisers Reports - Progress*

Audit Committee - All External Adviser's Reports - Progress

Shetland Islands Council

Generated on: 17 September 2019 11:08

Report Layout: External Advisers to Audit Committee

Rows are sorted by Original Due Date

Audit Committee

Code & Report Title	Description		Dates		Progress Statement		Lead
EA179 Audit Scotland - The National Fraud Initiative in Scotland 2016/17	Present report to Audit Committee and complete action plan (if reqd) http://**www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_180705_national_fraud_initiative.pdf**		Report Published	05-Jul-2018	Presented to Audit Committee on 6th May. This report is done every 2 years, work is now underway on the 18/19 report.		Jamie Manson
			Progress Bar	100%			
		Present report	Due Dates	02-Oct-2018	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA193 Audit Scotland - Local Government in Scotland: Financial Overview 2017/18	Present report to Audit Committee and complete action plan (if reqd) **http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_181129_local_government_finance.pdf**		Report Published	29-Nov-2018	Report was presented to Policy & Resources Committee on 6 March 2019. Key issues raised in the report will be considered when updating the Medium and Long Term Financial Plans. The MTFP is due to be updated in Autumn 2019. No action plan required		Jamie Manson
			Progress Bar	100%			
		Complete action Plan	Due Dates	06-Mar-2019	Complete	06-Mar-2019	
		Present report		07-Mar-2019		06-Mar-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA224 Audit Scotland - Best Value Assurance Reports	Annual analysis of Best Value reports issued by Audit Scotland - highlighting lessons for the Council **https://www.audit-scotland.gov.uk/report/search?search=&council=All®ion=All&report_type%5B%5D=best_value&author=All**		Report Published	01-Oct-2019	An annual report will be presented to committee, this is likely to be in October/November 2019. 7 Published so far: North and South Lanarkshire, Stirling, East Lothian and Midlothian, Perth & Kinross, Dumfries & Galloway		James MacLeod
			Progress Bar	0%			
		Present report	Due Dates	30-Nov-2019	Complete		

Development Committee

Code & Report Title	Description	Dates		Progress Statement		Lead
EA205 Audit Scotland - Scotland's Colleges 2019	Present Audit Scotland - Scotland's Colleges 2019 report to Development Committee, and where applicable implement action plan. Link to report: **https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190604_scotlands_colleges.pdf**	Report Published	04-Sep-2019	Report presented to Shetland College Board on 1st July 2019.		Willie Shannon
		Progress Bar	100%			
	Present report to Development Committee	Due Dates	04-Sep-2019	Complete	01-Jul-2019	

Education & Families Committee

Code & Report Title	Description	Dates		Progress Statement		Lead
EA189 Care Inspectorate - Short Breaks for Children (Care Home Service)	Present report to Education & Families Committee + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=300779**	Report Published	12-Dec-2018	Care Inspectorate report published 12th December 2018. Report presented to Education & Families on 4th March 2019. There were two recommendations in the report, both have now been completed. Quality of care and support – 5 very good Quality of environment – 4 good Quality of staffing – 5 very good Quality of management and leadership – 4 good		Jordan Sutherland
		Progress Bar	100%			
	Present Report	Due Dates	04-Mar-2019	Complete	04-Mar-2019	
	Complete Action Plan		12-Sep-2019		20-Aug-2019	

Code & Report Title	Description	Dates		Progress Statement		Lead
EA190 Care Inspectorate - Urafirth Early Years Daycare of Children	Present report to Education & Families Committee + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=300888**	Report Published	23-Jan-2019	New Care Inspectorate report published 23rd January 2019. Was presented to Education & Families on 4th March 2019. There were no requirements or recommendations resulting from this report. Quality of care and support 5 - Very Good Quality of environment 4 - Good Quality of staffing not assessed Quality of management and leadership not assessed		Robin Calder
		Progress Bar	100%			
	Present Report	Due Dates	06-May-2019	Complete	04-Mar-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA196 Care Inspectorate - Baltasound Junior High School Nursery	Present report to Education & Families Committee + action plan (if reqd) http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=302314		Report Published	16-Apr-2019	Care Inspectorate report published 16th April 2019. Report to be presented to Education & Families in November 2019. There were no recommendations arising from this inspection. Quality of care and support 5 - Very Good Quality of environment 4 - Good Quality of staffing - not assessed Quality of management and leadership - not assessed		Wilma Missenden
			Progress Bar	0%			
		Present Report	Due Dates	01-Jul-2019	Complete		
		Complete Action Plan		31-Dec-2019			

Code & Report Title	Description		Dates		Progress Statement		Lead
EA197 Care Inspectorate - Fetlar Nursery	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=302326		Report Published	16-Apr-2019	Care Inspectorate report published 16th April 2019. To be presented to Education & Families Committee in November 2019. There is one recommendation from this report. Action has been taken to resolve this recommendation. Quality of care and support 5 - Very Good Quality of environment 5 - Very Good Quality of staffing 4 - Good Quality of management and leadership 4 - Good		Wilma Missenden
			Progress Bar	0%			
		Present report	Due Dates	01-Jul-2019	Complete		
		Complete Action Plan		31-Dec-2019			

Code & Report Title	Description		Dates		Progress Statement		Lead
EA198 Care Inspectorate - Fair Isle Pre-School Day Care of Children	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=301905		Report Published	26-Mar-2019	New Care Inspectorate report published 26th March 2019. To be presented to Education & Families Committee in November 2019. There are no recommendations from this report. Quality of care and support 5 - Very Good Quality of environment 5 - Very Good Quality of staffing - not assessed Quality of management and leadership - not assessed		Peter Haviland
			Progress Bar	0%			
		Present report	Due Dates	01-Jul-2019	Complete		
		Complete Action Plan		31-Dec-2019			

Code & Report Title	Description		Dates		Progress Statement		Lead
EA199 Care Inspectorate - Windybrae Care Home Service	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=301962		Report Published	21-Jan-2019	Care Inspectorate report published 21st January 2019. Was presented to Education & Families Committee on 6th May 2019. There were no requirements or recommendations made as a result of this inspection. Quality of care and support 5 - Very Good Quality of environment 4 - Good Quality of staffing - 5 - Very Good Quality of management and leadership - 4 - Good		Jordan Sutherland
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA200 Care Inspectorate - Sandwick Junior High School Nursery	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=301675		Report Published	21-Jan-2019	Care Inspectorate report published 21st January 2019. Was presented to Education & Families Committee on 6th May 2019. There were no recommendations or requirements as a result of this inspection. Quality of care and support 4 - Good Quality of environment 4 - Good Quality of staffing - not assessed Quality of management and leadership - not assessed		Peter Haviland
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA201 Care Inspectorate - Dunrossness Nursery Daycare of Children	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=301170		Report Published	22-Jan-2019	Care Inspectorate report published 22nd January 2019. Was presented to Education & Families Committee on 6th May 2019. There were recommendations or requirements as a result of this inspection. Quality of care and support 5 - Very Good Quality of environment 4 - Good Quality of staffing - not assessed Quality of management and leadership - not assessed		Peter Haviland
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA202 Care Inspectorate - Ness Out of School Care Service Day Care of Children	Present report to Education & Families Committee http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=301171		Report Published	22-Jan-2019	Care Inspectorate report published 22nd January 2019. Was presented to Education & Families Committee on 6th May 2019. There were recommendations or requirements as a result of this inspection. Quality of care and support 4 - Good Quality of environment 4 - Good Quality of staffing - not assessed Quality of management and leadership - not assessed		Peter Haviland
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA203 Education Scotland - Thematic Inspection of Readiness for Empowerment	Present report to Education & Families Committee **https://education.gov.scot/Documents/National-thematic-inspection_readiness-for-empowerment.pdf**		Report Published	01-Dec-2018	Reported to Education & Families Committee on 6th May 2019.		Helen Budge
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA204 Education Scotland - Thematic Inspection of Empowerment for Curriculum Leadership	Present report to Education & Families Committee **https://education.gov.scot/Documents/ThematicInspectionEmpowermentCurriculumLeadership.pdf**		Report Published	01-Mar-2019	Reported to Education & Families Committee on 6th May 2019.		Helen Budge
			Progress Bar	100%			
		Present report	Due Dates	06-May-2019	Complete	06-May-2019	

Code & Report Title	Description		Dates		Progress Statement		Lead
EA218 Education Scotland - Nesting Primary School Summarised Inspection Findings	Present report to Education & Families Committee **https://education.gov.scot/assets/inspectionreports/nestingpssif020919.pdf**		Report Published	02-Sep-2019	This Education Scotland report was published on 2nd September and will be reported to Education and Families committee in November. There were 2 areas rated as satisfactory, these areas are currently being addressed.		James Johnston
			Progress Bar	0%			
		Present Report	Due Dates	18-Nov-2019	Complete		
		Complete Action Plan		30-Apr-2020			

Code & Report Title	Description		Dates		Progress Statement		Lead
EA219 Care Inspectorate - The Anderson High School Halls of Residence	Present report to Education & Families **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303965**		Report Published	02-Sep-2019	Care Inspectorate report published August 2019. Reported to Education & Families Committee on 2nd September 2019. There were no formal recommendations or requirements for improvement to action. Quality of care and support: good Quality of environment: not assessed Quality of staffing good Quality of management and leadership: not assessed		Nick McCaffrey
			Progress Bar	100%			
		Present report	Due Dates	02-Sep-2019	Complete	11-Sep-2019	

Code & Report Title	Description	Dates		Progress Statement		Lead
EA225 Education Scotland - Sandwick Junior High School Nursery	Present report to Education & Families Committee and complete Action Plan. **https://education.gov.scot/assets/inspectionreports/sandwickncsif170919.pdf**	Report Published	17-Sep-2019	New Education Scotland report published 17 September 2019. Inspection carried out in May 2019. Due to be presented to Education & Families Committee on 18th November 2019. Additional support has been allocated to help the leadership team make the required improvements. The inspection team will make a return visit within nine months. . Leadership of change weak . Learning, teaching and assessment satisfactory . Securing children's progress satisfactory . Ensuring wellbeing, equality and inclusion satisfactory		Peter Haviland
		Progress Bar	0%			
	Present report	Due Dates	18-Nov-2019	Complete		
	Complete Action Plan		18-May-2020			

Code & Report Title	Description	Dates		Progress Statement		Lead
EA226 Education Scotland - Sandwick Junior High School	Present report to Education & Families Committee and complete Action Plan. **https://education.gov.scot/assets/inspectionreports/sandwickjuniorhssif170919.pdf**	Report Published	17-Sep-2019	New Education Scotland report published 17 September 2019. Inspection carried out in May 2019. Due to be presented to Education & Families Committee on 18th November 2019. Additional support has been allocated to help the leadership team make the required improvements. The inspection team will make a return visit within nine months. Leadership of change weak Learning, teaching and assessment weak Raising attainment and achievement weak Ensuring wellbeing, equality and inclusion satisfactory		Peter Haviland
		Progress Bar	0%			
	Present report	Due Dates	18-Nov-2019	Complete		
	Complete Action Plan		18-May-2020			

Joint Governance Group (JGG)

Code & Report Title	Description	Dates		Progress Statement		Lead
EA176 Care Inspectorate - Mental Health Community Support Service - Annsbrae House	Present report to Joint Governance Group + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=298155**	Report Published	24-Jul-2018	New inspection carried out on 4th July 2019 - Very Good grades maintained - reported to JGG in august 2019.		Jaine Best
		Progress Bar	100%			
	Present report	Due Dates	24-Sep-2018	Complete	20-Aug-2019	
	Complete action plan (if reqd)		24-Jan-2019		17-Jul-2019	

Code & Report Title	Description	Dates		Progress Statement		Lead
EA188 Care Inspectorate - Nordalea Care Home Service	Present report to Joint Governance Group + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=299797**	Report Published	14-Aug-2018	Due to an oversight this Inspection has still to be reported to the JGG. There were no recommendations arising from the report. A further inspection is due soon and both reports 2018 and 2019 will be reported to JGG in November 2019. 1.1 People experience compassion, dignity and respect 5 - Very Good 1.2 People get the most out of life 5 - Very Good 1.3 People's health benefits from their care and support 5 - Very Good 5.1 Assessment and care planning reflects people's planning needs and wishes 5 - Very Good		Jaine Best
		Progress Bar	0%			
	Present Report	Due Dates	22-Apr-2019	Complete		

Code & Report Title	Description	Dates		Progress Statement		Lead
EA186 Care Inspectorate - Walter & Joan Gray (Care Home)	Present report to Joint Governance Group + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=298937**	Report Published	28-Aug-2018	A further Inspection of Care Home was carried out on 23rd May 2019. 3 requirements identified in 2018 met.		Jaine Best
		Progress Bar	100%			
	Present Report	Due Dates	28-Oct-2018	Complete	06-Nov-2018	
	Complete Action Plan		28-Mar-2019		17-Jul-2019	

Code & Report Title	Description	Dates		Progress Statement		Lead
EA187 Care Inspectorate - Walter & Joan Gray (Support Service)	Present report to Joint Governance Group + action plan (if reqd) **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=298966**	Report Published	28-Aug-2018	An action plan was developed following inspection by the care inspectorate. There has been increased monitoring by the Executive Manager and a meeting with regional managers Crossreach took place in May 2019.		Jaine Best
		Progress Bar	100%			
	Present Report	Due Dates	28-Oct-2018	Complete	06-Nov-2018	
	Complete Action Plan		28-Mar-2019		01-May-2019	

Code & Report Title	Description	Dates		Progress Statement		Lead
EA194 Audit Scotland - Social Work in Scotland - Impact Report	Present report to Joint Governance Group and complete action plan (if reqd) **http://www.audit-scotland.gov.uk/report/social-work-in-scotland-impact-report**	Report Published	05-Dec-2018	Report will be presented to JGG in May 2019 after being considered by the Social Work Governance Group.		Jo Robinson
		Progress Bar	0%			
	Present report	Due Dates	14-May-2019	Complete		
	Complete action Plan		14-Nov-2019			

Code & Report Title	Description	Dates		Progress Statement	Lead
EA211 Care Inspectorate - Walter & Joan Gray Care Home Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303292**	Report Published	19-Jun-2019	Care Inspectorate report published 23rd May 2019. Will be reported to JGG on 20th August 2019. How well do we support people's wellbeing? 4 - Good How good is our leadership? 3 - Adequate How good is our staffing? 4 - Good How good is our setting? 4 - Good How well is our care and support planned? 4 - Good	Jaine Best
		Progress Bar	0%		
	Present report	Due Dates	15-Sep-2019	Complete	
	Complete Action Plan		31-Mar-2020		

Code & Report Title	Description	Dates		Progress Statement	Lead
EA213 Care Inspectorate - Overtonlea Care Home Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303841**	Report Published	29-Jul-2019	Care Inspectorate report published 29 July 2019. Will be reported to JGG on 20th August 2019. How well do we support people's wellbeing? 5 - Very Good How good is our leadership? not assessed How good is our staffing? not assessed How good is our setting? not assessed How well is our care and support planned? 5 - Very Good	Jaine Best
		Progress Bar	0%		
	Present report	Due Dates	29-Nov-2019	Complete	
	Complete Action Plan		29-May-2020		

Code & Report Title	Description	Dates		Progress Statement	Lead
EA214 Care Inspectorate - Newcraigielea Care Home Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303638**	Report Published	12-Jul-2019	Care Inspectorate report published 12 July 2019. There was 1 recommendation arising from this report. Quality of care and support 5 - Very Good Quality of environment not assessed Quality of staffing not assessed Quality of management and leadership 4 - Good	Clare Scott
		Progress Bar	0%		
	Present report	Due Dates	12-Nov-2019	Complete	
	Complete Action Plan		12-May-2020		

Code & Report Title	Description		Dates		Progress Statement		Lead
EA215 Care Inspectorate - North Haven Support Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303885**		Report Published	31-Jul-2019	Care Inspectorate report published 31 July 2019. Actual Inspection carried out 23rd May 2019. There were no recommendations arising from this inspection. Will be reported to JGG on 20th August 2019. Quality of care and support 4 - Good Quality of environment not assessed Quality of staffing 4 - Good Quality of management and leadership not assessed		Jaine Best
			Progress Bar	0%			
		Present report	Due Dates	01-Dec-2019	Complete		

Code & Report Title	Description		Dates		Progress Statement		Lead
EA216 Care Inspectorate - Mental Health Community Support Service @ Annsbrae House Housing Support Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303634**		Report Published	11-Jul-2019	Care Inspectorate report published 11 July 2019. Will be reported to JGG on 20th August 2019. Quality of care and support 5 - Very Good Quality of staffing not assessed Quality of management and leadership 5 - Very Good		Jaine Best
			Progress Bar	0%			
		Present report	Due Dates	11-Nov-2019	Complete		
		Complete Action Plan		11-May-2020			

Code & Report Title	Description		Dates		Progress Statement		Lead
EA217 Care Inspectorate - North Haven Care Home	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=303461**		Report Published	31-Jul-2019	Care Inspectorate report published 31 July 2019. Actual inspection was carried out in May 2019. Action Plan is now complete and will be reported to JGG on 20th August 2019. How well do we support people's wellbeing? 4 - Good How good is our leadership? not assessed How good is our staffing? not assessed How good is our setting? not assessed How well is our care and support planned? 3 - Adequate		Jaine Best
			Progress Bar	50%			
		Present report	Due Dates	20-Sep-2019	Complete		
		Complete Action Plan		20-May-2020		06-Aug-2019	

Code & Report Title	Description	Dates		Progress Statement	Lead
EA220 Care Inspectorate - Montfield Support Services	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=304071**	Report Published	13-Aug-2019	New Care Inspectorate report published 13 August 2019. There were no recommendations arising from this inspection How well do we support people's wellbeing? 4 - Good How good is our leadership? not assessed How good is our staffing? not assessed How good is our setting? not assessed How well is our care and support planned? 5 - Very Good	Jaine Best
		Progress Bar	0%		
	Present report	Due Dates	18-Oct-2019	Complete	

Code & Report Title	Description	Dates		Progress Statement	Lead
EA221 Care Inspectorate - Wastview Care Home Service	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=304125**	Report Published	15-Aug-2019	New Care Inspectorate report published 15 August 2019. There were no recommendations arising from this inspection How well do we support people's wellbeing? 4 - Good How good is our leadership? not assessed How good is our staffing? not assessed How good is our setting? not assessed How well is our care and support planned? 5 - Very Good	Jaine Best
		Progress Bar	0%		
	Present report	Due Dates	15-Oct-2019	Complete	

Code & Report Title	Description	Dates		Progress Statement	Lead
EA222 Care Inspectorate - Newcraigielea Support Service	Present report to Joint Governance Group and present action Plan if required. **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=304491**	Report Published	10-Sep-2019	New Care Inspectorate report published 10 September 2019. There is 1 recommendation arising from this Care Inspectorate Report. Quality of care and support 5 - Very Good Quality of environment not assessed Quality of staffing 4 - Good Quality of management and leadership not assessed	Clare Scott
		Progress Bar	0%		
	Present report	Due Dates	10-Nov-2019	Complete	
	Complete Action Plan		30-May-2020		

Code & Report Title	Description	Dates		Progress Statement	Lead
EA223 Care Inspectorate - Isleshavn Care Home	Present report to Joint Governance Group and present action Plan if required **http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=304528**	Report Published	11-Sep-2019	New Care Inspectorate report published 11 September 2019. There were no recommendations arising from this inspection. How well do we support people's wellbeing? 4 - Good How good is our leadership? not assessed How good is our staffing? not assessed How good is our setting? not assessed How well is our care and support planned? 5 - Very Good	Jaine Best
		Progress Bar	0%		
	Present report	Due Dates	15-Oct-2019	Complete	

Policy & Resources Committee

Code & Report Title	Description	Dates		Progress Statement		Lead
EA212 Audit Scotland - Local government in Scotland: Challenges and performance 2019	Present report to Policy & Resources Committee and complete action plan (if reqd) **https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf**	Report Published	02-Mar-2019	Report was presented to Policy and Resources Committee on 2nd July 2019. No action plan required		Jamie Manson
		Progress Bar	100%			
	Complete action Plan	Due Dates	02-Jul-2019	Complete	02-Jul-2019	
	Present report		02-Jul-2019		02-Jul-2019	