

Shetland Islands Council



Executive Manager: Jan-Robert Riise
Director of Corporate Services: Christine Ferguson

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Date: 9 July 2020

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Islands Council
Remote Link
Wednesday 15 July 2020 at 2p.m.**

Please note that because of the current COVID-19 (Coronavirus) emergency, and as permitted by legislation, this meeting will not be open to members of the public.

This meeting will take place by remote means, by video and teleconference, for Councillors and advising officers only. Joining details will be sent separately to those attending.

Public reports are available on the Council's website. The actions and decisions taken at the meeting will be published on the Council's website as soon as possible thereafter.

Yours faithfully

Executive Manager – Governance and Law

Convener: Malcolm Bell
Depute Convener: Cecil Smith

AGENDA		
In terms of Section 50A(3A) of the Local Government (Scotland) Act 1973, as introduced by Schedule 6, Paragraph 13 of the Coronavirus (Scotland) Act 2020, the public are excluded from this meeting on public health grounds.		
(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.	
1.	Zetland Educational Trust unaudited annual report and financial statements for the year to 31 March 2020 <i>F-033</i>	
2.	Shetland Islands Council Unaudited Accounts 2019/20 <i>F-032</i>	

END

	Shetland Islands Council	Agenda Item 1
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Meeting(s):	Shetland Islands Council	15 July 2020
Report Title:	Zetland Educational Trust: Annual report and financial statements for the year to 31 March 2020	
Reference Number:	F-033-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:
<p>1.1 That the Council NOTES:</p> <ul style="list-style-type: none"> a) the Zetland Educational Trust (ZET) annual report and financial statements for the year to 31 March 2020 (Appendix 1) and; b) the information at section 4.0 that highlights the key points from the report and financial statements.
2.0 High Level Summary:
<p>2.1 Each trust registered with the Office of the Charities Regulator (OSCR) at 31 March 2020 is required to prepare a Trustees' Annual Report for 2019/20, which for the ZET can be found in Appendix 1.</p> <p>2.2 The annual report and financial statements must be independently audited. For 2019/20, Deloitte LLP is the appointed auditor.</p> <p>2.3 The audited accounts are due to be presented to the Council on 23 September 2020 for approval however due to the Coronavirus pandemic this may be delayed and is dependent on the Council and its external auditor adhering to a pre-agreed audit timetable. The Trustees annual report requires to be submitted to OSCR no later than 31 December 2020. Members will be advised if the September deadline cannot be met should the audit process encounter any further delays.</p>
3.0 Corporate Priorities and Joint Working:
<p>3.1 The preparation and presentation of the annual report and financial statements is a responsibility of the trustees of the Zetland Educational Trust.</p>
4.0 Key Issues:
<p>4.1 The unaudited annual report and financial statements include the following key points for Trustees' consideration:</p> <ul style="list-style-type: none"> • The Trustees' Annual Report gives an overview of the Trust's performance and activity in 2019/20 and can be found on page 3 of Appendix 1. • Trust reserves are held in a Corporate Bond Fund with investment managers Baillie Gifford.

<ul style="list-style-type: none"> • The Trust made a surplus of £7,168 in 2019/20 after disbursing £15,748 in grants. • At 31 March 2020, the Trust held a cash balance of £26,205 and investments at market value of £620,604. 	
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:	Councillors, as trustees of Zetland Educational Trust, have responsibility for the preparation of Trustees' Annual Report in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts Regulations (Scotland) 2006 (as amended).
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 Trustees' Annual Report and Financial Statements are subject to independent audit to mitigate the risk of material misstatement, thereafter require reporting to OSCR by 31 December 2020.

6.10 Policy and Delegated Authority:	All members of Shetland Islands Council are trustees of the Zetland Educational Trust, with responsibility for making judgements and estimates that are both reasonable and prudent, whilst also keeping adequate and up to date accounting records.
6.11 Previously considered by:	n/a

Contact Details:

Maria Forrester, Senior Assistant Accountant,

Maria.forrester@shetland.gov.uk

02 July 2020

Appendices:

Appendix 1 – Zetland Educational Trust Draft Annual Report and Financial Statements for year to 31 March 2020

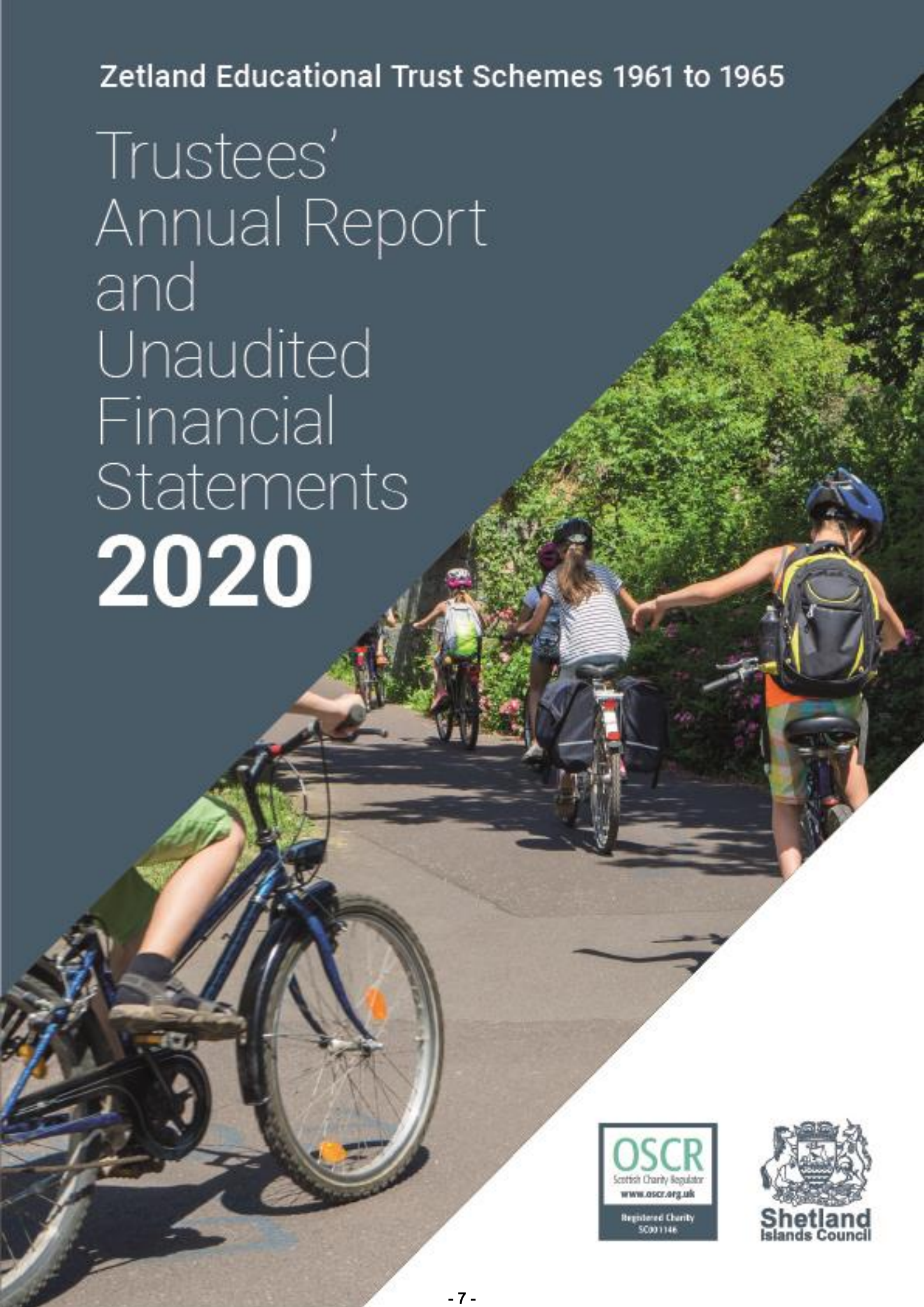
Background Documents:

The Charities and Trustee Investment (Scotland) Act 2005

Charities Accounts Regulations (Scotland) 2006 (as amended)

Zetland Educational Trust Schemes 1961 to 1965

Trustees' Annual Report and Unaudited Financial Statements **2020**



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ZETLAND EDUCATIONAL TRUST
TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

Introduction

The trustees present their annual report together with the financial statements for the year ended 31 March 2020.

Administration Information

Charity Name	Zetland Educational Trust Schemes 1961 to 1965, known as Zetland Educational Trust (ZET)	
Charity Number	SC001146	
Contact Address	Shetland Islands Council Office Headquarters 8 North Ness Business Park Lerwick Shetland ZE1 0LZ	
Current Trustees	Duncan Anderson Malcolm Bell Peter Campbell Alastair Cooper Steven Coutts Allison Duncan Stephen Flaws* John Fraser Amanda Hawick Catherine Hughson Stephen Leask	Morag Lyall* Emma Macdonald Robbie McGregor Andrea Manson Alec Priest David Sandison Ian Scott Cecil Smith George Smith Theo Smith Ryan Thomson

*Appointed on 11 November 2019.

Changes to Trustees	Mark Burgess (resigned 19 September 2019) Beatrice Wishart (resigned 9 September 2019)
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Auditor	Deloitte LLP 110 Queen Street Glasgow G1 3BX
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Structure, Governance and Management

Constitution

The Zetland Educational Trust (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.

ZETLAND EDUCATIONAL TRUST

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Zetland Educational Trust 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 charity 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 Zetland Educational Trust generally provides grants amounting to 75% of total project costs, with the remainder of project costs to be met by fundraising activities or in-kind support. The Trust does not give funds retrospectively. Applications are invited on an annual basis from individuals, schools and other educational organisations operating in Shetland.

The amount of funds available for disbursement will vary each year depending on interest received by the trust.

ZETLAND EDUCATIONAL TRUST
TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

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 2020, the Trust received bank interest of £188 (2018/19: £126).

The Corporate Bond Fund generated investment income of £25,128 (2018/19: £25,838) and resulted in £1,999 of Fund manager fees (2018/19: £1,948).

There were 14 bursaries (2018/19: 12) awarded to university students in support of their studies, totalling £2,800 (2018/19: £2,400). These bursaries are issued in the name of the original donors: E & M Gair 7 awards (2018/19: 8) and Arthur Anderson 7 awards (2018/19: 4). 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 17 grants awarded totalling £12,948 in the year to 31 March 2020 (2018/19: £18,887).

Financial Review

Overview

In the year to 31 March 2020, the Trust made a surplus of £7,168 (2018/19: £5,578).

At 31 March 2020 the Trust held cash of £26,205 (2018/19: £19,037) and investments of £620,604 (2018/19: £657,161). In the last quarter of the financial year the impact of COVID-19 was seen on the global markets, this adversely affected the investments market value at year-end.

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 15 July 2020 and were signed on its behalf by:

.....
Steven Coutts - Trustee

ZETLAND EDUCATIONAL TRUST

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

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 £	2019/20 £	2018/19 £
Receipts					
Donations	2	0	0	0	2,711
Grants	4	0	0	0	940
Investment Income	5	25,128	0	25,128	25,838
Bank Interest		188	0	188	126
Total receipts		25,316	0	25,316	29,615
Payments					
Disbursements	6	15,748	0	15,748	21,287
Fund Manager Fees	5	1,999	0	1,999	1,948
Service Charges	7	401	0	401	802
Total payments		18,148	0	18,148	24,037
Surplus for the year		7,168	0	7,168	5,578

ZETLAND EDUCATIONAL TRUST
STATEMENT OF BALANCES AS AT 31 MARCH 2020

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 £	2019/20 £	2018/19 £
Cash and Bank				
Opening cash balance	19,037	0	19,037	13,459
Surplus for the year	7,168	0	7,168	5,578
Closing cash balance	26,205	0	26,205	19,037

Note	2019/20 £	2018/19 £
Investments at market value		
Baillie Gifford Corporate Bond 5	620,604	657,161
Total Investments	620,604	657,161

The financial statements were approved by the Board of Trustees on 15 July 2020 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 charity.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes. No donations were received by the ZET during 2019/20 (2018/19: £2,711).

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 2019/20;
- b) Shetland Islands Council has not charged the Trust any fees for legal, financial or administrative services provided during the year; and
- c) There were no related party transactions during the year (2018/19: £5,000).

4. Grants received

No grants were received during the year (2018/19: £940).

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	2019/20		2018/19	
	Number	£	Number	£
Disbursements				
E & M Gair student bursaries	7	1,400	8	1,600
Arthur Anderson student bursaries	7	1,400	4	800
Total	14	2,800	12	2,400

ZETLAND EDUCATIONAL TRUST
NOTES TO THE FINANCIAL STATEMENTS

Disbursements: grants	2019/20		2018/19	
	Number	£	Number	£
Type of activity or project supported				
Educational Excursions	11	8,775	1	4,711
Educational experiments and research	0	0	1	109
Promotion of ability and skill in Swimming	1	1,099	0	0
Promotion of knowledge of Shetland	1	300	3	6,080
Special equipment	4	2,774	4	7,987
	17	12,948	9	18,887

All 17 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 2019/20 and audit fees of £400 are chargeable to ZET.

8. Taxation

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

	Shetland Islands Council	Agenda Item 2
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Meeting(s):	Shetland Islands Council	15 July 2020
Report Title:	Shetland Islands Council Unaudited Accounts 2019/20	
Reference Number:	F-032-F	
Author / Job Title:	Executive Manager - Finance	

1.0	Decisions / Action required:
1.1	<p>That the Council CONSIDERS:</p> <p>a) The 2019/20 Unaudited Accounts for the Shetland Islands Council (Appendix 1) and;</p> <p>b) The key issues arising from the 2019/20 accounts summarised in section 4.0.</p>
2.0	High Level Summary:
2.1	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.
2.2	Due to the Coronavirus pandemic, and in line with Schedule 6 paragraph 8(2) of the Coronavirus (Scotland) Act 2020, the Council is postponing the publication of the unaudited annual accounts to 20 July 2020.
2.3	The Local Authority Accounts (Scotland) Regulations 2014 require the unaudited accounts to be formally considered by the Council before 31 August each year. The Council would ordinarily meet to consider the unaudited accounts before the end of June, before submitting the unaudited accounts to the external auditor. As the Council has deferred the publication of its unaudited accounts, today's meeting allows the Council to meet that obligation.
2.4	The accounts are then subject to external audit by the Council's appointed auditor, Deloitte LLP. The Local Authority Accounts (Scotland) Regulations 2014 require the Council to consider the audited accounts and aim to approve those accounts for signature no later than 30 September 2020. The audited accounts are due to be presented to the Audit Committee and Council on 23 September 2020, however due to the Coronavirus pandemic this may be delayed and is dependent on both the Council and its external auditor adhering to pre-agreed audit timetable. In line with guidance issued by the Scottish Government, Local Government Finance Circular 10/2020, the Scottish Ministers consider it reasonable that a local authority publishes its audited Annual Accounts no later than 30 November 2020. Members will be advised if the September deadline cannot be met should the audit process encounter any further delays.
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:	
2019/20 Unaudited Accounts	
4.1	<p>The unaudited accounts include the following key points for members' consideration:</p> <ul style="list-style-type: none"> • The Management Commentary provides an overview of the Council's financial performance during 2019/20, including a final draw on reserves of £21.7m; • The Comprehensive Income and Expenditure Statement (CIES) on page 38 shows a deficit on the provision of services in the year of £44.6m; • The Expenditure and Funding Analysis (page 48) reconciles the result calculated for accounting purposes to the revenue outturn position; • The Council's usable reserves are detailed on page 55 and amounted to £328.9m at 31 March 2020. The majority is earmarked for specific purposes, however there is a sum of £32.1m in the unearmarked General Fund balance; • Net assets of the Council increased by £30.5m to £563.8m at 31 March 2020. Usable reserves decreased by £40.3m mainly due to a reduction in the value of long term investments of £27m as at 31 March 2020. This was offset by an increase in Unusable Reserves of £70.8m mainly attributable to a decrease in the pension liability of £36.6m and an increase in the revaluation reserve of £16.1m.
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:	<p>Section 12 of the Local Government (Scotland) Act 2003 requires the Council to observe proper accounting practice, including compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by CIPFA / LASAAC. The Code is based on International Financing Reporting Standards (IFRSs).</p> <p>Schedule 6 paragraph 8(2) of the Coronavirus (Scotland) Act 2020 allows the Council to postpone its publication of the unaudited annual accounts that are required to be published under The Local Authority Accounts (Scotland) Regulations 2014. If publication is postponed, a statement must be</p>

	published to that effect on or before the date by which the report is due, or as soon as reasonably practicable after the date. The Council published this statement on 17 June 2020.	
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 accounts are subject to external audit by 30 September 2020 in order to mitigate risk of material misstatement. The Local Authority Accounts (Scotland) Regulations 2014 require the Council to consider and aim to approve the audited accounts for signature no later than 30 September 2020. Due to the Coronavirus pandemic, completion of the external audit process may be delayed. In line with guidance issued by the Scottish Government, Local Government Finance Circular 10/2020, the Scottish Ministers consider it reasonable that a local authority publishes its audited Annual Accounts no later than 30 November 2020.	
6.10 Policy and Delegated Authority:	The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audit accounts of the Council and related certificates is a matter reserved by the Council.	
6.11 Previously considered by:	<i>n/a</i>	<i>n/a</i>

Contact Details:

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2 July 2020

Appendices:

Appendix 1 – Shetland Islands Council Unaudited Annual Accounts 2019/20

Background Documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Unaudited Annual Accounts **2019/20**



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Management Commentary

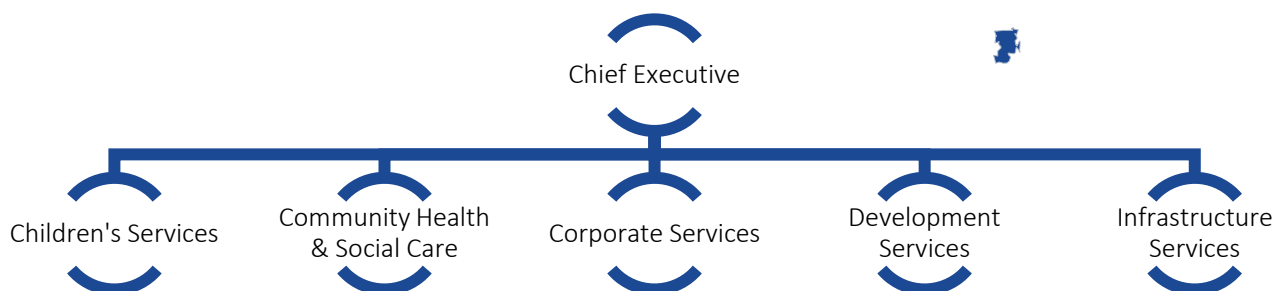
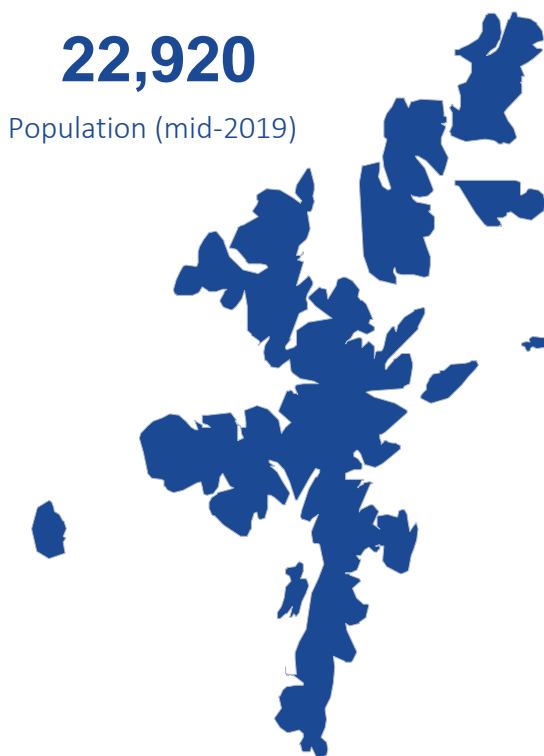
Introduction

The purpose of the Management Commentary is to help readers understand the priorities, objectives and strategy of the Council; to provide a review of its financial and non-financial performance in the year and to help readers understand its financial position as at 31 March 2020. It also sets out the main risks and uncertainties that the Council is likely to face in the future.

About Shetland Islands Council

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 22,920 people. 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:



Further details of the management structure and the range of services provided can be found on the Council's website: www.shetland.gov.uk

Council Vision and Strategy

'Shetland is a great place to live, work, study, visit and do business'

Shetland Partnership Plan

Our local Community Planning Partnership is known as the Shetland Partnership. The Council has a statutory duty to be involved in community planning, along with NHS Shetland, Police Scotland, Scottish Fire & Rescue Service and Highlands and Islands Enterprise (HIE). Collectively, this group of five members hold a statutory responsibility to facilitate community planning in Shetland. The group of five lead agencies work in partnership with a network of other organisations drawn from across the public, private and third sectors in Shetland.

The Shetland Partnership is responsible for preparing a Local Outcomes Improvement Plan (LOIP) under the Community Empowerment (Scotland) Act 2015,

which is known locally as the *Shetland Partnership Plan*.

The *Shetland Partnership Plan* sets out what the Partnership aims to achieve across Shetland over ten years, between 2018-2028.

The plan aims to empower community bodies by giving them more say in decisions about public services. The *Shetland Partnership Plan* fulfils that requirement and is the principal strategic planning document for the delivery of public services in Shetland. The Shetland 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

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”

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 2018/19, which can be found at:

https://www.shetland.gov.uk/communityplanning/documents/ShetlandPartnershipAnnualReport18-19_Final.pdf.

The Annual Report 2019/20 is currently being prepared and due to be published in autumn 2020.

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. The key outcomes for each priority are:

Priority	Delivery Plan Outcomes		
 People	1. The number of disadvantaged people and households in Shetland will be considerably reduced as a result of people being enabled and empowered to address the issues they face and helping others to thrive in the same way	2. The Shetland Partnership will be prioritising prevention and working with households and communities to provide innovative solutions to the issues they face	3. Shetland will continue to be a safe and happy place, with more people feeling connected to their communities and benefitting from living in good places and keeping active

Priority

Delivery Plan Outcomes



Participation

1. The Shetland Partnership will be a successful partnership – between public agencies and with communities – helping to deliver improved outcomes for people across the Isles

2. Communities will feel empowered and the majority of people in Shetland will feel more able to influence the decisions that affect them and have a strong understanding of how and why decisions are taken

3. Staff from across the Shetland Partnership will be actively seeking to involve communities in decision making and service delivery, including identifying and involving those who do not often have their voices heard



Place

1. People will be accessing employment, education, training and services in innovative ways designed to minimise the barriers to involvement for all

2. Shetland will be attracting and retaining the people needed to sustain our economy, communities and services

3. All areas of Shetland will be benefiting from a more resilient, low-carbon economy underpinned by a culture of innovation, inclusion and skills development

4. Communities will be actively involved in shaping their own future resilience, creating positive places that are economically, socially and environmentally sustainable



Money

1. Everyone will be able to access the support they need to maximise their income potential, including innovative, flexible and entrepreneurial employment opportunities throughout Shetland

2. Everyone will be able to access the support they need to minimise their outgoings with low income households benefiting from reduced bills

3. National governments understand the additional costs for essential items for householders in Shetland reflecting this in welfare payments and other relevant schemes

4. Communities will be empowered to provide innovative solutions and support to help people maximise their incomes and minimise their outgoings from the support available

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

The Corporate Plan

The *Shetland Partnership Plan* is supported by the Council's own Corporate Plan which in turn shapes each of the Council's directorate plans and individual service work plans. Activities that contribute to the target outcomes in Shetland's Partnership Plan will be monitored by the Council and reported to the respective committees as appropriate.



The Council's four year Corporate Plan, called 'Our Plan 2016-2020', set out the vision:

"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"

The five political priority areas that were set out in the plan and the progress on delivery of the outcomes is detailed below:

Increase the supply of affordable housing in Shetland.

From April 2016 to March 2019, 251 new houses were built (170 private housing and 81 social housing). The Strategic Housing Investment Plan 2019/20 - 2023/24 anticipate to build 316 new affordable homes in the next 5 years.

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 and was formally opened in September 2018 by John Swinney, Deputy First Minister and Cabinet Secretary for Education and Skills. The new campus is providing an exciting and stimulating environment for Shetland's young people to learn.

Support older people across Shetland so they can get the services they need to help them live as independently as possible

There has been a continuous increase in the number of Anticipatory Care Plans (ACP), increasing from 917 in April 2016 to 1,157 in December 2019; The Intermediate Care Service (ICS) has been expanded and has now become a key component of the care pathway for older people; There has been an increase in the number of people choosing to direct their own support through 'direct payments'. Since 2016, changes to the way we refer, assess and review the support offered to individuals has been implemented undergoing significant improvements.

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. The supporting draft delivery plan was approved by the Zetland Transport Partnership in April 2019.

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 £1.9m 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. Project completion is expected in 2020.

Linking to the 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 measures Scotland's progress against national outcomes. To do this it uses national indicators as illustrated in the diagram. Further information can be found at:

<https://nationalperformance.gov.scot/index.php/national-outcomes>.



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 fuel poverty (2019 - 44%) (2018 - 53%)
	We are well educated, skilled and able to contribute to society.		Positive destinations for school leavers to at least 97% participation by 2021. (2019 - 95.9%) (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) (2019 - 13,700) (2018 - 13,500)
	We are healthy and active.		People engaging in physical activity to at least 80% by 2021 (2019 - 84%) (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%)
	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 have thriving and innovative businesses, with quality jobs and fair work for everyone.		Reduced number of people in Shetland who are 'under-employed' (2019 - 14.4%) (Baseline - 21.3%)

Council Performance

Performance Management Framework

The draft Performance Management Framework (PMF) for Shetland was approved by the Council, NHS Shetland and Shetland's Integration Joint Board 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 focussed on reporting progress on the delivery of outcomes and strategic objectives with performance indicators being readily and openly available together with 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/submissiondocuments.asp?submissionid=24234>.

Each Directorate periodically reports on performance to their relevant Committee. 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.

Service Redesign Programme 2018-22

The Council's Service Redesign Programme is a collection of projects that vary in scale and scope, but all share an overriding objective to redesign the types of services that the Council will deliver in the future, to ensure that services can be delivered sustainably and in the most cost-effective manner.

The most recent update report was presented to the Policy & Resources Committee on 25 November 2019 and can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24759>.

The Council acknowledges that the Service Redesign Programme is ambitious in scale, and progress has been slower than envisaged. A 'Programme Management Office' (PMO) function has now been established within the Corporate Services Directorate to facilitate service redesign activity in the coming years. This function is led by an Executive Manager and will draw experience from across the Council using a range of secondments and graduate placements to help facilitate and coordinate transformational activity.

The PMO function will seek to refresh the Council's Service Redesign and Business Transformation Programmes by aligning all 'change' activity under one framework, including change activity associated with the recovery from COVID-19. The move will allow more regular reporting on progress on Council priorities and create clear linkages to the refreshed Medium-Term Financial Plan, which will sit alongside the refreshed change programme framework. It was envisaged that this work would be completed in the first half of 2020, but has been delayed by the requirement to respond to the COVID-19 pandemic.

Progress on the projects within the Programme are detailed below:



Tertiary Education

Implementation of the planned merger of tertiary education providers on Shetland suffered delays during 2019, due in part to requests for significantly more detail to be included in the submission to Scottish Ministers formally proposing to merge colleges. The Ministerial Merger Business Case was approved by the Council on 22 April. The Scottish Funding Council prepared a revised timeline and the Council now anticipates the project to conclude in August 2021, when a new college is formally vested. The Council expects to realise a recurrent revenue saving of £1m/year as a result of the merger.



Bus Network

A comprehensive review of public transport along with school and adult social care bus transport concluded in February 2020, with Shetland Islands Council approving the award of contracts that will see an optimised network of bus services come into fruition across Shetland later in the year. The award of contracts which will see several enhancements to public transport was anticipated to save approximately £473k per annum, with some added service enhanced growth in income expected to reduce costs further. Some services later required to be re-tendered, increasing costs by £111k per annum. The additional costs of re-tendering are considered to be due to COVID-19, with the re-tendering exercise taking place during lock down, when local operators were facing significant loss of income and unquantified risks for the future.



Internal Air Services

The contract to deliver an internal air service was re-let during the year, following extensive consultation with the community. Shetland Islands Council awarded a four-year contract for the delivery of air services to the remote isles which will continue to operate from Tingwall Airport. The contract will see the discontinuation of services to Papa Stour and Outer Skerries and includes flexibility to negotiate enhanced services to Fair Isle and Foula, if required. The contract will realise a small revenue saving of £14k a year.



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, which was £2.9m less than the Council requested. In 2020/21, the Scottish Government provided £5.2m towards operational costs, which is £4.8m less than required to fully fund internal ferry services. The Council continues to engage with Transport Scotland and Scottish Ministers with a view to reaching a fair funding agreement that honours the commitment made by the Scottish Parliament.



Early Learning and Childcare

By March 2020, 56% of Early Learning and Childcare (ELC) settings were delivering 1,140 hours of childcare and all entitled two-year olds had access to the 1,140 hours. In addition, six childminders were delivering blended placements. Work continues to expand ELC settings ahead of August 2020, however there have been delays in construction as a result of the COVID-19 pandemic.



Community Care Resources

The Adult Learning Disability Short Breaks and Respite Project Board comprising unpaid carer representatives and colleagues from the Third sector, Children's Services and the Community Health and Social Care Partnership, have met regularly to consider the needs and aspirations of people eligible for this support and to develop a shared plan for the future. Next steps will require tests of change and we are working closely with adult social work colleagues to progress this. A review of plans is being undertaken to identify sources of funding, and looking for further opportunities to shift balance of care, including the development of overnight social care in the community.



Community Led Support




Community Led Support is a principles-based approach to assist organisations to work collaboratively with their communities and their staff teams to redesign services to work for everyone, evolving and continually refining based on learning. The Council commenced participation in a Scottish Government funded project to introduce Community Led Support in Shetland in July 2019. Facilitated by the National Development Team for Inclusion, and led by Adult Social Work, service providers, practitioners, and members of the community have been brought together in localities to begin to look at how health and social care services can be redesigned in ways which work better for everyone, are asset based and which are rooted in the local community.





Business Transformation


The Council continues to transform the way it does business, through the Business Transformation Programme (BTP), which was approved by the Council in February 2017. The BTP seeks to provide the framework and tools needed for the Council to review, and transform the services it provides 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 25 November 2019 and can be found here: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24760>.

The latest progress on Business Transformation Programme workstreams, and plans for the future are summarised below:

Workstream	Objective	Progress	Future Plans
 Customer First	To embed the <i>Customer First</i> strategy and charter to ensure that the Council is a customer-focussed organisation	Customer First has now been embedded across the Council with support from Executive Services.	Continue to monitor the impact of Customer First principles, in key communications and strategic plans.
 Digital First	Investment in the key enablers for a <i>digital by default</i> service delivery model.	<p>Phase 1 is partially complete, with Firmstep forms now live and in use across the Council as business as usual. Exploration of workflow and database integration is ongoing. Our ICT service have a <i>Digital First</i> team in place to support and encourage use of the platform.</p> <p>Phase 2 is underway. A new website and Content Management System (CMS) has been procured by the Council, with a view to the Beta site going live in summer 2020.</p>	Phase 3 of Digital First which aims to replace the Council's intranet and deliver a mobile-friendly interactive staff portal, is ongoing.
 Commissioning and Procurement Framework	Establish new procedures to maximise efficient procurement and create concise commissioning and procurement guidance.	Commissioning and Procurement procedures and guidance now available on the Council's intranet.	The business case process is currently being digitised. We are exploring ways to provide tailored support for departments developing business cases, through secondments or graduate placements.

Workstream	Objective	Progress	Future Plans
 <p>Workforce Strategy</p>	Implement Workforce Strategy across the Council.	Discussions have now taken place with all Directorates to inform future workforce planning, also including NHS Shetland to gather information on the IJB workforce needs.	A draft Strategic Workforce Plan will be prepared by September 2020. Priorities will align, as far as possible, with the impacts of COVID-19 and the Council's recovery/renewal plans.
 <p>Accommodation Rationalisation</p>	To rationalise and make best use of Council properties across Shetland	A revised Property Asset Management Strategy was presented to Council in June 2019. Approval of the Strategy was deferred pending refinement, although the Implementation Plan was approved, which focused primarily on vacating the Knab site in Lerwick for redevelopment and ending several commercial leases.	Work on the Implementation Plan will continue. The Property Asset Management Strategy will now be revised, and will also be updated to reflect the impact of COVID-19 recovery and renewal phases.
 <p>Broadband and Connectivity</p>	To investigate enablers for digital service delivery and to improve high speed broadband and mobile connections throughout Shetland.	The Scottish Government Reaching 100 (R100) programme has stalled, with a legal challenge to the award of contract for the North lot. Timescales are now unclear. The Council secured a grant of £1.9m from the Department for Digital, Culture, Media and Sport (DCMS) to install fibre to all public buildings in Yell and Unst, connecting them to the Council's network. This includes all schools, care centres, health centres etc.	The Islands Deal, which is currently being progressed, includes a bid for the funding of infrastructure to enable innovative projects using broadband, 5G and Internet of Things.
 <p>Information Management and Improvement</p>	To ensure the Council manages its information safely and efficiently	There has been little progress since March 2019, due to staff resources being diverted to the delivery of elections. Work has continued at a slower pace, which means the project has slipped by one calendar year.	A complete review of the project management, programme strategy, planning, priorities and timescales will be carried out, taking account of any shift in priorities as a result of lessons learned from the COVID-19 pandemic.

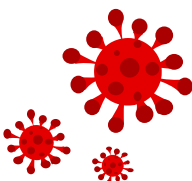
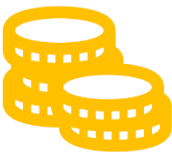
Workstream	Objective	Progress	Future Plans
 Performance Management and Reporting	To develop a new planning and performance management framework, including a review of reporting arrangements and the complaints handling process.	Performance Management Framework approved in July 2019. Transitional reporting arrangements in place for 2020. A working group has established to roll out of a common format and style of reporting across the Council.	We will continue to embed the Framework by publishing performance information on the new website, making performance information accessible to all stakeholders and the public. Actions to undertake a further review of complaints handling will be undertaken as COVID-19 restrictions ease and resources become available.

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 1 July 2020 and can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=25335>

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

Risk / Uncertainty	Mitigating actions
 COVID-19	<p>The COVID-19 pandemic has required the Council to make significant changes to a range of services, and how it delivers those services. From the outset, the Council has prioritised the delivery of essential and business-critical services. As the situation evolves, the Council will continue to prioritise the delivery of essential services while also resuming service delivery in other areas when it is safe to do so in line with the Scottish Government's 'COVID-19 Framework for Decision Making: Scotland's route map through and out of the crisis'</p> <p>The Council is working with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to implement nationally agreed policy decisions and to monitor the additional financial pressure the Council is expected to face in response to the pandemic.</p>
 Revenue and Capital Budgeting	<p>The Council is not in a financially sustainable position over the medium term and faces an anticipated cumulative budget deficit of £40.7m by 2023/24. Meanwhile the level of core revenue funding from the Scottish Government is expected to continue to reduce in real terms while the demand for services, particularly for health and social care, continue to increase. Likewise, the Council has substantial property, plant and equipment assets that require significant investment each year to maintain while core capital funding reduces year-on-year.</p> <p>The Council has a range of business transformation and service redesign projects underway, or planned, that vary in scale and scope. The aim of these projects is to transform the way services are delivered and to ensure services are delivered as cost effectively as possible. During the year, the Council has established a Programme Management Office function within Corporate Services that will oversee and coordinate the Council's change programme activities, including 'spend to save' and 'change fund' projects.</p>

A revised Medium Term Financial Plan (MTFP) will be presented mid-way through 2020/21 which will estimate the likely resources the Council has available over the next 5 years, aligned to the estimated costs of delivering services over the same period. The plan will also estimate the likely budget deficit and summarise the actions the Council will take to bring its spending in line with its available resources on a sustainable basis within 5 years.



Pension Fund

The Pension Fund has a strategy (the Funding Strategy Statement) to become 100% funded by 2027. Part of this strategy includes the need to recover pension scheme deficits over a period of less than 20 years. The Pension Fund is subject to a triennial valuation process in 2020 which may result in adjustments to employer contributions to maintain the Pension Fund's trajectory of becoming fully funded by 2027. As the largest employing organisation participating in the Shetland Islands Council Pension Fund (the Pension Fund), the Council is exposed to the risk of meeting additional scheme liabilities should another participating organisation fail or default on its obligations to the Pension Fund.

New entities seeking admission to the Pension Fund now must be supported in doing so by the Council (as the Administering Authority) and provide a guarantee or indemnity to meet any liabilities should they default in the future. This mitigates the risk to the Fund in relation to new employers.



Increased Demand for Services

The Council has embarked on a Service Redesign Programme to identify and implement sustainable levels of service while delivering the right outcomes for the community in an efficient and cost-effective way. The Business Transformation Programme facilitates service redesign and provides the framework to review and transform the services provided and the ways in which those services are delivered.



Withdrawal from the European Union

The Council considers the UK's withdrawal from the European Union as a key risk. Despite several delays to the withdrawal process, there remains a continuing lack of clarity on the practicalities of leaving the European Union. The Council continues to review the latest planning assumptions and assess the potential impact from a Shetland perspective, including the financial and economic impacts on the local economy and labour market.

The Council's emergency planning function is regularly reviewing and updating a specific risk register, updating contingency plans and reporting to the Corporate Management Team and Policy and Resources Committee.

Local Government Benchmarking Framework

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. More data can be explored online at the LGBF website at: <https://www.improvementservice.org.uk/benchmarking/explore-the-data>.

Council Highlights 2019/20

Scalloway Fish Market

A new state-of-the-art fish market in Scalloway is more than double the size of the previous fish market. The building has been designed to be as energy efficient as possible, incorporating LED lighting, and a high level of wall and ceiling insulation. The new fish market has been completed 3 months early, and on budget. The number of boxes landed at Scalloway harbour has increased significantly over the years, from around 14,000 in 2004, to 185,000 in 2019. The new fish market is awaiting final food hygiene certification, before starting operations to land and sell fish through electronic seafood auctions.



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. This will include Council buildings, such as schools and care centres, and NHS Shetland premises, such as health centres. The project is aligned with the Scottish Government's Reaching 100% (R100) Programme in Unst and Yell, which expects to extend superfast access to all premises in the area. The project completion is expected end of 2020.

Re-Create Scalloway

In 2018, the Council received funding from the Scottish Government to develop a community-led vision and action plan for the future of Scalloway. The draft Scalloway Local Place Plan which has been published for public consultation, incorporates visions from locals, community councils and the Shetland Islands Council, to 'recreate' Scalloway. The draft plan is a pilot project and is one of the first to be produced in Scotland. Following public consultation, the plan will go before the Shetland Islands Council prior to it being approved by the Council as planning guidance. More information can be found here:

<https://www.shetland.gov.uk/planning/recreatescalloway.asp>.

Town Centre Fund

The Scottish Government made available an allocation of £205k to the Council to be invested in town centres to encourage their diversification and increase footfall. Projects in Lerwick and Scalloway have been agreed and are currently being implemented.

The Lens Project

Working in partnership with The Lens, the Council launched its first ever Intrapreneurship programme. The Lens is an innovative programme that



develops people and ideas. £20,000 is being made available by the Council to invest in 'intrepreneurs' who have innovative ideas to change people's lives and make Shetland the best place to live, work, study and invest. The programme launched in October 2019, with a series of workshops being held where ideas were generated, and new ways of thinking explored. In light of COVID-19 the Lens has now developed digital workshops with an accelerated Virtual Lens Programme being implemented from August 2020.

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 site at the Knab with the exception of the listed buildings and the former science block. In August 2019, the Knab Masterplan won an award at the renowned Scottish Design Awards, coming first in the Master Planning category.



Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2020 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 2019/20

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2019/20. This differs from the budgeted outturn position which was reported to the Policy & Resources Committee of the Council on 1 July 2020 and is available at the following website:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=25313>.

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 are required 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 Deficit on Provision of Services of £44.6m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £7.7m 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 £21.7m for 2019/20 (£15.3m for 2018/19). This is significantly lower than the planned draw on reserves of £33.1m. 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 £4.9m has been committed for use in 2020/21. Of this, £4.3m will support the 2020/21 revenue budget and £0.6m will support capital investment activities.

The actual Total Revenue Draw figure below of £7.7m 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	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
2019/20					
General Fund	25.546	24.400	1.146	3.355	(2.209)
Revenue Spend to Save	1.563	0.137	1.426	0.420	1.006
Housing Revenue Account	1.125	1.518	(0.393)	0.251	(0.644)
Harbour Account	(12.637)	(18.327)	5.690	0.275	5.415
Total Revenue Draw	15.597	7.728	7.869	4.301	3.568
Capital Spend to Save	1.050	0.000	1.050	0.499	0.551
Asset Investment Plan	16.463	13.995	2.468	0.079	2.389
Total	33.110	21.723	11.387	4.879	6.508

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 net expenditure for 2019/20 totalled £115.5m (£114.1m 2018/19) against an approved budget of £116.1m. The underspend of £0.6m is attributed to:

- additional Crown Estate income received but yet to be disbursed £1m;
- additional income from social care charges £0.9m;
- underspend on Early Learning and Childcare and Pupil Equity Funding ring-fenced grants £0.6m; offset by
- additional costs arising from the delays to the College Merger project totalling (£3.0m)

In 2019/20 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	2019/20 £000	2019/20 %
General Revenue Grant	(55,412)	48.0
Non Domestic Rates	(25,925)	22.4
Council Tax	(9,643)	8.4
Draw on Reserves*	(24,537)	21.2

**Includes General Fund and Revenue Spend to Save*

Council Tax represents 8.4% of the Council's overall annual external revenue funding. During

2019/20, the Council collected 96.85% 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 long 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 long-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 2019/20.

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 £12.6m contribution to the Harbour Reserve Fund in 2019/20 (£8.9m in 2018/19).

The actual contribution was £18.3m (£13.7m 2018/19) due to additional tanker income and reduced capital expenditure.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate account within the Council. The HRA budgeted for a £1.1m contribution from its reserve in 2019/20 (£1.3m 2018/19) which was exceeded by £0.4m, giving a total contribution to the HRA of £1.5m in the year (£1.6m 2018/19). 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 2020, the HRA was responsible for 1,658 properties, a decrease of 1 since 31 March 2019. 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 2019/20 Shetland Islands Council incurred capital expenditure of £34.9m (£23.2m 2018/19) against a budget of £39.1m (£38.0m 2018/19) representing an underspend of £4.2m (£14.8m 2018/19) in the year.

The main reason for this underspend is a revaluation reduction of the Shetland Leasing and Property Developments (SLAP) property acquisition, reduced capital life-extension works to the ferries, the tug jetty cathodic protection project no longer going ahead and a revision to timing of spend on maintenance and vehicle replacement.

£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 32: 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 2020. When comparing this to the position at 31 March 2019, there has been an overall increase in the net worth of the Council of £30.5m. This figure matches the total figure in Comprehensive Income and Expenditure Statement, which captures all transactions during the financial year that led to the movement in the Council's net worth.

Material Transactions

Long-Term Investments

Financial investments are covered by the Council's Investment Strategy 2018, which sets out the overarching investment approach to complement the Council's MTFP, 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 2020 the Council had £314m (£341m at 31 March 2019) invested with three external Fund Managers, a reduction of £27m from the previous year. The Council withdrew £8m to meet its cash flow requirements with the remaining £19m reduction attributable to COVID-19 as world economies ground to a halt at the end of the financial year. Other long term investments include the £17m shareholding in SLAP.

The Fund Management Annual Investment Report 2019/20 was presented to Council on 1 July 2020 and this summarised the performance of the Council's investments during the year. The report states that the overall Council investment return in 2019/20 was -6.2% which is well below the Council's anticipated long term return 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 £98.7m as at 31 March 2020 (£98.6m at 31 March 2019), of which £49.1m (£49.1m in 2018/19) 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 32: Capital Expenditure and Capital Financing.

As at 31 March 2020, external borrowing was £49.1m (£49.2m at 31 March 2019) and this is reflected on the Council's Balance Sheet.

Debt financing costs currently represent 4.2% of the Council's net revenue stream (2.8% 2018/19) 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 2020/21 is 3.3% 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 2019/20 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 28 and 29 to the accounts.

The pension liabilities continue to outstrip pension assets and as such the net pension liability for the

Council is £173.3m as at 31 March 2020 (£209.9m at 31 March 2019). This figure represents the amount that actuaries estimate that the Council will have to pay out in future years for all pension entitlements earned by current and previous staff up and until 31 March 2020.

During 2019/20, the net pension liability has decreased by £36.6m 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 £64.5m. 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 £51m. Further detail can be found in the 2019/20 Pension Fund Annual Report and Accounts available at:
https://www.shetland.gov.uk/about_finances/.
The Pension Fund is subject to a further triennial review which is currently underway.

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 2019/20, the Council contributed £21.7m (£21.2m 2018/19) to the IJB and received income from it of £23.0m (£22.5m 2018/19), 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 2019 £m	As at 31 March 2020 £m
General Fund	175.261	137.259
Housing Revenue Account	17.425	18.237
Harbour Reserve Funds	65.969	69.934
Capital Funds	69.711	63.269
Other Usable Funds	40.801	40.170
Total Usable Reserves	369.167	328.869

The overall level of usable reserves was £328.9m at 31 March 2020, a decrease of £40.3m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve has increased by £7.3m to £32.1m as at 31 March 2020 from the previous year (see Note 7: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 28.2% 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 15.

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 2019/20 (the Code) requires the Council to prepare group accounts where the Council has material interests in subsidiaries, associates and / or jointly controlled entities.

The Council has interests in SLAP, Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board (IJB).

The net impact of the consolidation modifications to the financial statements for SLAP and OSVJB is deemed to be not material and are 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 38 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/.

Looking Ahead

COVID-19

COVID-19 is a new strain of coronavirus that has quickly spread across the globe and created a public health emergency in almost every corner of the globe. Shetland has not been protected, despite an element of geographic isolation. The COVID-19 pandemic has significantly impacted the Council and the residents of Shetland, resulting in changes to the way services are delivered across the Isles.

Attempting to predict the likely short and medium-term impact of COVID-19 on the Council's finances is difficult, especially as the world is at a relatively early stage of understanding of the pandemic. There is no

historical precedent to use as the basis for any forecasting models. In the absence of any observed data, the Council has used assumptions to establish the likely financial impacts, which can be summarised as:

- Increased costs as a result of responding to the pandemic and any adaptations to services that may be required to become 'Covid-secure';
- Reduced income streams as a result of services being scaled back or closed due to restrictions on daily life and activity;
- Negative fluctuations in investment returns over the medium term;
- Potential savings, as a result of Council premises and services being scaled back or closed; and
- Delays to planned change and transformation projects, which may result in savings not being achieved.

The Council is working with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to provide information regarding additional costs, foregone income and potential savings, on a regular basis which has influenced the distribution of Scottish Government funding to local authorities. The initial estimates were reported to the Council on 2 July. The report can be accessed at:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=25324>.

This work will continue throughout 2020/21 as more information becomes available, circumstances become clearer, and meaningful comparisons against 2019/20 can be made, which will be fed back to COSLA.

The Council set a balanced budget for 2020/21 in March 2020. The 2020/21 budget was predicated on a set of assumptions and expectations that have shifted significantly in a short period of time. The Council's focus from the outset of the pandemic has been to maintain the delivery of essential and business-critical services while complying with national guidance and adhering to the restrictions imposed on daily life. As Scotland prepares to ease the restrictions in a phased approach, the Council is examining how it can resume 'normal' service delivery in a safe way, in line with the phased approach set out in the Scottish Government's *Framework for Decision Making*. The consequences of making adaptations to services, premises and ways of working will undoubtedly result in additional financial costs, at least in the short term, which puts a balanced budget at risk.

The Council has received supplementary funding from the Scottish Government which has met the majority of additional costs faced by the Council between March and June 2020. However, there has been no

guarantee that any further additional pressures will be supported by the Scottish Government. The Council will continue to monitor its financial exposure throughout the rest of the year and will consider any corrective actions it needs to take to ensure a balanced budget is delivered.

Climate Change

As a local authority, the Council has a duty and statutory obligations to produce adaption plans to help cope with climate change, and to produce mitigation plans to reduce climate emissions against very challenging targets. These actions will require very significant resources and focus to deliver. They will require the review and potential restructure of many aspects of social and economic organisation and service delivery. This planning and activity needs to take place in Shetland as critically as anywhere else.

The Council has a duty to act, as a public body alongside all other Government agencies. The Council also understands it holds a leadership role in the Shetland community. The Council is in no doubt that there is a clear understanding and strong commitment across our community to play our part in addressing this global issue.

The Council recognises that fundamental actions are required to achieve substantive change that will necessitate widespread partnership. It will be impossible for the Council to deliver a climate change mitigation programme in isolation. Partnership will be needed right across Shetland, and with the wider national and international community.

In January 2020, the Council approved its first Climate Change Strategic Outline Programme which provides the framework for managing the Council's activities. These activities will in turn facilitate a wider Shetland response, as well as contributing to the Scottish, UK and international efforts. The Strategic Outline Programme initially recommended:

- The creation of a Climate Change Programme team, in addition to existing resources, to coordinate, facilitate and catalyse internal Council activity;
- A review into the feasibility of the Council's Change Fund to fund climate change activity; and
- Providing clarity and guidance to Council staff so that climate change implications are clearly set out in the Council's standard report format, under the heading of 'Environmental Implications'.

Further information can be found
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24878>.

It is apparent that everyone across the world is likely to face significant environmental challenges arising from climate change. There is also a clear risk that systematic and structural problems, such as widespread fuel poverty and the very high transport costs, already experienced in Shetland, could be made worse as changes in energy sources and systems happen. Solutions that clearly recognise these existing inequalities, are actively designed to reduce them, and aim to deliver a 'just transition' will be our most effective climate change response.

2020/21 Budget

The Council's 2020/21 budget has been developed in conjunction with the Medium-Term Financial Plan 2018/19-2022/23 (MFTP) which sets out expected levels of expenditure for the period. The budget does not align with the expectations of the MFTP as the Council has been unable to reduce service expenditure to the assumed levels contained in the MFTP. The General Fund budget will be supplemented with an additional £30.9m from its reserves, including a one-off, draw of £10.5m 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 £4.8m less than expected.

For more information, please refer to the 2020/21 Council Budget Book which can be found on the Council's website at:
<http://www.shetland.gov.uk/about/finances/>.

Five Year Outlook

In addition to COVID-19 and climate change, the Council still faces several significant challenges and uncertainties, some of which have been mentioned earlier in this commentary. The Medium-Term Financial Plan is the Council's strategic finance document which provides the financial framework

for the delivery of Council services across Shetland in a five-year period. The Council anticipates a continued real-terms reduction in core revenue funding from the Scottish Government, while both the cost of delivering services and the demand for services across Shetland increase. The Council faces an ever-widening gap between the resources it has available and the resources it needs to spend in order to maintain service delivery at current levels.

The latest MFTP was approved by the Council on 22 August 2018, which covers a five-year period to March 2024. This will be refreshed over summer 2020.

The world has moved on substantially since 2018: digitally, economically, financially and politically. The Council intends to take additional time to reflect on its future priorities and the expectations around deployment of resources to meet those priorities. The refreshed plan will allow the Council to take recent developments in the local energy, oil and gas sectors into account, alongside the emergent national and international economic outlooks arising from the pandemic and the potential economic impact once the UK finalises its withdrawal from the European Union, after the transitional period comes to an end in December 2020.

Conclusion

In summary, the Council has experienced a financially challenging year in 2019/20. We know there are improvements to be made in different areas and we remain committed to addressing these points in the forthcoming year. In the short term, we will continue to face significant challenges as the Council strives to balance competing demands, maintain the delivery of public services and take a lead role in the recovery and renewal effort as Shetland navigates its way out of the COVID-19 pandemic with the rest of Scotland. The Council already has an ambitious change programme which will be ever more important as the organisation adapts to the medium and longer-term challenges it faces. Despite these challenges, the Council remains financially sound with a strong balance sheet and is well placed to serve the Shetland community in the future.

.....
Steven Coutts
Leader of the Council
15 July 2020

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Maggie Sandison
Chief Executive
15 July 2020

.....
Jamie Manson CPFA
Section 95 Officer
15 July 2020

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 has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

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 Corporate 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.

The role of Chief Internal Auditor is undertaken by the Head of Audit and Inspection at Glasgow City Council, through an arrangement with Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team. This arrangement provides the operational and strategic planning, professional management and reporting for the Council's Internal Audit function.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled, and the activities used to engage with and lead the 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, cost effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk at acceptable levels, and provide reasonable, but not absolute, assurance that policies, aims and objectives

can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise risks, and their associated impacts should they crystallise, and to manage them efficiently, effectively and economically.

The Governance Framework

The governance framework adopted by the Council is consistent with the with the seven core principles of the revised 2016 CIPFA/SOLACE framework and is pictured below, showing each of the seven principles and how they interact with one another.

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

The governance framework has been in place for the year ended 31 March 2020 and up to the date of approval of the annual accounts.

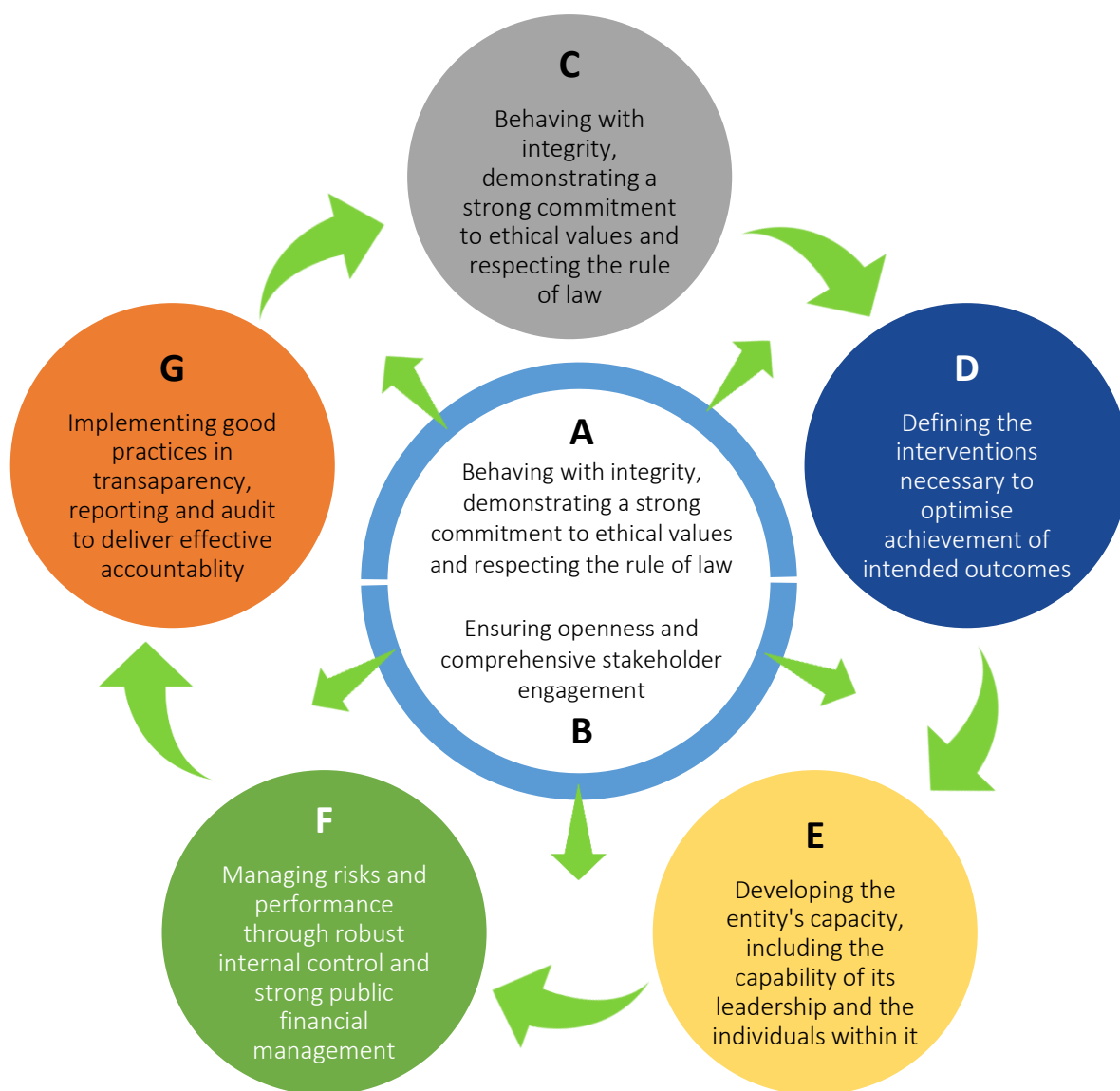
The key elements of Shetland Islands Council's governance framework are:

- 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 function and others.

The approved set of governance documents, including the Scheme of Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's website at:

https://www.shetland.gov.uk/about/how_we_work/constitutionandgovernance.asp

The Seven Principles of Good Governance:



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. A further update is due to be presented to Council in 2020.

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

inspectors. The Annual Report can be viewed on the Council's website at:

<http://www.shetland.gov.uk/coins/calendar.asp>.

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 2019/20, no areas of weakness or concern were identified;
- 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 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; and
- 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.

The 2019/20 Local Scrutiny Plan which sets out any scrutiny risks identified by the local area network (LAN), addressed areas requiring oversight and monitoring:

- fieldwork for improving outcomes for young people through school education (Audit Scotland): This audit looks at school education to assess whether outcomes are improving for young people, whether the Scottish Government, Councils and their partners collectively have a clear and coherent approach to improving these outcomes, how public money is being used for this and how effectively performance is being evaluated and actions taken to improve these outcomes.

The report which was due to be published by spring 2020 is not yet available;

- supported and validated self evaluation of community justice partnerships: Following the Care Inspectorate's engagement with the Shetland Community Justice Partnership to support and validate the Partnership's self-evaluation, the Care Inspectorate concluded that the partnership's approach to self-evaluation was considered and mature. The methodical and reflective approach has enabled the partnership to appropriately identify strengths and areas where improvement is required. The partnership is clearly committed to developing an improvement plan which incorporates learning from the self-evaluation. Further information is available in the report which can be accessed at the following [website](#); and
- Scottish Housing Regulator (SHR), engagement on services for people who are homeless and service quality: a review of the 2017/18 service quality performance of social landlord services by the 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. More information can be found in the 2019/20 engagement plan which can be accessed at the following [website](#), and also on the SHR [website](#). The Council's 2019/20 Landlord report has not yet been published.

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

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
There is no formal framework to specifically mitigate the risks associated with EU Funding compliance.	Corporate Management Team	Failure to comply with EU Funding rules for live and completed projects may result in financial clawback.	Whilst there are the expected project level systems and controls in place, there is an absence of a specific comprehensive control framework for EU Funding compliance.	Internal audit is discussing appropriate remedial actions with management. This will be formalised into an action plan and completion monitored by Internal Audit.	31 March 2021

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues reported in the 2018/19 Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Health & Safety risk assessments either not being in place or out of date.	Corporate Management Team	New process for Health & Safety risk assessments implemented.	None.
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Corporate Management Team	A programme of premise visits has been developed.	Remaining premises visits to be completed in accordance with the new programme.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Operational grants processing and monitoring issues.	Corporate Management Team	Grants and Third Parties Payments Framework put in place.	None.
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	Business Continuity Policy has been finalised and approved. Options identified for BCP's however not yet taken forward due to COVID-19 pandemic.	Lessons learned from COVID-19 will be used to inform the BCP format going forward.
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	The scope of works to undertake the reconciliations has been agreed.	Work due to be completed during Q2 2020/21.

Internal Audit Opinion

Internal Audit prepared an annual plan for 2019/20. There are elements of the planned fieldwork that remain ongoing primarily due to resource issues within the Shetland audit team, and also delays in obtaining some information from management. Some of the delays are related to the impact of COVID-19 but Internal Audit has also experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work. Key areas of work that remain ongoing from the 2019/20 audit plan include risk management, treasury management, and procurement.

Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory the concerns highlighted are reported in the Annual Governance Statement. Based on the 2019/20 fieldwork completed to date, there is one area that Internal Audit has concluded falls into that category: arrangements for EU Funding compliance, as outlined above.

The impact of COVID-19 in March 2020 was a significant event, impacting normal business operations and risk assessments. As a result of the changes to the working arrangements arising from the pandemic response, in March 2020 many of the expected systems and controls will have been subject to change. The Internal Audit opinion expressed in this report therefore applies only to the period before the emergency service delivery arrangements were put in place. The 2020/21 Internal Audit plan is being reviewed in order to incorporate assurance work relating to COVID-19.

Based on the audit work undertaken, the assurances provided by senior management, and excluding the significant issues noted above, it is the Chief Internal Auditor's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20 in the council for the period before the change to service delivery models in March 2020.

External Audit – Wider Scope actions

As part of the 2018/19 audit process, the Audit Committee received an interim external audit report in June 2019, which 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 contained several recommendations for improvement across all four areas and the Council has been working to address the recommendations throughout 2019/20. The audit action plan summarises each recommendation and the actions the Council will take in response to the auditor's recommendations.

The interim 2018/19 audit report, and associated audit action plan, can be found <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24177>.

As part of the current year's audit process, external auditors will consider the progress the Council has made during the 2019/20 financial year. However, auditors will not be able to present an interim report before August 2020 due to the COVID-19 pandemic. Instead, auditors will present an update on progress against the audit action plan as part of their final audit report, which is expected to be presented to Audit Committee in September 2020.

The Council along with the other 4 duty holders under the Community Empowerment Act 2015, Section 10 are continuing to address as a high priority, the omission of a specific Locality Plan for Shetland with a focus on Shetland's Islands with Small Populations. This will add to the locality planning work already undertaken to reduce inequalities and improve outcomes. The work, which was due for completion in June 2020, has been delayed to September/October 2020 as the consultation events with island communities were halted due to COVID-19.

The Council is committed to take steps to address any new or outstanding matters to further enhance our governance arrangements. We will continue to monitor the effectiveness of the governance arrangements and will take on board any new recommendations into account as part of our next annual review.

COVID-19

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

delivered across the Isles.

The Corporate Management Team, chaired by the Chief Executive, initially met daily to facilitate and monitor the Council's strategic response, with a particular focus on:

- Workforce planning and the safety and well being of Council employees and contractors;
- Maintaining delivery of business-critical services;
- Implementing the Caring for People strategy
- Delivering national financial support schemes on behalf of the Scottish Government; and
- Implementing business continuity plans and improving digital resilience, enabling extensive remote working arrangements.

The majority of Council staff began working flexibly and remotely from late March, as restrictions were imposed by the UK Government and Scottish Government.

From late May 2020, the Corporate Management Team have met twice a week, as the Council's approach began to focus on planning and implementing renewal and recovery efforts.

The Corporate Management Team is supported by a Tactical Team, which is chaired by the Executive Manager - Governance and Law. Initially the tactical team also met daily, before scaling back meetings to coincide with the same frequency of meetings as the Corporate Management Team.

In addition, the Chief Executive participates as a member of the Shetland Emergency Planning Forum and attends the Highlands and Islands Resilience Partnership, which was activated in response to the pandemic. Participation in both multi-agency fora

helps to ensure a holistic, Shetland-wide approach is taken to the response and, in time, the recovery to the pandemic.

On 22 April, recommendations were made to a virtual meeting of the Full Council including reports that would ordinarily be presented to a number of the Council's committees. This adjustment to the Council's decision-making structure was introduced as a temporary measure to help staff adhere to the UK and Scottish Government guidelines on social and physical distancing. The recommendations, which were approved by Members, included:

- the cancellation of all Council and committee meetings;
- adoption of a common reporting format to summarise the decisions taken, under existing emergency powers that grant delegated authority to officers; and
- measures to allow remote attendance at Council and Community Council meetings.

The temporary arrangements are kept under active review and may be extended or revoked as circumstances permit.

Conclusion

Overall, it is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and internal controls that operate across Shetland Islands Council throughout 2019/20, including the last 2 weeks of March 2020 as restrictions came into force. We consider that the arrangements and internal control environment allow us to identify any significant risks which may impact on the achievement of our principal objectives, and to take action, or actions, to avoid or mitigate the impact of any such risks.

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Steven Coutts
Leader of the Council
15 July 2020

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Maggie Sandison
Chief Executive
15 July 2020

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.

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 2019/20 the level of remuneration (including expenses) for the Leader, S Coutts, was £40.3k (£38.8k in 2018/19), and £38.6k for the Convener, M Bell (£34.9k in 2018/19).

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 £177k in 2019/20 (£172k in 2018/19).

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; and
- Chair of Shetland College Board.

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2019/20 was £175k (£168k in 2018/19).

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:

https://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 is reimbursed by the Joint Board for additional remuneration paid in respect of this role.

Remuneration of Senior Employees

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

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee (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 2019/20.

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

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

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

In order to ensure that recruitment of senior employees is properly managed, a protocol for chief

officer appointments is in place. The protocol applies to appointments to the chief officer posts of Chief Executive and Director. The protocol is designed to ensure that:

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

Allowances

Senior employees are entitled to claim mileage costs paid at rates 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 2019/20 and 2018/19.

Number of Employees							
Total at 31 March 2019	Remuneration Bands	Children's Services	Infrastructure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2020
73	£50,000 - £54,999	38	28	3	6	5	80
35	£55,000 - £59,999	22	28	1	1	0	52
22	£60,000 - £64,999	12	14	2	4	3	35
12	£65,000 - £69,999	8	11	0	0	0	19
5	£70,000 - £74,999	5	4	0	0	0	9
5	£75,000 - £79,999	1	3	1	0	1	6
2	£80,000 - £84,999	0	4	1	0	1	6
4	£85,000 - £89,999	1	2	0	0	0	3
1	£90,000 - £94,999	1	0	0	1	1	3
2	£105,000 - £109,999	0	2	0	0	0	2
0	£115,000 - £119,999	0	0	0	0	1	1
3	£120,000 - £124,999	0	3	0	0	0	3
1	£125,000 - £129,999	0	1	0	0	0	1
1	£130,000 - £134,999	0	1	0	0	0	1
0	£135,000 - £139,999	0	0	0	0	0	0
0	£140,000 - £144,999	0	0	0	0	0	0
0	£145,000 - £149,999	0	0	0	0	0	0
166	Total	88	101	8	12	12	221

Of the 88 staff (50 in 2018/19) in Children's Services noted above, 27 were head teachers or senior teaching staff (21 in 2018/19).

Of the 101 staff (94 in 2018/19) in Infrastructure Services noted above, 93 worked in Ports and Harbours Operations or Ferry Operations (85 in 2018/19).

Summary of Remuneration paid to Councillors

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

	2018/19 £000	2019/20 £000
Salaries	374	379
Expenses	58	59
Allowances	30	34
Total	462	472

The annual return of Councillors' salaries and expenses for 2019/20 is available for any member of the public to view on the Council's website at <http://www.shetland.gov.uk/>.

Summary of Remuneration paid to Employees

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

	2018/19 £000	2019/20 £000
Salaries	72,704	76,417
Overtime	3,254	3,438
Expenses	1,830	1,387
Allowances	857	943
Total	78,645	82,185

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

Exit Packages

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

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

The total cost for 2019/20 of £112k (£404k in 2018/19) in the table includes £52k (£296k in 2018/19) 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 £60k (£105k in 2018/19) for the capitalised cost of compensatory added years, agreed in 2019/20, that will be charged to the CIES in future years.

Exit package cost band (including special payments)	(a)		(b)		(a+b)			
	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19 £000	2019/20 £000
£0 - £19,999	2	0	1	0	3	0	5	0
£20,000 - £39,999	0	0	0	1	0	1	0	34
£40,000 - £59,999	0	0	1	0	1	0	41	0
£60,000 - £79,999	0	0	0	1	0	1	0	78
£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 - £199,999	0	0	2	0	2	0	358	0
Total	2	0	4	2	6	2	404	112

The table above details the number and cost of exit packages awarded in 2019/20 and 2018/19. Included in the cost of the exit packages are:

- Any termination payment, such as a redundancy payment;
- Strain on the fund cost (the amount payable by the Council to the pension fund because the employee has retired before the assumed retirement age);
- Any enhanced payments, such as compensatory added years; and
- A capitalised value of the recurring compensatory added years' payment. This is paid annually by the Council once an employee has left and is therefore a notional capitalised cost is confirmed at 31 March 2020.

Disclosure of Remuneration for Senior Councillors

2018/19	Name of Councillor	Designation	2019/20		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
21,348	M Bell	Convener	21,840	138	21,978
27,238	S Coutts	Leader of the Council	29,119	120	29,239
19,804	A Duncan	Chair - Audit Committee	20,180	120	20,300
19,821	A Cooper	Chair - Development Committee	20,237	151	20,388
19,804	G Smith	Chair - Education & Families Committee	20,237	120	20,357
19,805	R Thomson	Chair - Environment & Transport Committee	20,237	120	20,357
18,662	A Manson	Chair - Harbour Board	19,189	0	19,189
18,811	I Scott	Chair - Licensing Committee	19,189	120	19,309
17,366	T Smith (c) (d)	Chair - Planning Committee	17,470	393	17,863
0	E Macdonald	Chair - Planning Committee	18,917	202	19,119
18,786	P Campbell	Chair - Shetland College Board	19,189	120	19,309

Notes:

- a) Taxable expenses include telephone line rental / broadband costs;
- b) Councillors are only paid one special responsibility allowance, irrespective of how many Chair/Vice Chair positions they hold;
- c) T Smith held the position of Chair of Planning Committee to 11 June 2019;
- 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;
- e) E Macdonald was appointed Chair of Planning Committee from 12 June 2019;
- f) The Chair of the Integration Joint Board has been held by a person not employed by Shetland Islands Council from 8 May 2017 to 31 March 2020.

Remuneration of Senior Employees of the Council

2018/19	Name of Senior Employee	Designation	2019/20		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
106,280	M Sandison	Chief Executive	109,475	0	109,475
88,860	H Budge	Director - Children's Services	91,533	0	91,533
0	J Robinson (c)	Director - Community Health & Social Care	71,360	0	71,360
89,280	C Ferguson	Director - Corporate Services	91,533	280	91,813
88,860	N Grant	Director - Development Services	91,533	0	91,533
82,180	J Smith (d)	Director - Infrastructure Services	89,156	0	89,156
71,491	M Nicolson (e)	Executive Manager - Children & Families (Chief Social Work Officer)	41,910	0	41,910
38,331	D Morgan (f)	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	80,431	0	80,431
38,963	J Manson (g)	Executive Manager - Finance (Section 95 Officer)	78,485	0	78,485
79,022	J Riise	Executive Manager - Governance & Law (Monitoring Officer)	81,361	0	81,361

Notes:

- Remuneration includes ad-hoc elements that are part of the normal duties of the post, i.e. call-out and stand-by allowances;
- Taxable expenses include taxable mileage and / or expenses outwith HMRC's dispensation;
- The post of Director of Community Health & Social Care was held by S Bokor-Ingram until 12 May 2019. The post was then held on an Interim basis by Jo Robinson from 13 May 2019 to 31 January 2020. S Bokor-Ingram returned to the post on 1 February 2020 until 17 April 2020 when he was seconded. The total remuneration for 2019/20 for Jo Robinson includes a period of handover from 1 February 2020 until 31 March 2020. The full-time equivalent remuneration for the post of Director of Community Health & Social Care in 2019/20 was £80,639. For the Director of Community Health & Social Care post, 50% of the cost for S Bokor-Ingram who is employed by NHS Shetland is funded by the Council, and 50% of the cost for J Robinson who is employed by the Council is funded by NHS Shetland. In 2019/20 the Council paid £14k (£60k for 2018/19) to NHS Shetland in respect of S Bokor-Ingram's post, and recharged £48k to NHS Shetland in respect of J Robinson's post. The remuneration of both employees is disclosed in the Remuneration Report of the Integration Joint Board;
- The Director of Infrastructure 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;
- M Nicolson held the post of Executive Manager – Children & Families (Chief Social Work Officer) until 17 July 2019. The full-time equivalent remuneration for this post in 2019/20 was £73,603. M Nicolson's remuneration includes a payment of £16,927 in respect of Payment in Lieu of Notice;
- D Morgan, Executive Manager – Criminal Justice was appointed as acting Chief Social Work Officer on 9 October 2018. The full-time equivalent remuneration for this post in 2018/19 was £69,830; and
- J Manson was appointed to the post of Executive Manager - Finance (Section 95 Officer) on 24 September 2018. The full-time equivalent remuneration for this post in 2018/19 was £75,249.

Pension Benefits – Senior Councillors

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

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
		31 March 2019 £000	31 March 2020 £000	As at 31 March 2020		Difference from 31 March 2019	
				Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	4	5	3	0	0	0
S Coutts (a)	Leader of the Council	6	6	3	0	1	0
A Duncan	Chair - Audit Committee	4	4	2	0	1	0
A Cooper	Chair - Development Committee	4	4	1	0	0	0
G Smith	Chair - Education & Families Committee	4	4	3	0	0	0
R Thomson (d)	Chair - Environment & Transport Committee	3	4	1	0	1	0
A Manson	Chair - Harbour Board	4	4	3	0	0	0
I Scott	Chair - Licensing Committee	4	4	1	0	0	0
T Smith (c)	Chair - Planning Committee	4	4	1	0	0	0
E Macdonald (d)	Chair - Planning Committee	0	4	1	0	1	0
P Campbell	Chair - Shetland College Board	4	4	4	0	1	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) R Thomson, Chair of the Environment & Transport Committee became a member of the pension scheme with effect from 1 July 2018;
- c) T Smith held the position of Chair of Planning Committee to 11 June 2019; and
- d) E Macdonald was appointed Chair of the Planning Committee from 12 June 2019.

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
		31 March 2019 £000	31 March 2020 £000	As at 31 March 2020		Difference from 31 March 2019	
				Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Sandison	Chief Executive	22	23	40	56	3	1
H Budge	Director - Children's Services	15	19	32	95	2	6
J Robinson (a)	Director - Community Health & Social Care	0	16	25	33	25	33
C Ferguson	Director - Corporate Services	18	19	52	101	3	3
N Grant	Director - Development Services	18	19	26	22	3	1
J Smith (b)	Director - Infrastructure Services	17	19	34	51	4	4
J Manson (c)	Executive Manager - Finance	8	16	2	0	1	0
M Nicolson (d)	Executive Manager - Children & Families	15	5	26	38	1	1
D Morgan (e)	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	15	17	35	61	5	6
J Riise (f)	Executive Manager - Governance & Law	16	17	41	72	3	3

Notes:

- J Robinson pension figures for 2019/20 are reported jointly for the post of Executive Manager Allied Health Professionals and Director of Community Health & Social Care. The remuneration costs of the Director of Community Health & Social Care are funded 50% by the Council and 50% by NHS Shetland. The associated pension benefits for J Robinson are administered by the Council, and for S Bokor-Ingram are administered by NHS Shetland and disclosed in the Remuneration Report of the Integration Joint Board;
- J Smith figures for 2018/19 are reported jointly for the post of Acting Executive Manager Ports & Harbours and Director of Infrastructure Services;
- J Manson figures for 2018/19 are reported from the commencement date of 24 September 2018.
- M Nicolson figures for 2019/20 are reported up to the leave date of 17 July 2019;
- D Morgan figures for 2018/19 are reported for the post of Executive Manager Criminal Justice, and for Acting Chief Social Work Officer from commencement date of 9 October 2018; and
- 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 £2k and lump sum of £3k at 31 March 2020. In 2018/19, the comparative figures were £1.7k and £2.5k respectively.

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), apart from teachers, whose pension benefits are provided through the Scottish Teachers Pension Scheme (STPS). 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:	2018/1 %	Tiered contribution rates on whole time pay are as follows:	2019/2 %
On earnings up to and including £21,300	5.50	On earnings up to and including £21,800	5.50
On earnings above £21,300 and up to £26,100	7.25	On earnings above £21,801 and up to £26,700	7.25
On earnings above £26,100 and up to £35,700	8.50	On earnings above £26,701 and up to £36,600	8.50
On earnings above £35,700 and up to £47,600	9.50	On earnings above £36,601 and up to £48,800	9.50
On earnings above £47,600	12.00	On earnings above £48,801	12.00

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

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

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

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

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

Trade Union Facility Time Report 2019/20

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

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

Facility Time Publication Requirements 2019/20	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	13	8
Full-time equivalent employee number	11.64	7.5
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%	8	3
1-50%	5	5
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)	12	34
Total pay bill (B)	103,620	22,395
Percentage of the total pay bill spent on facility time (A ÷ B)	0.01%	0.15%
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	45.4%	5.11%

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Steven Coutts
Leader of the Council
15 July 2020

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Maggie Sandison
Chief Executive
15 July 2020

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 15 July 2020.

Signed on behalf of Shetland Islands Council.

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Steven Coutts
Leader of the Council
15 July 2020

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; 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 Council at the reporting date and the transactions of the Council for the year ended 31 March 2020.

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Jamie Manson CPFA
Executive Manager - Finance
15 July 2020

Comprehensive Income and Expenditure Statement for year ended 31 March 2020

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.

2018/19 Gross Expenditure £000	2018/19 Gross Income £000	2018/19 Net Expenditure £000		Notes	2019/20 Gross Expenditure £000	2019/20 Gross Income £000	2019/20 Net Expenditure £000
4,956	(689)	4,267	Chief Executive and Cost of Democracy		2,302	(110)	2,192
54,392	(6,933)	47,459	Children's Services		54,624	(7,670)	46,954
53,912	(29,378)	24,534	Community Care Services		55,480	(30,539)	24,941
14,975	(3,689)	11,286	Corporate Services		15,988	(5,704)	10,284
28,215	(6,750)	21,465	Development Services		24,911	(6,619)	18,292
36,773	(11,828)	24,945	Infrastructure Services		42,236	(12,768)	29,468
5,554	(6,965)	(1,411)	Housing Revenue Account		5,925	(7,116)	(1,191)
19,868	(30,237)	(10,369)	Harbour Account		21,478	(35,328)	(13,850)
218,645	(96,469)	122,176	Net Cost of Services		222,944	(105,854)	117,090
4,859	0	4,859	Other operating income and expenditure	8	2,201	0	2,201
10,289	(135,358)	(125,069)	Financing and investment income and expenditure	9	59,723	(33,339)	26,384
0	(96,413)	(96,413)	Taxation and non-specific grant income	11	0	(101,110)	(101,110)
233,793	(328,240)	(94,447)	Deficit/(Surplus) on Provision of Services		284,868	(240,303)	44,565
			<i>Items that will not be reclassified to the (surplus) or deficit on the provision of services</i>				
		(23,701)	Surplus on revaluation of non-current assets			12	(20,423)
		28,975	Remeasurement of the net defined benefit liability			12	(54,598)
		5,274	Other Comprehensive Income and Expenditure				(75,021)
		(89,173)	Total Comprehensive Income and Expenditure				(30,456)

Movement in Reserves Statement

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

2019/20	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 2019	(175,261)	(17,425)	(69,711)	(106,770)	(369,167)	(164,131)	(533,298)
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	46,537	(1,972)	0	0	44,565	(75,021)	(30,456)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(20,301)	1,160	14,710	0	(4,431)	4,431	0
Net (Increase)/Decrease before transfers	26,236	(812)	14,710	0	40,134	(70,590)	(30,456)
Net Transfers to/(from) Other Statutory Reserves	11,766	0	(8,268)	(3,334)	164	(164)	0
(Increase)/Decrease in year	38,002	(812)	6,442	(3,334)	40,298	(70,754)	(30,456)
Balance at 31 March 2020	(137,259)	(18,237)	(63,269)	(110,104)	(328,869)	(234,885)	(563,754)

Comparative movements in 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 2019	(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	(26,929)	(321)	3,579	0	(23,671)	23,671	0
Net (Increase)/Decrease before transfers	(13,143)	(90)	3,579	-	(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 2020	(175,261)	(17,425)	(69,711)	(106,770)	(369,167)	(164,131)	(533,298)

Balance Sheet as at 31 March 2020

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

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

As at 31 March 2019 £000		Notes	As at 31 March 2020 £000
438,842	Property, Plant and Equipment	13	471,404
0	Investment Property	14	2,135
4,839	Heritage Assets	15	4,825
33,508	Intangible Assets	16	30,887
357,778	Long-term Investments (including investment in Subsidiary)	18	331,347
1,731	Long-term Debtors	22	1,405
836,698	Long-Term Assets		842,003
205	Assets held for Sale	21	260
4,998	Inventories	25	5,116
15,829	Short-term Debtors	23	16,696
7,753	Cash and Cash equivalents	20	5,430
28,785	Current Assets		27,502
(20,407)	Short-term Creditors	24	(19,127)
0	Intercompany Loan	24	(15,412)
(3,769)	Short-term Provisions	26	(469)
(48)	Grant Receipts in Advance - Revenue	11	0
(24,224)	Current Liabilities		(35,008)
(49,164)	Long-term Borrowing	18	(49,130)
(209,906)	Pension Liability	28	(173,283)
(203)	Long-term Provisions	26	(5,370)
(43,098)	PFI and Similar Contracts	17	(41,811)
(5,590)	Other Long-term Liabilities	18	(1,149)
(307,961)	Long-Term Liabilities		(270,743)
533,298	Net Assets		563,754
(369,167)	Usable Reserves	7	(328,869)
(164,131)	Unusable Reserves	12	(234,885)
(533,298)	Total Reserves		(563,754)

The unaudited financial statements were issued on 15 July 2020.

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 Jamie Manson CPFA
 Executive Manager - Finance
 15 July 2020

Cash Flow Statement for year ended 31 March 2020

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

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

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

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

2018/19 £000		2019/20 £000
	Operating activities	
(94,447)	Net deficit (surplus) on the provision of services	44,565
62,242	Adjustment to net surplus or deficit on the provision of services for non-cash movements	(36,031)
7,171	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	10,664
(25,034)	Net cash flows from Operating Activities	19,198
27,984	Investing activities	(18,195)
(6,701)	Financing activities	1,320
(3,751)	Net increase in cash and cash equivalents	2,323
4,002	Opening Cash and Cash Equivalents	7,753
3,751	Net movement of Cash and Cash Equivalents during the year	(2,323)
7,753	Closing Cash & Cash Equivalents	5,430

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

2018/19 £000		2019/20 £000
(2,262)	Interest received	(1,823)
5,481	Interest paid	5,223
(4,585)	Dividends received	(4,201)
(1,366)	Total	(801)

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

2018/19 £000		2019/20 £000
(18,243)	Depreciation, impairment and revaluations	(18,573)
(1,515)	Amortisation	(1,767)
(190)	Increase in impairment for bad debts	(166)
(1,489)	Decrease in creditors	5,802
(945)	Increase in debtors	433
294	Decrease in inventories	118
(15,760)	Movement in pension liability	(17,975)
(5,642)	Carrying amount of non-current assets sold or de-recognised	(2,735)
105,732	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,168)
62,242	Total	(36,031)

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

2018/19 £000		2019/20 £000
783	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	534
6,388	Any other items for which the cash effects are investing or financing cash flows	10,130
7,171	Total	10,664

Investing Activities

2018/19 £000		2019/20 £000
23,156	Purchase of property, plant and equipment, investment property and intangible assets	19,666
12,546	Purchase of short-term and long-term investments	(26,438)
(783)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(534)
(547)	Proceeds from short-term and long-term investments	(759)
(6,388)	Other receipts from investing activities	(10,130)
27,984	Total	(18,195)

Financing Activities

2018/19 £000		2019/20 £000
(7,999)	Cash receipts of short and long-term borrowing	0
1,270	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,282
28	Repayments of short and long-term borrowing	38
(6,701)	Total	1,320

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

2018/19 £000		2019/20 £000
	Expenditure	
2,701	Repairs and maintenance	2,976
788	Supervision and management	951
1,707	Depreciation and impairment of non-current assets	1,722
24	Movement in the allowance for bad debts	39
261	Other expenditure	235
5,481	Total expenditure	5,923
	Income	
(6,694)	Dwelling rents	(6,865)
(222)	Non-Dwelling rents	(222)
(41)	Other Income	(27)
(6,957)	Total income	(7,114)
(1,476)	Net income of HRA services as included in the CIES	(1,191)
65	HRA services' share of Corporate and Democratic Core	9
(1,411)	Net Income of HRA Services	(1,182)
	HRA share of operating income and expenditure included in the CIES	
0	Taxation and non-specific grant income	0
2,786	(Gain) or Loss on sale of HRA non-current assets	975
515	Interest payable and similar charges	476
(1,733)	Interest and investment income	(2,328)
74	Pension interest cost and expected return on pension assets	87
1,642	Net HRA share of operating expenditure	(790)
231	(Surplus) / Deficit for the year on HRA services	(1,972)

Movement on the Housing Revenue Account Statement

2018/19 £000		2019/20 £000
(17,335)	Opening balance on the HRA	(17,425)
231	(Surplus) / Deficit on the HRA Income and Expenditure Statement	(1,972)
(321)	Adjustment between accounting basis and funding basis under statute	1,160
(90)	Increase in year on the HRA	(812)
0	Transfers to reserves	0
(17,425)	Closing balance on the HRA	(18,237)

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

Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2018/19 Number	Housing Stock	2019/20 Number
76	1 Apartment	75
412	2 Apartment	412
523	3 Apartment	523
611	4 Apartment	612
34	5 Apartment	33
1	6 Apartment	1
2	8 Apartment	2
1,659	Total	1,658

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. The trend shown below is a large increase in the amount of arrears per property £85k increase 2019/20 (£3k 2018/19).

2018/19 £000		2019/20 £000
235	Total value of rent arrears	320

2018/19		2019/20
514	Number of properties in arrears	514
31.0%	Properties in arrears as share of total stock	31.0%
£457	Average amount per property in arrears	£623

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The value of debt written off in 2019/20 was £48k. The bad and doubtful debt provision included within the Council's accounts at 31 March 2020 is £45k.

Void Rents

The following table summarises the income lost due to voids in 2019/20. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2018/19 £000		2019/20 £000
101	General needs void rents and charges	96
41	Sheltered housing void rents and charges	34
142	Total	130

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

2018/19 £000		2019/20 £000
(11,473)	Gross Council Tax levied and contributions in lieu	(11,898)
651	Council Tax Reduction Scheme	676
1,393	Other discounts and reductions	1,469
26	Write-offs of uncollectable debts	49
31	Adjustment to previous years' Community Charge and Council Tax	61
(9,372)	Transfer to General Fund	(9,643)

Council Tax Base

The table below shows the Council Tax base used to set the 2019/20 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.

2019/20	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2019/20 Band D equivalents	2018/19 Band D equivalents
Band A*			8	(1)	(2)	5	0.56	3	4
Band A	2,958	(134)	4	(464)	(286)	2,079	0.67	1,386	1,399
Band B	1,821	(74)	9	(237)	(166)	1,354	0.78	1,053	1,065
Band C	2,827	(95)	11	(328)	(214)	2,201	0.89	1,957	1,949
Band D	1,843	(48)	5	(148)	(53)	1,600	1.00	1,600	1,606
Band E	1,422	(22)	1	(66)	(12)	1,323	1.31	1,733	1,708
Band F	291	(3)	1	(10)	(1)	279	1.63	454	437
Band G	67	(6)	0	(2)	(1)	58	1.96	114	108
Band H	2	(1)	0	0	0	1	2.45	2	0
Sub-total								8,302	8,276
Less Bad Debt provision								(58)	(58)
Council Tax Base								8,244	8,218

* 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

2018/19 £000		2019/20 £000
30,740	Gross rates levied and contributions in lieu	31,247
(4,607)	Reliefs and other deductions	(4,752)
(47)	Write-offs of uncollectable debts	(77)
26,086	Net non-domestic rate income	26,418
(465)	Adjustment to previous years' national non-domestic rates	(385)
25,621	Contribution to non-domestic rate pool	26,033
(23,851)	Distribution from non-domestic rate pool	(25,925)
(23,851)	Transfer to Comprehensive Income & Expenditure Statement	(25,925)

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 2019/20 is 49.8p (48p in 2018/19).

From 1 April 2020, the Scottish Government introduced an additional Intermediate Property Rate of 1.3p for all subjects with a rateable value between £51,000 and £95,000, and an additional Higher Property Rate of 2.6p for all subjects with a rateable value above £95,000. This replaces the Large Business supplement of 2.6p which applied to properties with a rateable value above £51,000. This was further updated with a rates relief in [Local Government Finance Circular No. 6/2020](#).

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 2019	Number of Subjects	Rateable Value £000
Commercial	570	8,720
Industrial	492	37,425
Other	1,314	15,669
Total	2,376	61,814

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

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

2019/20	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,885	314	(1,007)	2,192
Children's Services	45,162	4,087	(2,295)	46,954
Community Care Services	20,290	4,630	21	24,941
Corporate Services	8,921	2,183	(820)	10,284
Development Services	15,357	3,018	(83)	18,292
Infrastructure Services	23,920	5,557	(9)	29,468
Housing Revenue Account	1,519	(1,161)	(1,549)	(1,191)
Harbour Account	(18,327)	5,756	(1,279)	(13,850)
Net Cost of Services	99,727	24,384	(7,021)	117,090
Other income and expenditure	(91,999)	(5,243)	24,717	(72,525)
(Surplus) or Deficit	7,728	19,141	17,696	44,565
Opening General Fund and HRA balance*		192,686		
Add (Surplus) / Deficit in the year		7,728		
Add other items not charged to the (Surplus) / Deficit		(44,918)		
Closing General Fund and HRA balance		155,496		

2018/19	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,597	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		

*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:

2019/20	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	33	281	0	314
Children's Services	1,470	2,576	41	4,087
Community Care Services	854	3,910	(134)	4,630
Corporate Services	1,101	1,093	(11)	2,183
Development Services	1,957	1,061	0	3,018
Infrastructure Services	3,043	2,586	(72)	5,557
Housing Revenue Account	(1,505)	327	17	(1,161)
Harbour Account	4,733	1,038	(15)	5,756
Net Cost of Services	11,686	12,872	(174)	24,384
Other income and expenditure	(10,346)	5,103	0	(5,243)
Total adjustments between accounting basis and funding basis	1,340	17,975	(174)	19,141

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

Capital Adjustments

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

Pensions Adjustments

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

Other Adjustments

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

Presentational Adjustments

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

Note 2: Accounting Standards Issued and Adopted in Year

The following accounting standards were new or amended in the 2019/20 Code:

- Amendments to IAS40 Investment Property: Transfers of Investment Property;
- Annual improvements to IFRS Standards 2014-2016 Cycle. IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard. IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation.

The Code required implementation in the financial statements from 1 April 2019. The amendments have not had any significant impact on the Council's financial statements.

Note 3: Accounting Standards Issued but not yet 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 2020/21 Code:

- Amendments to IAS28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;

- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

The Code requires implementation in the accounts from 1 April 2020 and there is therefore no impact on the 2019/20 financial statements. Amendments to IAS 28 and Annual Improvements to IFRS Standards 2015-2017 are expected to have no impact on the Council's financial statements. Application of the changes to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement which specifies how organisations determine current service cost and net interest for the remainder of an annual period when a plan amendment or curtailment occurs, is expected to have an impact only where the treatment is material.

As a result of COVID-19 CIPFA/LASAAC have deferred implementation of IFRS 16 Leases for local government to 1 April 2021.

Note 4: Material Items of Income and Expenditure

The CIES includes an actuarial gain on the pension liability of £54.6m (see Note 12: Unusable Reserves).

Note 5: 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 2020 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 28: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £64.5m; 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 £30.2m by an independent broker at 31 March 2020. In line with the Code and IFRS 13, the valuer determined the market valuation of the Council's holding with reference to the number of Fixed Quota Allocation (FQA) units held, offers made in the year in the active market, then adjusted for Council specific considerations. It is highly probable that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations, 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 2020, the Council had external investments with Fund Managers amounting to £314m. 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 £1.7m.
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 property, plant and equipment would increase by £2.8m for every year that useful lives were reduced.

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

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

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

General Fund

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

These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises those resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund Housing Revenue Account services.

Housing Revenue Account

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

Capital Usable Reserves

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

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

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

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

2019/20	Usable Reserves				Unusable Reserves £000
	General Fund	Housing Revenue Account	Capital Usable Reserves	Total Usable Reserves	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(16,878)	(1,695)	0	(18,573)	18,573
Charges for impairment of non-current assets	3,241	0	0	3,241	(3,241)
Amortisation of intangible assets	(1,741)	(26)	0	(1,767)	1,767
Capital grants and contributions applied	10,130	0	(84)	10,046	(10,046)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(1,522)	(1,213)	0	(2,735)	2,735
Capital repayment in respect of finance leases	812	0	0	812	(812)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,817	808	0	3,625	(3,625)
Capital expenditure charged against the General Fund and HRA balances	0	3,393	0	3,393	(3,393)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	0	0	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	13,831	13,831	(13,831)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	296	238	0	534	(534)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	963	963	(963)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(31,439)	(537)	0	(31,976)	31,976
Employer’s pensions contributions and direct payments to pensioners payable in the year	13,792	209	0	14,001	(14,001)
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	191	(17)	0	174	(174)
Total Adjustments	(20,301)	1,160	14,710	(4,431)	4,431

2018/19	Usable Reserves				Unusable Reserves £000
	General Fund	Housing Revenue Account	Capital Usable Reserves	Total Usable Reserves	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(16,161)	(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

Note 7: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2019/20.

	Balance at 31 March 2019 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2020 £000
General Fund Balance (unearmarked)	(24,843)	92,620	(99,894)	(32,117)
Unrealised Investment Gains (earmarked)	(110,988)	49,084	-	(61,904)
Equalisation Fund (unearmarked)	(18,619)	0	(2,488)	(21,107)
Revenue Spend to Save Fund	(1,866)	138	(249)	(1,977)
Council Tax Second Homes Receipts	(1,278)	0	(361)	(1,639)
Welfare Reform Fund	(241)	0	(32)	(273)
Hansel Funds	(155)	0	(55)	(210)
School Funds	(293)	0	0	(293)
Central Energy Efficiency Fund	(38)	18	0	(20)
Community Care Fund	(63)	63	-	-
Local Investment Fund	(16,877)	0	(842)	(17,719)
Total General Fund	(175,261)	141,923	(103,921)	(137,259)
Capital Fund	(69,711)	14,958	(8,516)	(63,269)
Repairs & Renewals Fund	(38,461)	6,332	(5,139)	(37,268)
Housing Revenue Account	(17,425)	3,487	(4,299)	(18,237)
Harbour Reserve Fund	(65,969)	31,805	(35,770)	(69,934)
Insurance Fund	(2,340)	0	(562)	(2,902)
Total Statutory Reserves	(193,906)	56,582	(54,286)	(191,610)
Total Usable Reserves	(369,167)	198,505	(158,207)	(328,869)

General Fund Reserves

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

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2020 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 2020. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the Council does not consider it prudent to use to fund services.

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

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

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

Welfare Reform Fund: to earmark income received from Government grants to fund initiatives relating to Welfare Reform and the introduction of Universal Credit.

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

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

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

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

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

Other Statutory Reserves

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

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

The **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 8: Other Operating Income and Expenditure

2018/19 £000		2019/20 £000
4,859	Losses on the disposal of non-current assets	2,201
4,859	Total	2,201

Note 9: Financing and Investment Income and Expenditure

2018/19 £000		2019/20 £000
5,596	Interest payable and similar charges	5,380
0	Income and expenditure in relation to Investment properties	(244)
0	Changes in fair value of Investment Properties	(135)
4,606	Pensions interest cost and expected return on pensions assets	5,190
(2,129)	Interest receivable and similar income	(1,823)
(4,384)	Other investment income	(4,099)
(17,523)	Realised gains in relation to available for sale financial assets	(26,867)
(110,988)	Unrealised gains in relation to available for sale	49,084
(247)	Income from transferred SDT financial instruments	(102)
(125,069)	Total	26,384

Note 10: Revenue from Contracts with Service Recipients

The Council has recognised £52m in 2019/20 (£46m in 2018/19) 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, 44% on average was within the standard 30 day payment terms.

Timing of Payment	Average %
Paid at point of use	1.87%
Paid in advance	13.24%
Paid in arrears	84.89%

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.

2019/20	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	(11)	(24)	(874)	(605)	(1,514)
Care home fees	0	0	0	0	(705)	(705)
Course Fees	(4)	0	0	0	(558)	(562)
Other Income	(28)	(243)	(73)	(3)	(4,475)	(4,822)
Sale of materials / equipment	0	0	0	0	(901)	(901)
Sale of Meals	(1)	0	0	0	(1,240)	(1,241)
Transport Income	(99)	(12)	0	(11)	(2,007)	(2,129)
Waste disposal	(1)	(383)	(5)	(226)	(1,096)	(1,711)
General Fund	(133)	(649)	(102)	(1,114)	(11,587)	(13,585)
Dues	0	0	0	0	(1,584)	(1,584)
Jetty and Spur Booms Income	0	0	0	0	(3,295)	(3,295)
Other Income	0	0	0	0	(684)	(684)
Tanker Income	0	0	0	0	(25,989)	(25,989)
Harbour Account	0	0	0	0	(31,552)	(31,552)
Rental Income	0	0	0	0	(7,089)	(7,089)
Other Income	0	0	0	0	(27)	(27)
Housing Revenue Account	0	0	0	0	(7,116)	(7,116)
Total	(133)	(649)	(102)	(1,114)	(50,255)	(52,253)

2018/19	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	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)

Note 11: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2019/20:

2018/19 £000		2019/20 £000
	Credited to Taxation and Non-Specific Grant Income	
(56,729)	Revenue Support Grant	(55,412)
(23,851)	Non-domestic Rates	(25,925)
(9,372)	Council Tax	(9,643)
(6,461)	Capital Grants and Contributions	(10,130)
0	Donated Assets	0
(96,413)	Total	(101,110)
	Credited to Services	
(5,000)	Support for Ferries	(5,200)
(3,299)	Scottish Government PFI Support	(3,301)
(3,137)	Housing Benefit funding	(3,186)
(2,615)	FE and HE funding	(2,490)
(2,092)	Rural Care Model	(1,986)
(519)	Expansion of early learning and childcare	(1,627)
(255)	Energy grants	(1,347)
0	Crown Estate	(1,009)
(885)	EU grants	(772)
(332)	NHS grants	(437)
(353)	Skills Development Scotland	(373)
(323)	Criminal Justice grant	(328)
(158)	Employability funding	(319)
(144)	Support for Lecturer's National Pay Bargaining	(278)
(233)	Educational attainment / Pupil equity funding	(243)
(185)	Active Schools funding	(180)
0	Town Centre Improvements	(170)
(96)	Education Maintenance Allowance funding	(108)
0	Northern Alliance	(98)
(145)	Training grants	(85)
(48)	Electric Vehicle funding	(81)
(76)	Youth Music funding	(75)
(49)	Empowering Communities	(74)
(140)	Other grants and contributions	(71)
0	Counselling in Schools	(63)
(90)	Department of Work and Pensions funding	(60)
0	Home and Belonging	(60)
(62)	Languages funding	(43)
(52)	Housing grants	(38)
(659)	Sports Development and Facilities funding	(26)
(211)	Transport grants	(11)
(83)	Grants for Economic Development	(2)
(159)	Household Recycling Charter	0
(21,400)	Total	(24,141)
(48)	Value of grants received in advance not recognised	0

Note 12: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2018/19 £000		2019/20 £000
(116,953)	Revaluation Reserve	(133,045)
209,906	Pensions Reserve	173,283
(259,781)	Capital Adjustment Account	(277,646)
2,697	Employee Statutory Adjustment Account	2,523
(164,131)	Total Unusable Reserves	(234,885)

Revaluation Reserve

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

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

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

2018/19 £000		2019/20 £000
(96,359)	Opening balance	(116,953)
(23,701)	Surplus on revaluation of non-current assets	(20,638)
	Amounts written off to the Capital Adjustment Account:	
2,603	Difference between fair value depreciation and historical cost depreciation	3,533
504	Assets sold or scrapped	798
0	Decommissioning obligation provision	215
(116,953)	Closing balance	(133,045)

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.

2018/19 £000		2019/20 £000
165,171	Opening balance	209,906
28,975	Actuarial (gains) and losses on pensions assets and liabilities	(54,598)
29,250	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	31,976
(13,490)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,001)
209,906	Closing balance	173,283

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.

2018/19 £000		2019/20 £000
2,379	Opening balance	2,697
(2,379)	Settlement or cancellation of accrual made at the end of the preceding year	(2,697)
2,697	Amounts accrued at the end of the current year	2,523
2,697	Closing balance	2,523

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.

2018/19 £000		2019/20 £000
(264,267)	Opening balance	(259,781)
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
18,243	Charges for depreciation of non-current assets	18,573
5,019	Charges for revaluation gains/losses of non-current assets	(3,241)
1,515	Amortisation of intangible assets	1,767
(105)	Repayment of capital on finance leases	(812)
(1,165)	Repayment of capital on PFI contract	(1,223)
374	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	2,735
(3,107)	Adjustment amounts written out of the Revaluation Reserve	(4,331)
	Capital financing applied in the year:	
(1,403)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,497)
(6,388)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(10,046)
0	Application of grants to capital financing from the Capital Grants Unapplied Account	(164)
(1,901)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,402)
(3,637)	Capital expenditure charged against the General Fund and HRA balances	(3,393)
(2,959)	Capital Fund Reserve	(13,831)
(259,781)	Closing balance	(277,646)

Note 13: Property, Plant and Equipment

Movements in 2019/20	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
Cost or Valuation									
Opening Balance at 1 April 2019	68,548	216,556	67,308	170,929	7,478	151	2,403	533,373	46,000
Additions	3,535	15,962	4,193	1,564	0	8	7,602	32,864	23
Revaluation increases recognised in the Revaluation Reserve	(1,747)	15,819	275	0	0	(1,972)	0	12,375	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4)	1,882	0	0	0	(553)	0	1,325	0
Derecognition – disposals	(25)	(5,192)	(987)	0	(3)	(40)	0	(6,247)	0
Derecognition – other	(1,123)	(202)	(113)	0	0	0	0	(1,438)	0
Assets reclassified (to) / from Assets Held for Sale	0	(230)	0	0	0	121	0	(109)	0
Other movements in cost or valuation	(46)	(1,871)	(119)	0	0	8,567	(6,680)	(149)	0
Closing Balance at 31 March 2020	69,138	242,724	70,557	172,493	7,475	6,282	3,325	571,994	46,023
Depreciation and Impairment									
Opening Balance at 1 April 2019	0	(11,766)	(25,385)	(57,349)	0	(31)	0	(94,531)	(1,914)
Depreciation charge	(1,599)	(7,115)	(5,457)	(4,381)	0	(6)	0	(18,558)	(1,285)
Depreciation written out to the Revaluation Reserve	569	7,302	0	0	0	1,307	0	9,178	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	1,849	0	0	0	66	0	1,915	0
Derecognition – disposals	1	374	935	0	0	10	0	1,320	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	1	1,365	86	0	0	(1,366)	0	86	0
Closing Balance at 31 March 2020	(1,028)	(7,991)	(29,821)	(61,730)	0	(20)	0	(100,590)	(3,199)
Net Book Value as at 31 March 2020	68,110	234,733	40,736	110,763	7,475	6,262	3,325	471,404	42,824
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

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
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
Acquisition of Subsidiary	0	0	0	0	0	0	0	0	0
Additions	3,482	1,648	13,934	1,631	0	0	2,456	23,151	181
Revaluation increases recognised in the Revaluation Reserve	5,473	4,663	11	0	0	0	0	10,147	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	89	(1,365)	(621)	0	0	0	0	(1,897)	0
Derecognition – disposals	(48)	(117)	(1,404)	0	(4)	0	0	(1,573)	0
Derecognition – other	(2,756)	(1,225)	(1,038)	0	0	0	0	(5,019)	(181)
Assets reclassified (to) / from Assets Held for Sale	39	0	0	0	0	(51)	0	(12)	0
Other movements in cost or valuation	0	5,678	81	0	0	(45)	(5,714)	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
Depreciation and Impairment									
Opening Balance at 1 April 2018	(1,965)	(8,210)	(22,292)	(53,030)	0	(27)	0	(85,524)	(630)
Depreciation charge	(2,002)	(7,258)	(4,636)	(4,319)	0	(14)	0	(18,229)	(1,284)
Depreciation written out to the Revaluation Reserve	3,652	2,100	0	0	0	4	0	5,756	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	312	1,597	233	0	0	2	0	2,144	0
Derecognition – disposals	3	9	1,310	0	0	0	0	1,322	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or	0	(4)	0	0	0	4	0	0	0
Closing Balance at 31 March 2019	0	(11,766)	(25,385)	(57,349)	0	(31)	0	(94,531)	(1,914)
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
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

Capital Commitments

At 31 March 2020 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 £8.8m. Similar commitments at 31 March 2019 were £8.2m. Major projects are detailed in the table below.

Major commitments at 31 March	£m
Terminal Life Extension	3.216
Toft Pier	1.175
North Isles Fibre	1.215
Lerwick Library Refurbishment	1.130

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

- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoing 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;
- that there are no outstanding statutory notices affecting any of the properties;
- that no account has been made of any debt liability held against the property valued;
- that no structural surveys of the properties have been made nor have the service installations been tested;
- that the value of plant and machinery has not been included in the valuation except to the extent that it forms part of the building services installations; and
- the valuations are exclusive of VAT and any other tax, which may arise on disposal.

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

Category of Asset	Useful Life	Average Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2019
Other Land and Buildings (including PFI Assets)	1-105 years	27 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Valued on 5-year rolling programme
Vehicles, Furniture, Plant & Equipment	1-40 years	7 years	Operational Manager	Existing Use Value	31 March 2016
Infrastructure Assets	5-60 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	1-40 years	21 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 14: Investment Properties

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

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

2018/19 £000		2019/20 £000
0	Rental income from investment property	(313)
0	Direct operating expenses arising from investment property	69
0	Net gain/(loss)	(244)

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

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

2018/19 £000		2019/20 £000
0	Opening balance at 1 April	0
0	Additions	2,000
0	Net gains/(losses) from fair value adjustments	135
0	Closing balance at 31 March	2,135

Fair Value Hierarchy

Detail of the Council's investment properties and information about the fair value hierarchy as at 31 March 2020 are as follows:

Recurring fair value measurements using:	Other Significant observable inputs (Level 3)	
	2018/19 £000	2019/20 £000
Commercial Units	0	2,135
Total	0	2,135

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

The fair value of the Council's investment property is measured annually at 31st March based on rental incomes. The rental incomes relate to commercial properties which are bound into lease agreements and

index linked, not driven by market forces at review. The industry sector using this property is stable providing logistics and downstream services to the oil, gas, exploration, fishing and aquaculture sectors. Therefore the Council's investment property are categorised as Level 3 in the fair value hierarchy as the level of unobservable inputs are significant.

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

Note 15: Heritage Assets

Net Value	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2019	1,557	3,282	4,839
Depreciation	(14)	0	(14)
Closing Balance at 31 March 2020	1,543	3,282	4,825

2018/19	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

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 16: Intangible Assets

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

A fishing quota is the right to fish species over a defined period, usually one year. 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 2020 is £30.2m (£32.7m in 2018/19). 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 £14.7m.

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 part-disposals in 2019/20 (£0m in 2018/19). The market value as at 31 March 2020 was £0.1m (£0.1m in 2018/19). 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 £1.8m was charged directly to the Net Cost of Services in the CIES for 2019/20 (£1.5m in 2018/19).

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

As at 31 March 2019 £000		As at 31 March 2020 £000
29,495	Cost or Valuation	
	Opening Balance	35,571
71	Additions	0
6,414	Revaluation increases recognised in the Revaluation Reserve	(2,555)
0	Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0
(409)	Derecognition - disposals	(252)
0	Derecognition - other	0
0	Assets reclassified (to)/from Assets Held for Sale	0
0	Other movements in cost or valuation	150
35,571	Closing Balance	32,914
	Depreciation and Impairment	
(2,335)	Opening Balance	(2,063)
(1,515)	Amortisation charge	(1,767)
1,386	Amortisation written out to the Revaluation Reserve	1,637
0	Amortisation written out to the Surplus/Deficit on the Provision of Services	0
401	Derecognition - disposals	252
0	Derecognition - other	0
0	Other movements in depreciation or impairment	(86)
(2,063)	Closing Balance	(2,027)
33,508	Net Book Value	30,887

Note 17: Private Finance Initiatives and Similar Contracts

Anderson High School contract

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

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

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

Property, Plant and Equipment

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

Payments

The Council makes an agreed payment each year, which is adjusted each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contract at 31 March 2020 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Contingent Rent	Total £000
Payable in 2020/21	264	1,287	2,171	74	3,796
Payable within 2 to 5 years	1,600	5,449	8,009	324	15,382
Payable within 6 to 10 years	3,287	7,722	8,356	350	19,715
Payable within 11 to 15 years	3,503	10,112	6,094	582	20,291
Payable within 16 to 20 years	6,466	11,390	3,401	(295)	20,962
Payable within 21 to 25 years	2,682	7,138	474	199	10,493
Total	17,802	43,098	28,505	1,234	90,639

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:

	2018/19 £000	2019/20 £000
Opening balance	45,486	44,321
Capital payments incurred in the year	(1,165)	(1,223)
Closing balance	44,321	43,098

Note 18: Financial Instruments

Categories of Financial Instruments

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

Financial Assets	Investments				Debtors				As at 31 March 2020
	As at 31 March 2019		As at 31 March 2020		As at 31 March 2019		As at 31 March 2020		
	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Total £000
Fair value through profit or loss	357,778	0	331,347	0	0	0	0	0	331,347
Amortised cost	0	0	0	0	1,665	319	1,315	123	1,438
Total Financial Assets	357,778	0	331,347	0	1,665	319	1,315	123	332,785

Financial Liabilities	Borrowings / Other Long Term Liabilities				Creditors				As at 31 March 2020
	As at 31 March 2019		As at 31 March 2020		As at 31 March 2019		As at 31 March 2020		
	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Total £000
Amortised cost	(92,262)	(1,768)	(90,941)	(1,322)	(5,590)	(112)	(1,149)	(56)	(93,468)
Total Financial	(92,262)	(1,768)	(90,941)	(1,322)	(5,590)	(112)	(1,149)	(56)	(93,468)

Income, expense, gains and losses

	2018/19	2019/20
	Surplus or Deficit on the Provision of Services £000	Surplus or Deficit on the Provision of Services £000
Net (gains)/losses on:		
Financial assets measured at fair value through profit or loss	(20,047)	22,217
Total net gains/losses	(20,047)	22,217
Interest revenue:		
Financial assets measured at amortised cost	(6,765)	(5,951)
Total interest revenue	(6,765)	(5,951)
Interest expense	4,458	4,034
Impairment Loss	0	157
Total interest expense	4,458	4,191
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(71)	(73)
Total fee income	(71)	(73)
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	893	1,059
Financial assets measured at amortised cost	127	130
Total fee expense	1,020	1,189

There were losses on available-for-sale financial assets on revaluation of £22.2m as at 31 March 2020 (gain of £20m at 31 March 2019).

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 2019			As at 31 March 2020	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,984	1,984	Loans and receivables	1,438	1,438
(99,732)	(115,279)	Financial liabilities at amortised cost	(93,468)	(115,730)

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.

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

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. 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 2020, £1m of this balance was loaned to local businesses, leaving £14m available for future lending.

As at 31 March 2019 £000	Shetland Investment Fund	As at 31 March 2020 £000
319	Less than 1 year	123
793	2-5 years	610
471	6-10 years	307
1,583	Total	1,040

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default. COVID-19 has had an impact on local businesses, with uncertainty anticipated in the future. In light of this, an impairment loss of £6k has been established using the probability of default approach as per IFRS9.

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	2018/19 £000	2019/20 £000
Balance at 1 April	(55)	(216)
Other Changes	(198)	(143)
Amounts written off	37	59
Financial assets that have been derecognised	0	0
Balance at 31 March	(216)	(300)

Liquidity Risk

The Council has external investments with Fund Managers amounting to £314m at 31 March 2020. 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 2020 the Council had fixed rate borrowings amounting to £49m from the Public Works Loan Board. The balance of £0.16m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2019 £000	Borrowing	As at 31 March 2020 £000
11,202	Less than 10 years	14,164
26,000	10-20 years	23,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
49,202	Total	49,164

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 2020 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 £1.7m for 2019/20. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 18: Financial Instruments.

At 31 March 2020, 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 £314m of investments as at 31 March 2020 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 2019/20.

Foreign Exchange Risk

The Council has £171m invested in overseas equities held within unitised products which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

Note 20: Cash and Cash Equivalents

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

As at 31 March 2019 £000		As at 31 March 2020 £000
55	Cash held by the Council	41
7,698	Bank current accounts	5,389
7,753	Total	5,430

Note 21: Assets Held for Sale

2018/19 £000		2019/20 £000
557	Opening balance	205
	Assets newly classified as held for sale:	
90	Property, plant and equipment	230
	Assets declassified as held for sale:	
(78)	Property, plant and equipment	(121)
(364)	Assets sold	(54)
205	Closing balance	260

Note 22: Long-term Debtors

As at 31 March 2019 £000		As at 31 March 2020 £000
402	Sub Debt Investment	399
1,263	Development loans	916
66	Other long-term debtors	90
1,731	Total	1,405

Note 23: Short-term Debtors

As at 31 March 2019 £000		As at 31 March 2020 £000
4,595	Central Government Bodies	4,271
348	Other Local Authorities	593
153	NHS Bodies	659
1,013	Public Corporations and Trading Funds	1,016
9,720	Other Entities and Individuals	10,157
15,829	Total	16,696

Movements in impairment allowance

The Council has made an allowance for bad and doubtful debts. Debtor figures in the Balance Sheet are shown net of this allowance. The movement of the expected credit loss on the Council's Trade Receivables is shown in Note 19: Nature and Extent of Risks arising from Financial Instruments.

Note 24: Short-term Creditors

As at 31 March 2019 £000		As at 31 March 2020 £000
(4,459)	Central Government Bodies	(4,103)
(397)	Other Local Authorities	(1,315)
(225)	NHS Bodies	(255)
(803)	Public Corporations and Trading Funds	(953)
(14,523)	Other Entities and Individuals	(12,501)
(20,407)	Total	(19,127)

As at 31 March 2019 £000		As at 31 March 2020 £000
0	Intercompany Loan	(15,412)
0	Total	(15,412)

Note 25: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Balance at 1 April	2,979	3,124	1,490	1,614	235	260	4,704	4,998
Purchases	846	753	2,743	2,685	300	199	3,889	3,637
Recognised as an expense in the year	(701)	(650)	(2,588)	(2,633)	(275)	(246)	(3,564)	(3,529)
Balances written off	0	0	(31)	10	0	0	(31)	10
Balance at 31 March	3,124	3,227	1,614	1,676	260	213	4,998	5,116

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

Note 26: Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

There are two classes of provision – short and long term. The Council recognises two long-term provisions – asset decommissioning and pension cessation.

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 2020 and 2025.

The short-term element of this liability is estimated at £0.5m, which represents the expected payment due in 2020/21. Total estimated costs are adjusted in the year when events indicating a change become known.

The Council committed to meet the one-off pension scheme cessation costs attributed to the North Atlantic Fisheries College as part of the merger of tertiary education institutions in Shetland. Due to a delay in the merger process, these one-off costs are not expected to crystallise until 2021/22. The provision has been increased by £1.8m to reflect the performance of pension fund assets and the latest actuarial estimate of the liability at 31 March 2020.

Long-term Provisions	Decommissioning £000	Pension Cessation £000	Total £000
Balance at 1 April 2019	(203)	0	(203)
Additional provisions made in 2019/20	(230)	(1,809)	(2,039)
Unwinding of discounting in 2019/20	(9)	0	(9)
Transfer from Short-term Provisions	0	(3,271)	(3,271)
Transfer to Short-term Provisions	152	0	152
Balance at 31 March 2020	(290)	(5,080)	(5,370)

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 2019	(314)	(3,271)	(84)	(75)	(25)	(3,769)
Amounts used in 2019/20	0	0	81	0	20	101
Unused amounts reversed in 2019/20	0	0	3	75	2	80
Transfer from Long-term Provisions	(152)	0	0	0	0	(152)
Transfer to Long-term Provisions	0	3,271	0	0	0	3,271
Balance at 31 March 2020	(466)	0	0	0	(3)	(469)

Note 27: Leases

The Council as a Lessee

Finance Leases

The office headquarters which were acquired by the Council under a finance lease have now transferred to the Council and are classed as an operational property. This asset is therefore no longer included as a Finance Lease. The Council acquired a music, cinema and creative industries centre under a finance lease. The asset acquired under the lease is carried as property, plant and equipment in the Balance Sheet at the following net amounts:

As at 31 March 2019 £000		As at 31 March 2020 £000
5,327	Property, plant and equipment	786
5,327		786

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding.

The present value of minimum lease payments is made up of the following amounts:

As at 31 March 2019 £000		As at 31 March 2020 £000
(75)	Current	(46)
(1,441)	Non-current	(744)
(1,961)	Finance costs payable in future years	(217)
(3,477)		(1,007)

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

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2019 £000	As at 31 March 2020 £000	As at 31 March 2019 £000	As at 31 March 2020 £000
Not later than one year	(314)	(72)	(75)	(46)
Later than one year and not later than five years	(1,037)	(269)	(300)	(183)
Later than five years	(2,126)	(666)	(1,141)	(561)
	(3,477)	(1,007)	(1,516)	(790)

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 £0.8m per year and sub-leases it to Enquest for the same amount. This lease arrangement is due to run until 2025.

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

As at 31 March 2019 £000		As at 31 March 2020 £000
2,121	Not later than one year	1,442
5,152	Later than one year and not later than five years	4,235
5,486	Later than five years	4,436
12,759	Total	10,113

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

As at 31 March 2019 £000		As at 31 March 2020 £000
2,820	Minimum lease payments	1,662
(881)	Sub-lease payments receivable	(840)
1,939	Total	822

The Council 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 2019 £000		As at 31 March 2020 £000
(821)	Not later than one year	(839)
(3,285)	Later than one year and not later than five years	(3,241)
(1,248)	Later than five years	(475)
(5,354)	Total	(4,555)

The total value of rental income, excluding sub-leases, recognised in 2019/20 was £1.6m (£1.8m in 2018/19).

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

As at 31 March 2019 £000		As at 31 March 2020 £000
(1,799)	Not later than one year	(1,502)
(6,093)	Later than one year and not later than five years	(5,033)
(20,997)	Later than five years	(14,597)
(28,889)	Total	(21,132)

Note 28: Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Shetland Islands Council. It is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

From April 2015 the pensions accrual rate guarantees a pension based on 1/49th of pensionable pay. From 1 April 2009 to April 2015 the pension accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service.

There is no automatic entitlement to a lump sum in respect of post-2009 service. Members may however opt to give up (commute) up to 25% of their pension for a lump sum per the Finance Act 2004. The Scheme's Normal Retirement Age is now linked to the member's State Pension Age (the minimum age being 65). Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

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

Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Scheme is the responsibility of the Pension Fund Committee and Pension Board. The Pension Fund Committee has delegated authority to discharge all

functions and responsibilities relating to the Council's role as 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 39: Accounting Policies.

McCloud Judgement

When the LGPS benefit structure was reformed in 2015 transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received

under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018, the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that similar transitional protections in the Judges’ and Firefighters’ Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling apply to the LGPS.

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

In 2018/19, the Council made an allowance for the estimated McCloud impact, resulting in an increase to the pension liability of £2.5m. The Council’s actuarial advisors do not believe there is any significant new information for 2019/20 to justify further changes. The default approach for 2019/20 is that the roll forward position to 31 March 2020 will continue to include the previously estimated McCloud element in the balance sheet and therefore no further adjustment has been made.

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the CIES and the General Fund via the Movement in Reserves Statement during the year:

2018/19 £000	Local Government Pension Scheme	2019/20 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
21,882	Current service cost	26,551
2,762	Past service cost (including curtailments)	135
	Financing and Investment Income and Expenditure:	
4,606	Net interest expense	5,190
29,250	Total pension benefit charged to the Surplus/Deficit on the Provision of Services	31,876
	Other pension benefit charged to the CIES	
21,780	Return on plan assets (excluding the amount included in the net interest expense)	(42,898)
0	Actuarial (gains) and losses arising from changes in demographic assumptions	22,524
(50,093)	Actuarial (gains) and losses arising on changes in financial assumptions	69,154
(662)	Actuarial (gains) and losses arising from other experience	5,818
275	Total pension benefit charged to the CIES	86,474
	Movement in Reserves Statement	
(29,250)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(31,976)
13,490	Employer's contributions and direct payments to pensioners payable in the year	14,001

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

2018/19 £000		2019/20 £000
(651,601)	Present value of the defined benefit obligation	(587,306)
441,695	Fair value of assets in the Local Government Pension Scheme	414,024
(209,906)	Net liability arising from Defined Benefit Obligation	(173,282)
(177,017)	Local Government Pension Scheme	(145,679)
(15,654)	Unfunded liabilities for Pension Fund	(13,111)
(17,235)	Unfunded liabilities for Teachers	(14,493)
(209,906)	Total	(173,283)

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2018/19 £000		2019/20 £000
405,167	Opening balance	441,695
10,982	Interest income	10,655
	Re-measurement gains and (losses):	
21,780	Return on assets excluding amounts included in net interest	(42,898)
13,490	Employer contributions	14,001
3,453	Contributions by scheme participants	3,678
(13,177)	Benefits paid	(13,107)
441,695	Closing balance	414,024

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

2018/19 £000		2019/20 £000
570,338	Opening balance	651,601
21,882	Current service cost	26,651
15,588	Interest cost	15,745
3,453	Contributions by scheme participants	3,678
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	(22,524)
50,093	Actuarial (gains) and losses from changes in financial assumptions	(69,154)
662	Actuarial (gains) and losses from other experience	(5,818)
(13,177)	Benefits paid	(13,107)
2,762	Past service costs including curtailments	135
651,601	Closing balance	587,207

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2020 comprised:

2018/19 £000	Quoted Prices not in Active Markets	2019/20 £000
3,634	Cash and cash equivalents	3,406
50,781	Property:	47,600
325	UK property	304
	Overseas property	
51,106	Sub-total Property	47,904
	Investment Funds and Unit Trusts:	
279,641	Equities	262,122
35,383	Bonds	33,166
71,932	Other	67,426
386,956	Sub-total Investment Funds and Unit Trusts	362,714
441,696	Total Assets	414,024

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 2019, projected forward to 31 March 2020.

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

The principal assumptions used by the actuary have been:

2018/19		2019/20
	Long-term expected rate of return on assets in the Scheme:	
2.5%	Investment Funds and Unit Trusts	2.6%
	Mortality Assumptions:	
	<i>Longevity at 65 for current pensioners (in years):</i>	
22.1	Men	21.4
24.0	Women	23.2
	<i>Longevity at 65 for future pensioners (in years):</i>	
23.9	Men	22.7
26.1	Women	25.0
3.5%	Rate of inflation	2.8%
3.1%	Rate of increase in salaries	2.4%
2.5%	Rate of increase in pensions	1.9%
2.4%	Rate for discounting scheme liabilities	2.3%
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	2019/20	
	%	£000
0.5% decrease in real discount rate	11%	64,487
0.5% increase in the salary increase rate	2%	10,668
0.5% increase in the pension increase rate	9%	52,943

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. The Pension Fund is subject to a further triennial review which is currently underway.

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 2019/20 and 2020/21 as set out in the latest triennial valuation as at 31 March 2017.

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2021 are £12.4m. The weighted average duration of the defined benefit obligation for Scheme members is 21 years for 2019/20.

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 2019/20 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/.

Note 29: 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 0.8% in 2019/20 (0.6% for 2018/19).

In 2019/20, the Council paid £3.5m to the SPPA in respect of teachers' pension costs, representing 17.2% of pensionable pay for April to August 2019 and 23% for September 2019 to March 2020 (£2.7m and 17.2% for 2018/19). There were no contributions remaining payable at the year-end.

The estimated contribution for 2020/21 is £4.1m.

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 2019/20 these amounted to £0.9m, representing 5.1% of teachers' pensionable pay (£0.9m and 5.8% for 2018/19). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 30: External Audit Costs

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

2018/19 £000		2019/20 £000
247	Fees payable with regard to external audit services carried out by the appointed auditor for the year	226
24	Non-audit services fee	0
271	Total	226

Note 31: 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 11: 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 <http://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 £1.7m in 2019/20 (£1.4m in 2018/19) to these bodies. The amount outstanding to be paid at 31 March 2020 was £15k (£4k at 31 March 2019).

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 Interim Principal of Shetland College and Train Shetland was a member of key management of the Council from 1 April 2019 to 31 July 2019. The Council made payments totalling £1.3m in 2019/20 (£1.3m in 2018/19) to the NAFC. The amount outstanding to be paid at 31 March 2020 was £82k (£82k at 31 March 2019).

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 28: 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. On 30 April 2019 the business, assets and liabilities of SLAP were transferred to the Council. SLAP will be formally wound up following completion of the liquidation process. The net impact of the consolidation modifications to the financial statements

is deemed not to be material and is therefore not consolidated in group accounts.

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 £21.7m (£21.2m in 2018/19) 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 £3.5m (£3.5m in 2018/19) 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 2018/19) to the VJB.

For details of members' influence on these entities and the transactions between them and the Council, please refer to Note 38: Group Interests.

Note 32: 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.

2018/19 £000		2019/20 £000
92,993	Opening Capital Financing Requirement	98,591
	Capital investment:	
23,085	Property, plant and equipment	33,078
71	Intangible assets	0
0	Investment Property	2,000
0	Correction in respect of Prior Years*	2,069
	Sources of finance:	
(1,403)	Capital receipts	(1,497)
(6,388)	Government grants and other contributions	(10,210)
(2,959)	Funding from reserves	(13,831)
	Sums set aside from revenue:	
(3,637)	Direct revenue contributions	(3,393)
(1,165)	Loans fund principal	(2,402)
(105)	Lease principal	(812)
0	Removal of assets acquired under finance lease	(3,686)
(1,901)	PFI contract principal repayments	(1,223)
98,591	Closing Capital Financing Requirement	98,684
	Explanation of movements in year:	
6,942	Increase/(decrease) in underlying need to borrow	3,530
(105)	Assets acquired under finance leases	(4,498)
(1,165)	Assets acquired under PFI contracts	(1,223)
(73)	Assets acquired under Decommissioning Obligations	215
5,599	Increase in Capital Financing Requirement	(1,976)

* During preparation of the 2019/20 Annual Accounts, it was noted that there were historical differences between the Capital Financing Requirement disclosure and the requirements of this note as set out in the CIPFA Prudential Code for Capital Finance in Local Authorities. Following consideration of both quantitative and qualitative factors, management have determined that this is not a material prior period error and therefore corrected the error in respect of prior years in the current year, in accordance with IAS 8.

Note 33: 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 34: Contingent Assets

There are a number of potential claims for compensation, some of which are currently being pursued by the Council through due legal process, the outcomes of which are unknown and therefore no value has been attributed to these in the financial statements.

As part of the Islands Deals, the Council alongside the two other Island Councils are working on a joint proposal for an Islands version of the City/Regional Growth Deals. It is not yet possible to estimate the timescales to progress this work or estimate the amount receivable.

Note 35: 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 2020, the remaining assets held by the Bare Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2019/20, the ZET received receipts of £0.025m and made payments of £0.018m.

The other trusts are essentially dormant due to their low annual income.

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

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

As at 31 March 2019 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2020 £000
(567)	Bare Trust	0	0	(582)	(582)
(676)	Zetland Educational Trust	(26)	(621)	0	(647)
(3)	Others	(3)	0	0	(3)
(1,246)	Total	(29)	(621)	(582)	(1,232)

Note 36: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 15 July 2020. Events taking place after this date are not reflected in the financial statements or notes. Where

events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. The COVID-19 pandemic has had a substantial impact on the Council's service delivery and financial sustainability. There has been a material impact on the Council's investments as

a result of COVID-19, reducing to a value of £314m at 31 March 2020 before recovering to £360m at the end of May 2020. Further details of this impact are detailed within the Management Commentary.

Note 37: Critical Judgements in Applying Accounting Policies

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

- There are a number of legal claims currently outstanding against the Council. Where a reliable estimate can be made, 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;
- The Council has classified the measurement basis of its available for sale financial instruments as fair value through profit or loss. During 2019/20 the unrealised loss recognised in the CIES was £49.1m;
- The Council has considered the impairment loss on its financial assets based on the expected credit loss model as per IFRS 9. A simplified approach has been used to make a judgement on the impairment loss of £300k on trade receivables assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions. The probability of default approach has been used to make a judgement on the impairment loss of £6k on economic loans; and
- 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 £42.8m at 31 March 2020) which is recognised as Property, Plant and Equipment on the Council's Balance Sheet.

Note 38: Group Interests

Introduction

The Code of practice on Local Authority Accounting in the United Kingdom 2019/20 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 has assessed that it has no material group entities, therefore no Group Accounts have been prepared. This assessment is based on the following considerations.

Group Boundary

Shetland Islands Council has considered all entities in which it has an interest for consolidation into the group accounts. To determine whether an entity should be included in the Council's group accounts, the factors of control, significant influence and materiality are considered.

Subsidiaries

The Code defines a subsidiary as an entity that is controlled by another entity. The 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. The following table details the financial results for the year and is considered not material for consolidation in group accounts:

2018/19 £000	Zetland Educational Trust	2019/20 £000
(30)	Gross Income	(25)
24	Gross Expenditure	18
(6)	Total Comprehensive Expenditure	(7)
19	Current Assets	26
657	Investments	621
676	Net Assets	647

SLAP

In 2018/19 the Council acquired 100% interest in SLAP, a property investment and development company. Under accounting standards, the Council has the controlling interest in the company, and therefore falls under the criteria of a subsidiary. On 30 April 2019 SLAP ceased trading and the business, assets and liabilities were transferred to the Council. SLAP is to be formally wound up in 2020/21. The following table details the draft financial results for the year. The net impact of the consolidation modifications to the financial statements is deemed not to be material and is therefore not consolidated in group accounts.

2018/19 £000	SLAP	2019/20 £000
(2,321)	Gross Income	(177)
5,707	Gross Expenditure	74
3,386	Total Comprehensive Expenditure	(103)
15,413	Non-current Assets	0
1,046	Current Assets	16,362
(213)	Current Liabilities	(13)
(16,246)	Capital and Reserves	(16,349)
0	Net Assets	0

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.

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 46% of the Board's operating costs in 2019/20 (45.5% in 2018/19). 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 £37k as at 31 March 2020 (£270k at 31 March 2019), 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:

2018/19 £000	Integration Joint Board	2019/20 £000
(24,956)	Gross Income	(25,808)
24,686	Gross Expenditure	25,771
(270)	Net (Surplus) / Deficit	(37)
453	Current Assets	489
0	Current Liabilities	0
453	Net Assets	489

Associates

The Code defines an associate as an entity for which the Council is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified two entities that meet the definition of an associate. These are:

- Orkney and Shetland Valuation Joint Board; and
- Zetland Transport Partnership (ZetTrans).

Orkney and Shetland Valuation Joint Board (OSVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2019/20, the Council held five Board places out of ten and contributed 49.5% of the Board's operating costs (49.7% in 2018/19).

The Council's share of the year-end net liability is £1.0m as at 31 March 2020 (£1.1m at 31 March 2019), 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:

2018/19 £000	Orkney and Shetland Valuation Joint Board	2019/20 £000
(392)	Gross Income	(459)
352	Gross Expenditure	401
(40)	Net (Surplus) / Deficit	(58)
13	Current Assets	22
(16)	Current Liabilities	(27)
(1,118)	Non-current Liabilities	(969)
1,121	Capital and Reserves	974
0	Net Assets	0

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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.

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 95.7% of the Partnership's operating costs in 2019/20 (96.4% in 2018/19) and holds four out of six seats on the Partnership. The Council's share of the net liability is nil at 31 March 2020 (nil at 31 March 2019) 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:

2018/19 £000	Zetland Transport Partnership	2019/20 £000
(2,848)	Gross Income	(2,889)
2,848	Gross Expenditure	2,889
0	Net (Surplus) / Deficit	0
0	Current Assets	88
0	Current Liabilities	(88)
0	Net Assets	0

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

Note 39: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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.

consumption they are carried as inventories on the Balance Sheet;

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cashflows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to 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 cashflows, 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 cashflow characteristics. There are three main classes of financial assets measure at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e where the cash flows do not take the form of a basic debt instrument)

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

A soft loan is one granted at less than market rates. When a soft loan is made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life

of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the borrowing organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financial and Investment Income and Expenditure line in the CIES.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measure at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

Fair Value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price; and
- other instruments with fixed and determinable payments – discounted cashflow 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 outwith 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 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to, an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure assets are held at depreciated historical cost;
- community assets and assets under construction are held at historical cost;
- surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective;
- council dwellings are held at current value, determined using the basis of existing use value for social housing; and

- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Unrealised gains arise from notional changes in value that have not been converted into cash.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before this date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that

balance (up to the amount of the accumulated gains);

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES; and
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community and heritage assets) and assets that are under construction.

The following useful lives and depreciation rates have been used in the calculation of depreciation (straight-line method):

- council dwellings: 30 years
- other land and buildings: 1 - 105 years
- vehicles, plant, furniture and equipment: 1 - 40 years
- infrastructure: 5 - 60 years

Surplus assets are depreciated on a straight-line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Where an item of property, plant and equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be classified as an asset held for sale, it is reclassified back to a non-current asset. It is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have been recognised if the asset had not been classified as an asset held for sale, and its recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Q Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and investment properties and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of the asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring fair value, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Council's accounts are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 – unobservable inputs for the asset.

R Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the

contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Anderson High School contract, there was no initial capital contribution by Shetland Islands Council.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are carried out.

S Provisions, Contingent Assets and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will likely require settlement by a transfer of economic benefits and a reliable estimate can be made of the obligation's value.

Provisions are charged as an expense to the appropriate service lines in the CIES when the obligation arises and are measured at the best estimate at the Balance Sheet date of the expenditure required

to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated values are reviewed at the end of each financial year. Where it becomes less likely that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Assets

A contingent asset is disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential not recognised in the Balance Sheet when an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent Liabilities

Contingent liabilities are disclosed in the accounts but not recognised in the Balance Sheet, in circumstances where:

- an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council; or
- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

T Reserves

Reserves are created by transferring amounts from the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year in the CIES. The value is then transferred to the General Fund so that there is no net charge against Council Tax.

The Council also operates a Harbour Reserve Fund, as permitted under statute by the Zetland County Council Act 1974. Only surpluses from the Harbour Account can be credited to this reserve.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council; these reserves are explained in the relevant policies.

U Value Added Tax

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