Shetland Islands Council

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Date: 18 September 2020

Dear Sir/Madam

You are invited to the following meeting:

Special Audit Committee
Wednesday 23 September 2020 at 10.00am

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.

Apologies for absence should be notified to Lynne Geddes at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Mr A Duncan
Vice-Chair: Ms C Hughson

AGENDA

(a) Hold circular calling the meeting as read.

(b) Apologies for absence, if any.

(c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

1. Annual Audit Report on the 2019/20 Audit - Shetland Islands Council and Zetland Educational Trust
F-041

Shetland Islands Council

Agenda Item

1

Meeting(s):	Audit Committee Shetland Islands Council	23 September 2020
Report Title:	Annual Audit Report on the 2019/20 Audit – for Shetland Islands Council and the Zetland Educational Trust	
Reference Number:	F-041-F	
Author / Job Title:	Jamie Manson, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee:

a) **NOTES** the findings of the 2019/20 audit and the audit opinion as contained in the external auditor's annual report at Appendix 1;

b) **NOTES** the Action Plan as incorporated in Appendices 1 and 2;

c) **NOTES** the progress made in addressing audit recommendations made following the 2018/19 audit (Appendix 3)

d) **CONSIDERS** a verbal report by the external auditor;

e) **CONSIDERS** the audited Annual Accounts for 2019/20 for Shetland Islands Council (Appendix 4);

f) **APPROVES** the annual governance statement contained within the audited Annual Accounts for 2019/20 (Appendix 4)

g) **CONSIDERS** the audited Annual Accounts for 2019/20 for the Zetland Educational Trust (Appendix 5).

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

a) **NOTE** the findings of the 2019/20 audit and the audit opinion as contained in the external auditor's annual report at Appendix 1;

b) **APPROVE** the Action Plan and management responses as incorporated in the two audit reports (Appendices 1 and 2);

c) **NOTE** the progress made in addressing audit recommendations made following the 2018/19 audit (Appendix 3)

d) **APPROVE** the audited Annual Accounts for 2019/20 for Shetland Islands Council for signature (Appendix 4); and

e) **APPROVE** the audited Annual Accounts for 2019/20 for Zetland Educational Trust for signature (Appendix 5).

2.0 High Level Summary:

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

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

2.3 The Council approved its unaudited accounts for the year ending 31 March 2020 earlier this year, on 15 July 2020 (minute reference: 52/20). A small number of adjustments have been made during the audit process. As a result, the accounting deficit has decreased by £1.4m and net assets have increased by £1.4m.

2.4 Following the audit process, the external auditor has confirmed an unmodified audit opinion for the 2019/20 accounts. This means the annual accounts for 2019/20 are free from material misstatement and present a true and fair view of the Council's financial position as at 31 March 2020.

2.5 In addition, the external auditor has provided an updated report summarising their findings on the wider audit dimensions. Ordinarily, the external auditor would have reported the findings from this aspect of the audit earlier in the year, but due to the COVID-19 pandemic was unable to do so. The report on audit dimensions and best value is contained in Appendix 2.

2.6 The external auditor has made a series of recommendations following the conclusion of the audit process. Two new recommendations have been made in respect of the financial statements audit, and one further recommendation has been made in respect of the wider audit dimensions. Audit recommendations are outlined on page 27 of Appendix 1 and page 36 of Appendix 2.

2.7 In addition to the new recommendations made this year, there are seventeen recommendations that are still outstanding following the 2018/19 audit, which still require resolution. These recommendations can be found on pages 37-47 of Appendix 2, along with an updated view from the external auditor. Appendix 3 contains an audit action tracker that summarises the progress made in addressing 2018/19 audit recommendations.

2.8 The Annual Audit Report also includes findings in relation to the audit of the Trustees' Annual Report and Financial Statements of Zetland Educational Trust. Further detail can be found on page 18 of appendix 1.

3.0 Corporate Priorities and Joint Working:

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

4.0 Key Issues:

4.1 The Council's annual accounts for the year ending 31 March 2020 were submitted to the external auditor after the statutory deadline of 30 June 2020. This delay was permissible under the Coronavirus (Scotland) Act 2020 and within the guidance issued by Scottish Ministers through Local Government Finance Circular 10/2020. The external auditor is ordinarily required to complete the audit by 30 September

2020 and to report on certain matters arising to those charged with governance. It has not been necessary to defer the publication of the Council's audited annual accounts beyond 30 September 2020, despite the challenges encountered in this year's audit process.

Financial Statements Audit

4.2 External auditors are required to comply with International Standards on Auditing (ISAs) throughout their audit. The standards include a specific standard, ISA 260 '*Communication with Those Charged with Governance'*, which prescribes how auditors should communicate their findings which include:

- results of work on key audit judgements;
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- the auditor's internal control observations; and
- other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

4.3 The external auditor's findings, otherwise known as the ISA 260 report, are contained at Appendix 1. For the 2019/20 financial year, the external auditor has confirmed an unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Council's financial position at 31 March 2020

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

- Recognition of grant income, *and*
- Management override of controls

4.5 Pages 10 to 14 of the Appendix 1 summarise how the results of the external auditor's testing was satisfactory in both of these areas.

4.6 No material errors, misstatements or omissions were identified during the financial statements audit.

4.7 The external auditor has identified one error that has not been adjusted in relation to the calculation of pension liabilities following recent developments at a pensions tribunal. The Council has not made an adjustment in its accounts because the error was not material, was identified at a very late stage in the audit process and any adjustment would have necessitated further actuarial analysis that would have likely delayed the publication of the accounts. The Council did not think this was a proportionate response to a non-material error. The error is therefore reported as an uncorrected misstatement, and further detail is set out on page 26 of Appendix 1.

4.8 Following conclusion of the financial statements audit, the external auditor has made two new recommendations which can be found on page 27 of Appendix 1. These recommendations relate to:

- Review of expert reports – the Council reassure itself it is content with the reasonableness of valuations provided by independent experts.
- IT controls – the Council should review the controls and policies in relation to small number of IT systems used by the Council, in order to satisfy itself that the control environment is appropriate and effective.

4.9 The progress of recommendations arising from the 2018/19 audit is summarised in Appendix 3. The 2018/19 audit report (minute ref: 09/19) included three recommendations that have since been addressed.

Wider Audit Dimensions

4.10 As well as auditing the annual accounts and financial statements, external auditors are required to examine wider audit dimensions that are intrinsic to the delivery of Best Value. These audit dimensions are:

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

4.11 Following the 2018/19 audit, the external auditor made a substantial number of recommendations which were presented to the Audit Committee (minute reference: 08/19) and Council (minute reference:43/19) in June 2019.

4.12 As part of the 2019/20 audit, the external auditor has reviewed the Council's progress under each of these dimensions and provided an update summarising the findings and latest conclusions, which can be found in Appendix 2. Some progress has been made in resolving the prior year's recommendations, but the majority are still outstanding, as outlined in Appendix 3.

4.13 The external auditor has updated their opinion for each wider audit dimension, and is summarised below.

4.14 **Financial sustainability:**
'The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, utilising an unsustainable draw on reserves. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. The Council recognises that it is not financially sustainable. It's medium-term outlook is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.'

4.15 **Financial management:**
'The Council has strong financial management arrangements in place. We welcome improvements noted in financial reporting and the accuracy of budgeting and encourage the Council to address our outstanding recommendations in relation to budget setting, review of the finance function and engagement in the NFI exercise.'

4.16 **Governance and transparency:**
'The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision-making arrangements and the arrangements for developing the Council's recovery plans. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic. The Council continues to be open and transparent, although it remains non-compliant with the Public Bodies Act requirement to review the Integration Scheme with the NHS and IJB. There remains a number of areas that where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement, for example its approach to self-assessment and community consultations.'

4.17 **Value for money:**
'The Council has revised it Performance Management Framework in the year. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting to conclude on the Council's performance in the year. The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework (LGBF) although there has been a decline in performance in more areas. It is important that the Council take any lessons learned as it moves into the recovery phase from COVID-19 to consider alternative approaches to service delivery. While we have identified issues with the implementation of the acquisition of Shetland Leasing and Property Developments Limited (SLAP) and the College Merger, we are satisfied that these projects continue to represent value for money.'

4.18 The external auditor has made one further recommendation in respect of wider audit dimensions, which can be found on page 36 of Appendix 2. The recommendation impresses the need to work in conjunction with the NHS and IJB to conclude the review of the Integration Scheme, as required by law.

Annual Governance Statement

4.19 The unaudited annual accounts contained a draft annual governance statement following endorsement at Audit Committee on 15 July 2020 (minute reference: 08/20). The annual governance statement has been updated to reflect feedback from the external auditor.

4.20 Members of the Audit Committee received a briefing note from the Chief Executive following the Audit Committee in July 2020 that provided assurance to Members on the issues raised during that committee meeting and sets out the action that senior management have taken to address the issues encountered earlier in the year.

4.21 The annual governance statement has been revised to reflect the external auditor's findings now that the audit process has concluded. Two additional significant governance issues are noted to reflect the Council's position during the 2019/20 financial year:

- Non-compliance with a statutory obligation under the Community Empowerment (Scotland) Act 2015, which has since been resolved at a meeting of the full Council on 9 September 2020, *and*
- Non-compliance with a statutory obligation under the Public Bodies (Joint Working) (Scotland) Act 2015, which the Council is committed to resolve by the end of the calendar year.

4.22 The revised annual governance statement has been scrutinised by external audit who confirm the statement has been prepared in accordance with accounting regulations.

4.23 The annual governance statement as set out on pages 21-27 of Appendix 3 reaffirms that reasonable assurance can be placed on the adequacy and effectiveness of the Council's governance arrangements and internal control environment.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	None arising directly from this report.
6.2 Human Resources and Organisational Development:	None arising directly from this report.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report.
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Council to approve its audited Annual Accounts for signature no later than 30 September each year. Due to the Coronavirus pandemic and in line with the Coronavirus (Scotland) Act 2020 and Local Government Finance Circular 10/2020, the Scottish Ministers consider it reasonable that local authorities may publish their audited Annual Accounts by no later than 30 November 2020. It has not been necessary to delay the signing and publication of the Council's audited accounts beyond the existing statutory deadline of 30 September 2020.

	There are no other legal implications directly arising from this report.
6.5 Finance:	None arising directly from this report.
6.6 Assets and Property:	None arising directly from this report.
6.7 ICT and new technologies:	None arising directly from this report.
6.8 Environmental:	None arising directly from this report.
6.9 Risk Management:	The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
6.10 Policy and Delegated Authority:	The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity. The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audited accounts of the Council and related certificates is a matter reserved by the Council.
6.11 Previously considered by:	n/a

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Appendices:
Appendix 1: Annual Audit Report 2019/20 for Shetland Islands Council (incorporating the Zetland Educational Trust)
Appendix 2: Report on Audit Dimensions and Best Value for the year ended 31 March 2020
Appendix 3: Audit Action Tracker
Appendix 4: Audited Annual Accounts 2019/20 for Shetland Islands Council
Appendix 5: Audited Trustee's Annual Report and Financial Statements 2019/20 for the Zetland Educational Trust

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

Shetland Islands Council

Report to the Audit Committee, Members of the Council and the Controller of Audit on the 2019/20 audit

Issued on 11 September for the meeting on 23 September 2020

Contents

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee ("the Committee") of Shetland Islands Council ("the Council") for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2020.

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

This report summarises our findings and conclusions in relation to:

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

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuers in relation to the valuation of the Council's estate. As a result, we expect to include an 'Emphasis of Matter' paragraph within our audit report.

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

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

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

We have identified 1 misstatement in excess of our reporting threshold of £160,000 up to the date of this report arising from an event after the balance sheet date, as set out on page 26, which has not been corrected. One corrected adjustment arising from events after the balance sheet date has also been made, as set out on page 16. We have not identified any disclosure deficiencies.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Completion of testing on remaining disclosure items;
- Completion of charitable trusts audits;
- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2020.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland.

Our separate detailed report is presented along with this paper and sets out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report.

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

Financial Management - The Council drew on £21.72m of reserves in 2019/20 (up from £15.31m in 2018/19). The Council has strong financial management arrangements in place. We welcome improvements noted in financial reporting and the accuracy of budgeting and encourage the Council to address our outstanding recommendations in relation to budget setting, review of the finance function and engagement in the NFI exercise.

The inadequate interaction with internal audit, highlighted by the Chief Internal Auditor, is a significant matter of concern, potentially impacting on the Council's ability to ensure it has an effective governance and control environment in place.

While the Council has arrangements in place to prevent and detect fraud and corruption in the procurement function, further work is needed to ensure that these are sufficient.

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability - The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, utilising an unsustainable draw on reserves. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19.

The Council recognises that it is not financially sustainable. It's medium-term outlook is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.

In a significant number of areas, we have not noted any improvement in the year.

Governance and transparency - The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision making arrangements and the arrangements for developing the Council's recovery plan. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent, although it remained non-compliant with the Community Empowerment Act until September 2020 and is now non-compliant with the Public Bodies Act requirement to review the Integration Scheme with the NHS and IJB.

The IJB has made good progress during the year, achieving financial balance and setting a balanced budget for the first time in 2020/21. The risks of COVID-19 on both the financial position and performance of the IJB will remain ongoing, however, we are satisfied that there are plans in place to carry out a comprehensive review of the MTFP during 2020/21.

There remain a number of areas where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement, for example its approach to self-assessment and community consultations.

Value for money – The Council has revised its Performance Management Framework in the year. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting for us to conclude on the Council's performance in the year.

The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework (LGBF), although there has been a decline in performance in more areas. It is important that the Council take any lessons learned as it moves into the recovery phase from COVID-19 to consider alternative approaches to service delivery.

The Scottish Housing Regulator has preliminarily concluded that the Council's performance in relation to housing and homelessness had not improved in 2019/20, except for a slight increase in tenant satisfaction scores. The Council has confirmed that it is prioritising improvement in this area and has reported that improvements have been made in the year and is satisfied that this improvement will be reflected in future engagement with the regulator.

While we have identified issues with the implementation of the acquisition of Shetland Leasing and Property Developments Limited (SLAP) and the College Merger, we are satisfied that these projects continue to re continue to represent value for money.

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Best Value

The Council has a number of arrangements in place to secure Best Value. While the Council continues to demonstrate improvements in a number of areas and is committed to improvement, further improvements are needed in key areas and the Council needs to ensure that the pace of change is appropriate.

Our conclusions and detailed findings are included in our separate report submitted along with this report. Management have agreed to all the recommendations and are in the process of implementing them.

Next steps

An agreed Action Plan is included as an Appendix on page 27 of this report in relation to the financial statements audit. A separate Action Plan on the findings of the audit dimensions work is included in our separate report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

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

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

Pat Kenny
Audit Director

Financial statements audit

Quality indicators

Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements	Mature	Key accounting judgements, such as property, plant and equipment (PPE) valuations and net defined benefit pension asset support was provided on time and were of good quality.
Adherence to deliverables timetable	Mature	We were informed early of an anticipated delay in receiving information and worked with management to accommodate this. Information was provided by this revised timetable and management responded promptly to follow-up queries.
Access to finance team and other key personnel	Mature	Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Microsoft Teams and Deloitte Connect.
Quality and accuracy of management accounting papers	Mature	On the whole documentation provided has been a good standard. This included documentation that easily reconciled to the draft financial statements.
Quality of draft financial statements	Mature	A full draft of the annual accounts was received for audit on the 8 July 2020. The draft was of a high standard with limited changes required, although we have made recommendations for improvement which management should note for 2020/21.
Response to control deficiencies identified	Mature	Control deficiencies in relation to IT have been identified, set out on page 19, which management have confirmed they will address in 2020/21.
Volume and magnitude of identified errors	Mature	Financial adjustments identified through our work relate entirely to events after the balance sheet date. We have not identified any disclosure deficiencies.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. There are no findings to report.

Determine materiality

When planning our audit we set our materiality at £3.193m based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to materiality of £3.219m, performance materiality of £2.575m and report to you in this paper all misstatements above £160,000.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

As discussed further on page 21, we expect to include an 'Emphasis of Matter' in relation to the material uncertainty of property valuations arising from impact of COVID-19.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Recognition of grant income	✓	✓	D+I	●	Satisfactory	11
Management override of controls	✓	✓	D+I	●	Satisfactory	12

Overly prudent, likely to lead to future credit − − ● + + Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 - Recognition of grant income

Risk identified

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

Key components of income for the Council are summarised in the table below. The General Revenue Grant and Non-Domestic Rates income which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100% to third party evidence therefore there is little scope for manipulation. Similarly, the income from the IJB relates to services commissioned from the Council and can be verified 100%. Council tax and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error. Finally, we perform detailed assurance work on housing benefits and therefore are satisfied that these amounts are not a significant risk area.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and grants credited to services.

Type of income	2019/20 (£m)	Significant risk
Taxation and Non-Specific Grant Income		
Council tax income	9.643	
Non domestic rates	25.925	
Revenue support grant	55.412	
Capital grants and contributions	*10.130*	✓
Service Income		
Grants credited to services	*20.955*	✓
Housing Benefit Subsidy	3.186	
Housing Revenue Account	7.116	
IJB commission income (book entry)	23.018	
Harbour Account	35.328	
Other Service Income	16.251	

Key judgements and our challenge of them

Grant income is a significant risk due to:

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

Deloitte response

We have performed the following:

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

Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

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

Deloitte response

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

- the Council's results throughout the year were projecting overspends in the year. This was closely monitored with a good understanding of the reasons for the variances; and
- senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

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

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

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

Accounting estimates and judgements (see next page)

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

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

We tested accounting estimates and judgements including the pension liability, valuation of property assets and provisions, investments and fishing quota focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

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

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

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgement in the financial statements are those which we have selected to be the significant audit risks around the recognition of grant income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 16), the valuation methodology for property valuations (page 15), and the recognition of expenditure (page 17). In the table below, we set out our challenge of the assumptions used in the determination of provisions, investments and fishing quota. As part of our work on this risk, we reviewed and challenged management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The total provisions held within the Council's balance sheet is material, at £5.839m. The balance is primarily comprised of the pension cessation costs as a result of the Shetland College, Train Shetland and NAFC merger, accounting for £5.080m (increased from £3.271m in 2018/19). The calculation of this amount has been determined by the Council's independent actuary.	We examined the rationale for each provision, including a retrospective review of amounts provided in 2017/18 and 2018/19. We have also challenged the completeness of the provisions made through discussion with the Council's legal advisors. For the pension cessation costs, we confirmed that the calculation was provided by the same actuaries we assessed for the pension liability. We have confirmed that the amount recorded by the Council is in line with the amount provided by the actuary. We concluded that the provisions made were reasonable.
Investments	The Council holds investments at fair value, with valuations provided to the Council by independent fund managers. The value of investments at the year end was £314.033m. When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk.	Investments are managed by external fund managers, with the valuation of investments provided by them independently. While the balance sheet value is material, the Council only records what they are advised by the independent fund managers in terms of valuations and gain/losses on disposals. The Council have little scope to manipulate the balances as the fund managers provide monthly reports with a comprehensive breakdown of additions, disposals and revaluations. We have consulted with financial instrument experts to review the assumptions and valuations performed by the fund managers, as well as agreeing the valuation of investments to third party evidence or developing a point estimate based on adjusted net asset values. We have not identified any issues through our work.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Fishing Quota	The Council holds a substantial amount of fishing quota, leased to third parties for use in the year. The value of fishing quota at the year end was £30.2m. The valuation of fishing quota is performed by an independent expert. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market.	All valuations are completed by an external expert. Deloitte are satisfied that the independent valuer is suitably competent and has the capabilities to carry out a valuation of the fishing quotas held by the Council. We have assessed the objectivity and competence of management's expert and developed an independent estimate of the value based on information obtained from the active market in the year. We have also assessed the Council's valuation against fishing quota held by similar local authorities and assessed the movement against the movement in the market in the year. We have concluded that fishing quota are held at a reasonable value.

Other areas of audit focus

Property valuations

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust.

The Council has had an independent valuation carried out at 31 March 2020 for the purposes of the 2019/20 financial statements as part of its five-year rolling programme. The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuer regarding the valuation of properties. Although our overall assessment of the risk level regarding the Council's property valuation, has not increased to 'significant', we expect to include an 'Emphasis of Matter' in our Independent Audit Report.

Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a rolling programme of revaluation being carried out in line with previous years. The Council's revaluation has resulted in a net upward revaluation to property values of £16.15m.

The valuer identified a material uncertainty due to the impact of COVID-19 on individual markets, this is in line with RICS guidance published on 18 March 2020, as follows:

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, I consider that less weight can be attributed to previous market evidence for comparison purposes, in informing opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

This valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case."

Deloitte response

- We have engaged our property specialists in relation to the impact of COVID-19;
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements; and
- We have reviewed the valuers report and assessed managements disclosure of the key source of estimation uncertainty.

Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of the Council's estate is appropriate. However, we expect to include an 'Emphasis of Matter' in our Independent Audit Report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market.

Following changes made as a result of our audit, we are satisfied that this has been appropriately disclosed in the notes to the financial statements.

Other areas of audit focus (continued)

Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

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

The net pension liability has decreased from £209.906m in 2018/19 to £171.912m in 2019/20. The decrease is combination of a reduction of £27.671m in the fair value of the assets and a reduction of £65.665m in the liabilities as a result of demographic changes and financial assumptions. This total includes the impact of the McCloud adjustments.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £1.992m to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The Council's actuary has estimated that the potential impact of this is a £0.303m understatement of the liability. This is an estimate and the actual cost could be different. As this amount is not material, management have not made this adjustment to the accounts and this has been reported as an uncorrected misstatement at page 26.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement, subsequent to the year-end, is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £0.622m to the liability disclosed in the draft accounts which have been updated in the final accounts.

Deloitte response

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

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

Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin arising from events after the balance sheet date (net impact was a reduction in liability of £1.4m), we are satisfied that the net pension liability disclosed in the accounts is materially correct. The Council's actuary has estimated the potential impact of McCloud on the current service cost as £0.303m which has been recorded as an uncorrected misstatement on page 26.

Other areas of audit focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This has therefore not been assessed as a significant risk area, but continued to be an area of audit focus.

Deloitte response

We performed the following procedures using data analytics to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 23,000 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 3,009 invoices were processed. We therefore concluded that a risk of material misstatement was remote.

- An analytical review to test the completeness and accuracy of year-end creditor balances. We have not identified any issues from the testing performed.

	Invoice Analysis
Median invoice amount	£135.20
Average number of invoices processed per month	4,821
Number of invoices that would need to be unrecorded to cause a material misstatement	23,809
Total invoices processed in April (one month after year-end)	3,009 (total value £5.682m)

Deloitte view

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

Other areas of audit focus (continued)

Charitable trusts

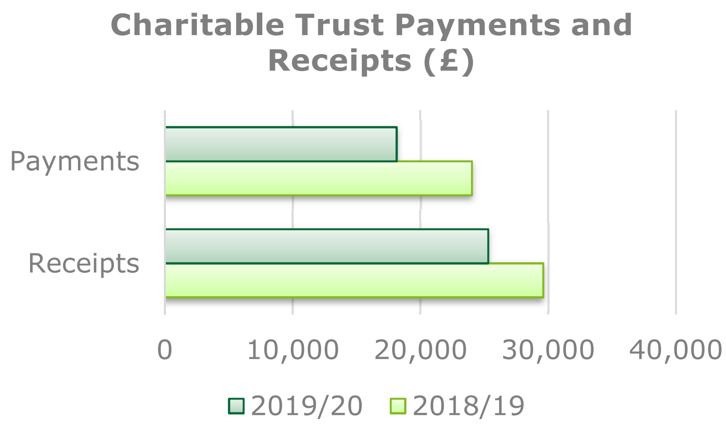
Risk identified
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. Shetland Islands Council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

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

Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. Minor amendments were requested through our audit and these were corrected by management.

A summary of the key movements is provided in the table adjacent. We note that receipts have declined by 15% in the year, with payments declining by 25%. The decline in payments is primarily linked to the fact that significant disbursements were made in 2018/19 for special equipment and promoting knowledge of Shetland which did not recur in 2019/20 (declining by 72% in total). This was offset to a degree by a 48% increase in disbursements for educational excursions.



Deloitte view
During our audit of Zetland Educational Trust Fund we have found no issues, apart from those discussed above, which were corrected by management.

Other significant findings

Internal control and risk management

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

Area	Observation	Priority
IT controls	Our IT specialists have performed detailed work on six of the Council's IT systems and have identified a number of control deficiencies. Feedback has been provided to management setting out the details of these findings for implementing improvements. The findings include: No independent oversight over change management; no data classification policy; no ongoing awareness training provided to Council IT users; no segregation of duties enforced between business users and admin users (in five systems); no user access reviews are performed (in five systems); no formal starters and leavers process, and weak password parameters (in one system). Management have accepted these findings and plan to address these in 2020/21.	●

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

Low Priority

Medium Priority

High Priority

Other significant findings (continued)

Financial reporting findings

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

Qualitative aspects of your accounting practices:

The Council's accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code. The Council's annual accounts include numerous areas of good practice, including the use of graphics, tables and signposting; linking with the national performance framework and outcomes; explaining the Council's redesign and transformation programmes; providing useful narrative on climate change and COVID-19; and overall providing a commendably fair and balanced overview of performance in the year.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, including the impact of the material valuation uncertainty on PPE valuations.

Other matters relevant to financial reporting:

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

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

Our audit report

Other matters relating to the form and content of our report

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

Our opinion on the financial statements

Our opinion on the financial statements is expected to be unmodified.

Material uncertainty related to going concern

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

While the Council is faced with financial sustainability challenges (as summarised on page 5), there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.

Emphasis of matter and other matter paragraphs

As discussed on page 15, we expect to include an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations.

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

Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 23.

COVID-19 outbreak

Impact on the annual accounts and audit

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

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and the Council need to consider. CIPFA has issued guidance relating to the impacts on the annual accounts to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on Council annual accounts

The Council need to consider the impact of the outbreak on the annual accounts including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Property valuation material uncertainty;
- Impairment of non-current assets;
- Allowance for expected credit losses;
- Fair value measurements based on unobservable inputs;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Council staff;
- The teams have had regular status updates to discuss progress and facilitate the flow of information;
- Consideration of impacts on the areas of the financial statements and annual accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report; and
- In conjunction with the Council staff, we will continue to consider any developments for potential impact up to the finalisation of our work in September 2020.

Your annual accounts

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

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focusses on the strategic planning context.	We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. Minor amendments were required as a result of our audit work. We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Following minor amendments made during the course of the audits, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement (AGS) is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We have required management to make changes to significant governance issues in the year, relating specifically to the Council's non-compliance with the Public Bodies (Joint Working) (Scotland) Act 2014, which required the Integration Scheme to be reviewed by the end of June 2020.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

Use of this report

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

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 11 September 2020

Audit adjustments
Uncorrected misstatements

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

		Debit/ (credit) CIES £m	Debit/ (credit) MIRS £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m	If applicable, control deficiency identified
Pension Liability – McCloud current service costs	[1]	0.303	(0.303)	(0.303)	0.303	N/A
Total						

[1] As discussed on page 16, the actuary has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The Council's actuary has estimated that the potential impact of this is a £0.303m understatement of the liability. As the pension liability is fully mitigated by statutory adjustments, this misstatement has no impact on the overall General Fund position.

Clearly trivial differences

When we presented our planning paper in March 2020, the Committee requested that we report the total impact of clearly trivial differences identified through our work. We have noted the aggregate value of all trivial differences (those below our reporting threshold of £0.16m) which have not been reported or corrected. It is important to note that these differences are not necessarily errors as we have not investigated them in detail, given their triviality. The gross value of trivial differences identified through our audit was £1.241m, of which £0.525m are factual or extrapolated errors, with a potential impact on the general fund of £0.289m.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*Review of expert reports*	In our review of reports received by management in relation to property valuations, investment values and fishing quota valuations, we noted that initially the property valuation did not include a material uncertainty and that the fishing quota valuation did not include detailed narrative supporting the valuation and consideration of key matters (such as EU Withdrawal). While it is appropriate to engage experts to assist in valuing complex balances, the valuation ultimately remains management's judgement and management should carry out reviews to assure themselves as to the reasonableness of the valuations provided and judgements reached.	The finance team undertakes an annual 'lessons learned' exercise following the conclusion of the annual audit. This exercise will capture any learning points that have arisen during the 2019/20 audit and will be incorporated into planning for the preparation of the 2020/21 accounts.	Executive Manager – Finance	30/06/21	Medium
2	*IT controls*	Given the substantial number of control deficiencies identified in the six IT systems examined (page 19), management should review existing controls and policies, making appropriate adjustments to satisfy themselves that the control environment is appropriate and that controls are designed effectively and appropriately implemented.	The Council acknowledges the findings and will review the controls and policies in place for the systems that were inspected as part of the audit process.	Executive Manager – ICT	31/03/21	Medium

We have followed up the recommendations made in our 2018/19 annual report in relation to the financial statements and are pleased to note that all 3 recommendations – in relation to property valuations, IFRS 16 and review of the annual accounts – have been fully implemented.

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

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

Required representations:

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

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

Audit work performed:

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

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

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

Concerns:

No concerns have been identified regarding fraud.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.
Fees	The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £206,338 as analysed below: Auditor remuneration: £135,898 Audit Scotland fixed charges: Pooled costs: 14,000 Performance Audit and Best Value: 47,790 Audit support costs: 8,650 **Total proposed fee: 206,338** In addition, the audit fee for the charitable trust audit is £400. There are no non-audit services fees proposed for the period.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its Council and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its Council and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Quality of public audit in Scotland

Annual report 2018/19

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

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

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

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

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

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

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

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

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

Other performance measures showing good performance include:

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

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

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

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Shetland Islands Council

Shetland Islands Council

Report to the Audit Committee on the 'audit dimensions and best value' for the year ended 31 March 2020

Issued on 11 September for the meeting on 23 September 2020

Contents

Introduction

The key messages in this report

Background:

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

Scope of audit

Our audit work was risk based and proportionate, covering the four audit dimensions as follows:

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

It also incorporated the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function.

Our responsibilities in relation to the Accounts Commission's Strategic Audit Priorities, the 2018 Statutory Performance Information Direction and Best Value have all been incorporated into this audit work.

I have pleasure in presenting our report to the Audit Committee (the Committee) of Shetland Islands Council (the Council) as part of our 2019/20 audit responsibilities. I would like to draw your attention to the key messages from this paper.

Financial Management

The Council drew on £21.72m of reserves in 2019/20 (up from £15.31m in 2018/19). The Council has strong financial management arrangements in place. We welcome improvements noted in financial reporting and the accuracy of budgeting and encourage the Council to address our outstanding recommendations in relation to budget setting, review of the finance function and engagement in the NFI exercise.

The inadequate interaction with internal audit, highlighted by the Chief Internal Auditor, is a significant matter of concern, potentially impacting on the Council's ability to ensure it has an effective governance and control environment in place.

While the Council has arrangements in place to prevent and detect fraud and corruption in the procurement function, further work is needed to ensure that these are sufficient.

Financial sustainability

The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, utilising an unsustainable draw on reserves. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19.

The Council recognises that it is not financially sustainable. It's medium-term outlook is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.

In a significant number of areas, we have not noted any improvement in the year.

Governance and Transparency

The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision making arrangements and the arrangements for developing the Council's recovery plan. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent, although it remained non-compliant with the Community Empowerment Act until September 2020 and is now non-compliant with the Public Bodies Act requirement to review the Integration Scheme with the NHS and IJB.

The key messages in this report (continued)

Governance and Transparency (continued)

The IJB has made good progress during the year, achieving financial balance and setting a balanced budget for the first time in 2020/21. The risks of COVID-19 on both the financial position and performance of the IJB will remain ongoing, however, we are satisfied that there are plans in place to carry out a comprehensive review of the MTFP during 2020/21.

There remain a number of areas where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement, for example its approach to self-assessment and community consultations.

Value for money

The Council has revised its Performance Management Framework in the year. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting for us to conclude on the Council's performance in the year.

The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework (LGBF), although there has been a decline in performance in more areas. It is important that the Council take any lessons learned as it moves into the recovery phase from COVID-19 to consider alternative approaches to service delivery.

The Scottish Housing Regulator has preliminarily concluded that the Council's performance in relation to housing and homelessness had not improved in 2019/20, except for a slight increase in tenant satisfaction scores. The Council has confirmed that it is prioritising improvement in this area and has reported that improvements have been made in the year and is satisfied that this improvement will be reflected in future engagement with the regulator.

While we have identified issues with the implementation of the acquisition of Shetland Leasing and Property Developments Limited (SLAP) and the College Merger, we are satisfied that these projects continue to represent value for money.

Best Value

The Council has a number of arrangements in place to secure Best Value. While the Council continues to demonstrate improvements in a number of areas and is committed to improvement, further improvements are needed in key areas and the Council needs to ensure that the pace of change is appropriate.

Our detailed findings and conclusions are included on pages 7 to 28 of this report.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focussing on the impact of COVID-19. We have provided a summary of those most relevant to the Council as an Appendix on pages 32 and 33 of this report.

In particular, we have provided a high level assessment of where the Council is in its response to the Climate Change Agenda, discussed on pages 29 and 30.

Next steps

An agreed Action Plan is included at pages 36 – 47 of this report, including a follow up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

In a number of cases, due to staff focusing on the COVID-19 response, we have not been provided with requested evidence to provide an update to our conclusions in the audit dimensions. We understand this and are satisfied that our report remains sufficiently comprehensive. We have made this clear where relevant throughout the report and will follow up these areas again in 2020/21.

Introduction (continued)

The key messages in this report (continued)

Added value

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

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

Pat Kenny
Audit Director

Audit dimensions and best value

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This report sets out our findings and conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on best value, the Accounts Commission's **Strategic Audit Priorities** and the 2018 **Statutory Performance Information** Direction.

Best value

	Financial management	Financial sustainability	Governance and transparency	Value for money
Audit dimension	Financial management	Financial sustainability	Governance and transparency	Value for money
Strategic Audit Priorities		The strategic appraisal of options for reshaping services in line with priorities. This should consider good practice, innovation and collaborative working with partners	Having clear priorities with a focus on outcomes, supported by effective leadership and long term planning	Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
		Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future	Empowering local communities and involving them in the design and delivery of local services and planning for their local area	
Other requirements	Audit Scotland area of focus - fraud and corruption in the procurement function.			Statutory Performance Indicators

Financial management

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

Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risks in our audit plan:

"There remains a risk in relation to the delivery of the capital programme. We will review the updated Property and Asset Management Strategy and assess how this links to the MTFP, Business Transformation Programme and Service Redesign Programme."

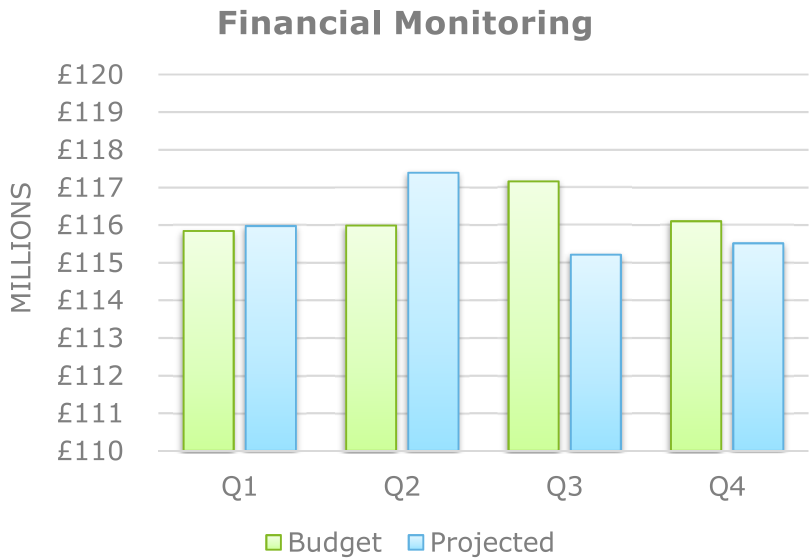
"There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption."

Assessing financial performance

2018/19 conclusion: The 2018/19 budget approved net expenditure of £107.71m, with this increasing in the year to £109.93m, funded by reserves. It is difficult to assess financial performance given that Financial Monitoring Reports ('FMRs') only refer to forecast spend, with no information provided on actual spend incurred in any given period. Although FMRs were projecting overspends throughout the year, the Council had incurred underspends in each period. Narrative on budget variances needs to be improved to enable improved scrutiny of why they have occurred.

2019/20 update:

The General Fund budget of £113.725m was approved by the Council in February 2019. Some changes were made to this during the year as a result of additional unforeseen costs, and the final outturn reported actual expenditure of £115.516m, representing an underspend of £0.588m against the revised budget of £116.104m. After earmarking £3.775m to be carried forward to 2020/21, the final variance is an overspend against the budget of £3.187m.



The key reasons for the variances were:

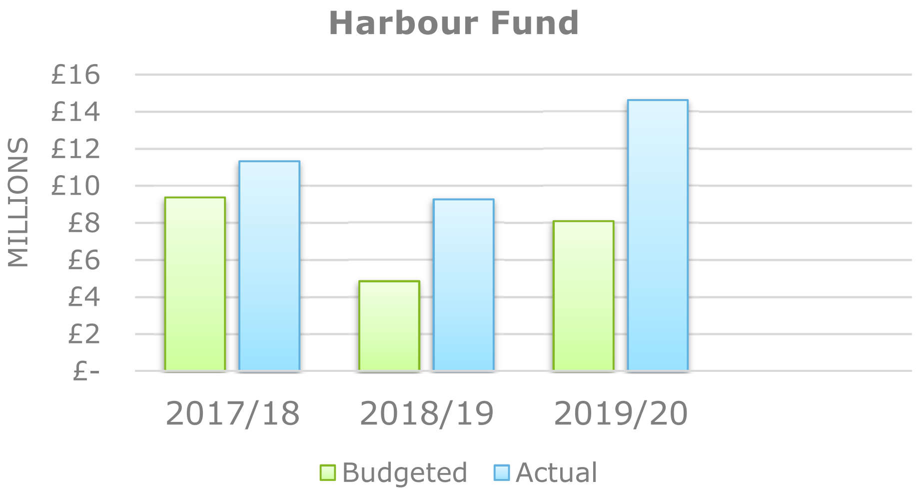
- Delays in progressing the Shetland College merger and a deterioration in the performance of pension fund assets has required the Council to increase its provision to meet the pension scheme cessation costs by £1.8m;
- There were a number of additional ferry vessel maintenance costs, for example on the Yell and Bressay services, which added further cost pressures.

Financial management (continued)

Assessing financial performance (continued)

In 2019/20, the Council FMRs were amended to include narrative on the level of actual spend to date. Additionally, an appendix to the FMR is now provided setting out revisions to the budget, with narrative provided to explain why major revisions occurred.

The Harbour Fund generated a surplus of £14.622m against a revised budget of £8.089m. There were significant variances noted in 2017/18 and 2018/19, also.



The Housing Revenue Account noted a deficit of £1.518m, being an overspend of £0.644m (following carry forwards). This was reported throughout the year, with the main reason for the overspend being additional costs in relation to repairs and maintenance.

The Council's capital programme is discussed in more detail on page 15. The final position was expenditure of £34.863m, an underspend of £4.197, being 11% of forecast spend (reduced to £2.367 when carry forwards are factored in). This is a significant change from 2018/19, when an underspend of £14.769m (39%) was reported.

2019/20 Conclusion: We welcome improvements made to the FMRs in the year and consider that they now enable improved scrutiny and understanding of performance during the year. We are similarly pleased to note a significant improvement in the Council's capital budgeting in the year.

The final General Fund and Housing Revenue Account reported mainly in line with the original budget, with variances largely unforeseeable and reported throughout the year. The Harbour Fund continues to vary significantly from the budget and further work is needed to understand if the Council can improve the accuracy of its budgeting in this area, although we accept that variances in this area are largely outwith the Council's control.

Financial reporting

2018/19 Conclusion: The Council has effective financial monitoring and reporting arrangements in place. Amendments to the budget are made throughout the year, although narrative is at a high level and does not explain the rationale for them. A number of amendments are annually recurring, which has consequences for the accuracy of budgeting across the Council.

2019/20 Update: As discussed above, the Council made a number of amendments to the budget in the year, revising the budgeted General Fund expenditure from £113.725m to £116.104m in the year. As with 2018/19, amendments were immaterial (representing 2% of budgeted expenditure, totalling £2.378m). Movements within directorates are also much lower than in 2018/19, with the maximum revision (being in infrastructure services) declining from 27% in 2018/19 to 13% in 2019/20.

2019/20 Conclusion: The Council continues to have effective financial monitoring and reporting arrangements in place. Amendments to the budget are transparently reported and understood, and we welcome improvements at the directorate level whereby annually recurring amendments have been substantially addressed in 2019/20.

Financial management (continued)

Budget setting

2018/19 Conclusion: The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. The budget should quantify the impact of current year decisions on the longer-term funding gap identified in the MTFP. The budget should make better links to the Council's Corporate Plan, and outcomes should be explicitly considered within the budget setting exercise. A central database of queries received from Members on the budget, along with answers provided, should be maintained and made publicly available.

2019/20 Update: The Council approved its 2019/20 budget on 26 February 2019. The Corporate Management Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Council. As discussed earlier, from review of the reporting throughout the year, variances are clearly reported and explained.

The 2020/21 budget was approved by the Council on 11 March 2020. The budget has not been amended to improve links to the Council's Corporate Plan or set out which outcomes the Council aims to progress, and to what extent, through its budget. As the revision of the Council's MTFP has been delayed, references within the budget to the MTFP have also not been improved.

We are not aware of a centrally maintained, publicly available database of questions on the budget.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

The 2020/21 budget was set prior to the COVID-19 pandemic. The pandemic has had a significant impact on the operations of the Council and work is ongoing through COSLA to identify the additional costs being incurred and what additional funding will then become available to support this.

The Council has recognised that the 2020/21 budget will require to be reviewed and action identified to mitigate in year budget pressures to re-balance the budget. The need for self-isolation and work restrictions has meant a significant amount of the capital programme will need to be re-profiled.

The impact of COVID-19 on the ability to achieve financial sustainability presents a risk to the Council. It is positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

Financial capacity

2018/19 Conclusion: The finance team is led by the Executive Manager – Finance and Team Leader – Accountancy. We noted changes in the Executive Manager – Finance and Financial Accountant positions in 2018/19. The Council has not carried out a review of the finance structure and such a review was recommended.

2019/20 Update: The finance team has remained consistent throughout the year. We have not been provided with evidence of a review of the finance team structure in the year, and have not noted any changes that have been implemented.

2019/20 Conclusion: The Council continues to have a sufficiently qualified and experienced finance team to support the financial management of the Council, with changes occurring in 2018/19 effectively embedding throughout the year. We reiterate our recommendation regarding a review of the finance function and will monitor progress in this area in 2020/21.

Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2019/20, we have noted that internal audit has "experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work." Key areas impacted relate to risk management, treasury management and procurement. The Council has taken action in 2020/21 to prevent a recurrence of these issues.

Financial management (continued)

Internal audit (continued)

Internal audit has provided an 'unsatisfactory' opinion in relation to one audit, being arrangements to ensure EU funding compliance, which is disclosed in the annual accounts as a significant governance issue. Appropriate remedial actions are being discussed with internal audit.

The Chief Internal Audit has provided an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment of the Council, excluding the significant issues noted above.

Standards of conduct for prevention and detection of fraud and error

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

National Fraud Initiative (NFI)

All Councils are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Council's participation and progress in the NFI during 2019/20 and submitted an assessment of the Council's participation to Audit Scotland in February 2020.

The issues identified in 2018/19 – Audit Committee involvement in the NFI exercise, internal audit engagement, and appropriate key contacts – have not been addressed in 2019/20. These issues have been highlighted in every audit since 2016/17 and we have not noted any improvement in that time.

Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered the Council's controls and processes as a matter of particular focus and noted:

- The risk of procurement fraud is not acknowledged on the Council's risk register. Consequently, there is no risk owner with overall responsibility for this area.

- There are controls in place around the procurement process, including segregation of duties. In 2019/20, Scotland Excel carried out a 'Procurement and Commercial Improvement Programme' assessment of the Council, scoring 53% (an improvement from 48% previously). These were last tested by internal audit in 2017/18, which identified 4 high priority recommendations, 9 medium priority and 2 low priority. As set out on page 9, internal audit were due to consider this area in 2019/20, but due to insufficient interaction from the Council, were unable to do so.

- There is a gift and hospitality policy in place to prevent unacceptable instances taking place and systems in place to ensure all acceptable instances are recorded in a register.

- All staff involved in procurement related decisions are trained on how to identify procurement fraud 'red flags' (e.g. excessive entertaining of procurement staff by suppliers). Training was also provided by Scotland Excel in February 2020.

- Arrangements are in place to encourage and protect whistleblowers. However, the policy is outdated and needs to be reviewed.

While we welcome the improvement in the Scotland Excel rating received by the Council in the year, given the high number of recommendations arising from the most recent internal audit covering procurement in 2017/18 and the fact that such work was planned for 2019/20 but not able to be carried out, we are unable to conclude that the Council has appropriate arrangements in place to prevent or detect fraud and corruption in respect of the procurement function (although we have not noted any direct frauds or corruption from our work).

The Council should ensure that internal audit has the ability to carry out such a review in 2020/21. At the same time, the Council should consider whether procurement should be included as a risk on the Council's risk register, and ensure that it reviews relevant policies.

Financial management (continued)

Deloitte view – Financial management

The Council drew on £21.72m of reserves in 2019/20 (up from £15.31m in 2018/19). The Council has strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. We are pleased to note that the Council continues to improve in this area, with improvements noted in financial reporting and accuracy of budgeting.

The 2020/21 budget was set prior to the COVID-19 pandemic. The pandemic has had a significant impact on the operations of the Council and work is ongoing through COSLA to identify the additional costs being incurred and what additional funding will then become available to support this.

There has been no improvement in the Council's approach to budget setting, use of the finance function or engagement in the NFI exercise. While internal audit is distinct from external audit, we highlight the inadequate interaction with internal audit as a significant matter of concern, potentially impacting on the Council's ability to ensure it has an effective governance and control environment in place.

While the Council has arrangements in place to prevent and detect fraud and corruption in the procurement function, it is not clear from the evidence that these arrangements are sufficient.

Financial sustainability

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

Can short-term (current and next year) financial balance be achieved?

Is there a long-term (5-10 years) financial strategy?

Is investment effective?

Financial Sustainability

Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is a risk that the Business Transformation Programme and Service Redesign Programme are not robust enough to allow the benefits to be realised."

Short-term financial balance

2018/19 Conclusion: The Council achieved financial balance, with a sustainable draw of £15.31m (6.1% of carried forward usable reserves), being £4.83m less than budgeted and in line with the MTFP. The Council needs to improve its focus on the identification of savings rather than accepting an unsustainable draw on reserves. In 2018/19, the Council identified £1.94m of savings and achieved £0.65m.

2019/20 Update: The Council initially approved a budgeted draw on reserves of £17.57m in 2019/20, of which £3.54m is an unsustainable draw on the general fund. Revisions were made throughout the year, with the Council subsequently budgeting for a £33.11m draw on reserves, against which an actual draw of £21.72m was made (5.9% of carried forward usable reserves). This includes the unsustainable draw on the general fund of £3.5m.

In 2019/20, the Council's budget did not specifically identify savings which needed to be achieved, which we noted as a backward step in our 2018/19 audit. Despite this, the Council's 2020/21 budget similarly does not identify savings requirements.

In 2018/19, we noted that the Council had made a positive step in reporting savings achieved to Committees during the year. This ceased in 2019/20. We did not see evidence of savings plans and updates being presented to relevant committees – such as the Development Committee, Education and Families Committee and Environment and Transport Committee – in the year.

2019/20 Conclusion: The Council has achieved financial balance in 2019/20, through the unsustainable use of reserves. The Council continues to budget for an unsustainable draw on reserves and the budget setting process continues to place insufficient emphasis on the identification and achievement of savings.

We have not noted any improvements in relation to the identification of savings in the budget or moving away from an unsustainable reliance on reserves. Our conclusions from 2018/19 remain relevant and appropriate in these area. In addressing these recommendations, we would encourage the Council to reverse the decision it has taken not to present information on savings plans to the relevant Committees.

Reserves

2018/19 Conclusion: In 2017/18, the Council had £39.81m of non-earmarked usable reserves (32.3% of net expenditure). It had a further £209.99m of earmarked usable reserves (171% of net expenditure). The Council does not consider the nature, extent and timing of plans to use earmarked reserves to ensure they remain valid, appropriate and reasonable. The Council has an Investment Strategy which is aligned to its MTFP, setting out the Council's reserves strategy. The Council needs to also have a plan in place for remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.

Financial sustainability

Reserves (continued)

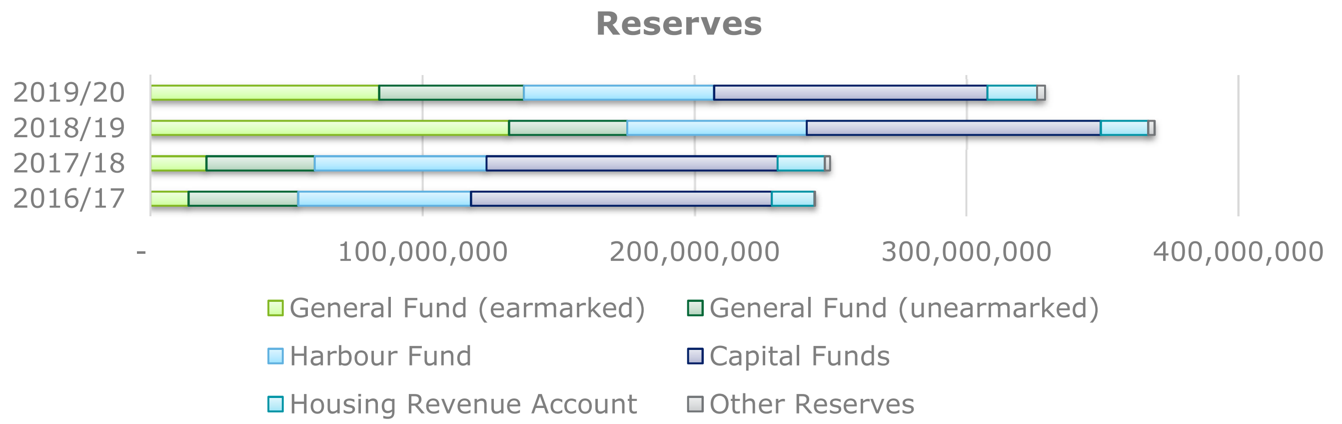
2019/20 Update: The Council started 2019/20 with £43.462m of non-earmarked usable reserves. This increased to £53.224m at the end of 2019/20, representing 45.4% of the Council's annual net cost of services. The increase is primarily as a result of the adoption of IFRS 9 in 2018/19, which changed the treatment of reserves arising from gains on investments.

The Council's earmarked reserves have declined from £325.705m at the start of 2019/20 to £275.645m by its close. The movement is again driven primarily by variances in investment values.

We have not received any evidence that the Council has carried out a review of the nature, extent and timing of plans to use earmarked reserves, or to assess whether they remain valid, appropriate and reasonable.

As the Council does not have a standalone Reserves Policy, it is not set out anywhere what the Council considers to be an acceptable level of reserves. This is important, particularly given that the Council has forecast that by the end of the decade, without effective action, it will have drawn down all of its reserves.

2019/20 Conclusion: The Council continues to have a healthy level of reserves. However, we have not noted any improvement in relation to consideration of the reserves held by the Council or any progress in setting out minimum acceptable levels of reserves and remedial action where that is breached. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.



Medium-term financial sustainability

2018/19 Conclusion: The Council's MTFP understates the Council's probable funding gap by 2023/24 by over 40%. This is primarily because the Council assumes it will receive additional ferry funding from the Scottish Government in its MTFP. It is also driven by the fact that the Council assumes a 7.3% return on investments, higher than its historical average. There is no evidence that the Council's Business Transformation and Service Redesign Programmes are sufficiently robust and advanced to deliver the savings required. The Council acknowledges that it is in a financially unsustainable position.

2019/20 Update: The Council did not revise its MTFP in the year. This occurred in the first instance due to delays in the UK and Scottish Government budget setting process and was subsequently delayed further due to COVID-19. The Council intends to refresh its MTFP in 2020/21.

In 2019/20, the Council continued its discussions with the Scottish Government regarding ferry funding. The Council's MTFP assumed it would receive £7.94m in 2019/20 and £8.16m in 2020/21. The Council received £5.2m from the Scottish Government in relation to ferries in 2019/20 and will receive £5.2m in 2020/21.

The Council's investments continue to underperform the assumed rate in the MTFP. The MTFP assumes 7.3% growth, higher than the historical average of 5.2%. In 2019/20, the rate of return was negative 6.2%.

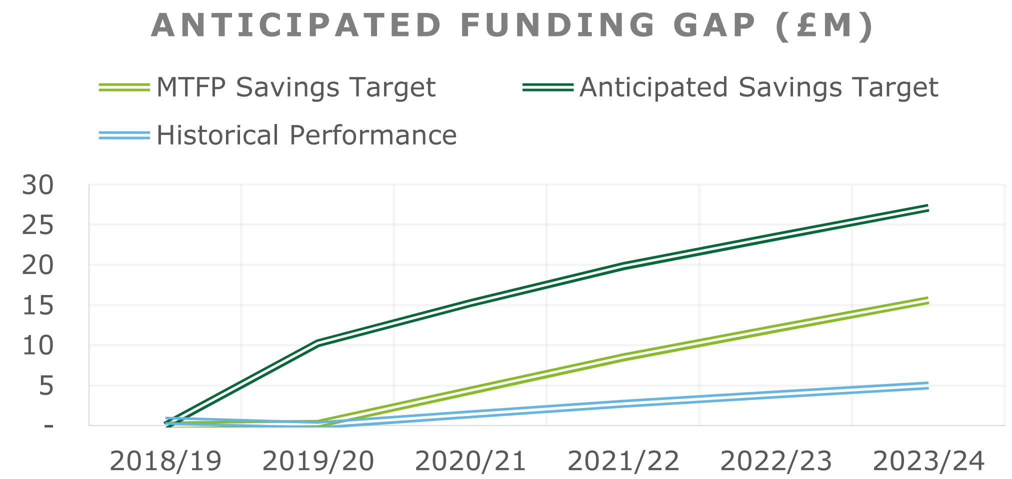
There has been limited reporting to the Council on savings achieved through the Business Transformation and Service Redesign Programmes. In November 2019, the Council noted that over the life of the programmes, it had achieved £2.2m of recurring savings. It is not clear what the target is, or how much has been achieved in 2019/20.

Medium-term financial sustainability (continued)

2019/20 Conclusion: The Council continues to draw an unsustainable amount from reserves, has optimistic medium-term plans and has not identified all the savings needed to address its identified funding gap. While the Council has a healthy level of reserves (page 12), it remains in a financially unsustainable position, with its forecast position by 2023/24 (a £15.6m annual funding gap) understated by an estimated 74%.

Recommended improvements in the MTFP, Business Transformation Programme and Service Redesign Programme were not implemented in the year.

With regards to ferry funding, we are satisfied that the funding requested by the Council (£8.1m in 2019/20, £9.49m in 2020/21) is reasonable, given that it is based on audited historical spend adjusted for known changes (e.g. pay uplifts) and is the output of a joint working group with the Scottish Government. We are satisfied that the Council has acted in good faith, demonstrated good collaboration and engagement at both an official and political level, and worked closely with the Scottish Government in order to progress this issue. The Council has made significant effort to keep ferry funding on the agenda both locally and nationally. However, given these conclusions and the reality that the Council continues to receive approximately £5m for ferries, it is unreasonable for the Council to continue to assume that it will receive the full amounts requested when drafting future budgets and MTFPs.



Effectiveness of investment

2019/20 Conclusion: The Council considers affordability of investment through the development of business cases and the completion of options appraisals. The Council needs to carefully monitor progress against approved actions to ensure that benefits are realised and a post-implementation benefits realisation analysis should be performed to ensure any areas of good practice and lessons learned are appropriately used.

2019/20 Update: The Council continues to underpin its decision making process through the appropriate use of business cases and options appraisals. These are supported by staff from various departments within the Council, including appropriate finance support.

We have not been provided with evidence of post-implementation analysis being carried out in the year.

2019/20 Conclusion: We welcome the continued use of business cases by the Council, with these now a regular item in Council reporting. Given the issues identified with key elements of the Business Transformation and Service Redesign Programmes – such as delays in reviewing the bus network, difficulties in funding ferries, slow progress of the Shetland College merger – the Council needs to ensure it has appropriate mechanisms in place to report on and action any lessons learned.

Business Transformation Programme

2018/19 Conclusion: The Council needs to move from the planning stage of projects to implementation to achieve the savings required. The Council also needs to ensure it has clear plans in place for monitoring progress throughout implementation. We commended the Council's approach to programmes of demand management, including prevention and early intervention in Children's Services and Social Care, and welcomed the Council's stakeholder engagement, particularly in relation to the Shetland College project. We recommended that the Council consider having a dedicated team to support change and transformation.

Financial sustainability

Business Transformation Programme (continued)

2019/20 Update: The most recent reporting to the Council on progress with the Business Transformation and Service Redesign Programme was in November 2019.

In 2019/20, the Council made significant progress in a number of areas, for example in relation to its bus network and internal air services, which are anticipated to deliver annual savings of £0.38m.

There have been delays in a number of areas, for example in relation to rationalisation of the Council's property portfolio, broadband and connectivity, workforce planning and the Shetland College merger.

The Council has noted that it has achieved £2.2m of recurring savings from these programmes to date. The Council has also noted that "at this stage, it is difficult to quantify further savings that will be made from Business Transformation Programme projects."

The Council has established a Project Management Office in the year, providing support to key projects.

2019/20 Conclusion: We welcome the establishment of a Project Management Office to provide support for the Business Transformation and Service Redesign Programmes. However, there have been significant delays to numerous strands of the programmes, with consequential impacts on savings achieved. COVID-19 is likely to result in further delays to implementation of these projects.

The Council has recognised that in a very short space of time, it has had to rapidly transform the way it works in response to the COVID-19 pandemic, in order to maintain essential services, including changing the way that it delivers some services and making difficult decisions in respect of standing down others. Staff have been redeployed to help deliver these essential services, keep communities safe and protect those most in need.

The Council has also identified that for some groups, the social, economic and health harms caused by both the virus and associated lockdown measures, will be greater and that this could have a profound and long-lasting impact, exacerbating already existing inequalities in its communities. It therefore recognises that its recovery and response must take account of the disproportionate impact of the pandemic.

The Council needs to map its recovery and re-instalment of services against the route map phases set by the Scottish Government and explain how service redesign and wider transformation objectives will be weaved to support its recovery and renewal plan.

Long-term financial planning

2018/19 Conclusion: In September 2018, we recommended that the Council refresh its Long-Term Financial Plan (LTFP), which was not completed by the target date of August 2019.

2019/20 Update: There has been no revision to the LTFP in the year. The Council intends to review its MTFP in 2020/21 and subsequently review the LTFP.

2019/20 Conclusion: There has been no improvement in the year. Our conclusions from 2018/19 remain relevant and appropriate in 2019/20.

Capital planning

2018/19 Conclusion: Recommendations made in 2017/18 were not addressed in the year. The Council should link its capital plan with its Corporate Plan. The Council's budgeting for capital projects needs to be improved, with an average underspend of 30% per year between 2012/13 and 2018/19. The Council does not include due dates for projects, dates of completion, budgeted and actual cost, making it difficult to monitor whether the Council is delivering projects on time and on budget.

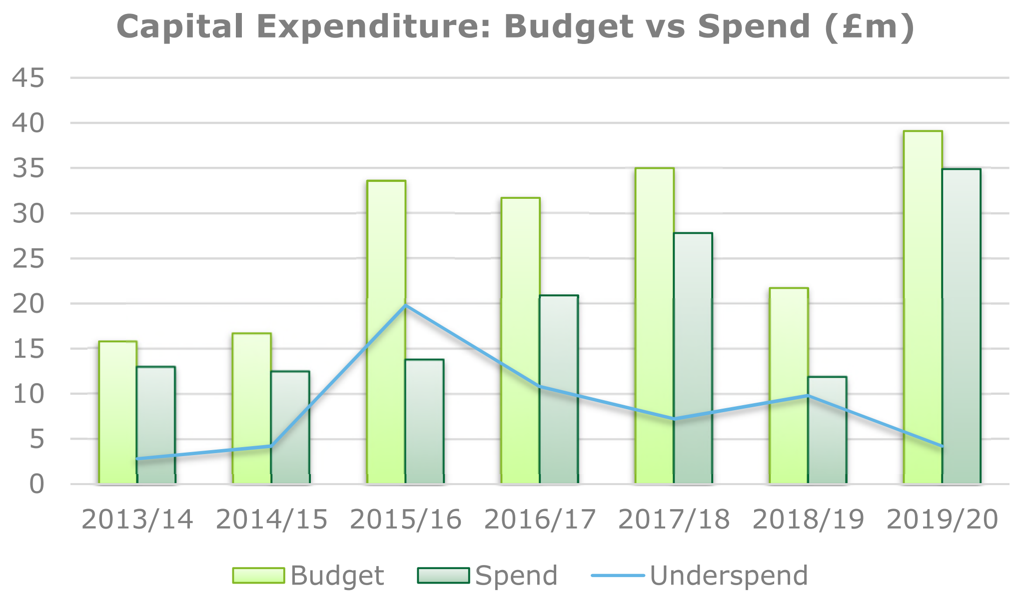
2019/20 Update: The underspend against the asset investment plan in 2019/20 declined from the average 30% per year to 11% in 2019/20.

There has been no progress in addressing the recommendation made in 2017/18, which encouraged the Council to identify its current asset base, anticipated additional assets to be acquired in the medium to longer term, assets which currently could be classified as unneeded, what the Council considers to be an affordable asset base and the difference between this base and the anticipated medium-term base, with appropriate plans developed to bridge this gap in the longer term.

Financial sustainability

Capital planning (continued)

There has been an improvement in reporting on progress against the Asset Investment Plan in the year, with the Council now reporting expected completion dates of capital projects and the budgeted over or underspend. The position at January 2020 was a projected underspend of 0.7%. The reporting enables an understanding of whether capital projects are being delivered on budget but it remains unclear whether they are being delivered on time, as original target dates for completion against actual (or expected) completion dates are not disclosed.



2019/20 Conclusion: We welcome the improved delivery and reporting of the Asset Investment Plan in the year. The projected underspend of 0.7% across the Asset Investment Plan (which runs until 2023/24) indicates a high accuracy of budgeting, although we note this is in contrast to the budget and spend in each individual year. We will monitor whether reporting on the Asset Investment Plan position is accurate in 2020/21 by reviewing actual performance to that point, which has not been possible previously. We are aware that the Council is revising its Property Asset Management Strategy and would encourage it to address the recommendations made in both 2017/18 and 2018/19 as part of this review.

Workforce planning

2018/19 Conclusion: The Council confirmed it was preparing a workforce plan, including succession planning, which will be informed by individual directorate plans.

2019/20 Update: We have been provided with a draft of the Council's Workforce Plan, although we note that this is still to be updated and subject to approval by the Council in 2020/21. The Workforce Plan sets out the vision of the Council, priorities and challenges to achieving that vision, solutions and opportunities.

The draft Workforce Plan does not include targets, dates, or measurable outcomes or outputs.

2019/20 Conclusion: We welcome the continued progress in developing a workforce plan, but note that the plan is now significantly overdue. Substantial additional work will need to be completed to ensure that the plan is achievable, by having supporting delivery plans in place which are capable of being measured and monitored.

Deloitte view – Financial sustainability

As discussed on page 12, the Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, assuming an unsustainable draw on reserves. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19.

The Council recognises that it is not financially sustainable. It's MTFP is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.

In a significant number of areas, such as budgeting, review of reserves, review of the MTFP and LTFP and review of the asset investment plan, we have not noted any improvement in the year.

Governance and transparency

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

Is governance effective? → Is there effective leadership? → Is decision making transparent? → Is there transparent reporting of financial and performance information? → **Governance and transparency**

Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is an ongoing risk that the Council's self evaluation is not sufficiently developed to demonstrate continuous improvement. We will consider the work being done by the Council in response to the recommendations made in our 2018/19 interim report."

"There is also an ongoing risk that the Council is not meeting its obligations under the Community Empowerment Act. We will assess the work being done to develop locality plans as required under the Act."

"There is an ongoing risk that that the IJB does not achieve the full benefits of integration. We will consider the ongoing work to review the Integration Scheme as part of our separate audit of the IJB."

Council and Partnership plans

2018/19 Conclusion: The Council started leading the development of delivery plans. The Council needs to set clear timeframes for when delivery plans will be available and ensure their development is properly prioritised and resourced. The Council Plan is not clearly aligned to the Partnership Plan and should ensure clear links are made when the Council Plan is refreshed in 2020.

2019/20 Update: The Council Plan is due to be refreshed later in 2020/21.

In July 2019, the Council published the Delivery Plan 2019-22 to support to delivery of the Partnership Plan. This is underpinned by Project Charters, which provides detail on actions and resources required, risks, outcomes sought and how they will be measured.

2019/20 Conclusion: We welcome the development of delivery plans in the year and the supporting project charters. The outcome measurements in the charters need to be monitored and reported to the Council to ensure that the Partnership captures the benchmark and addresses any risks to achievement of the plan in a timely manner. We understand and consider it reasonable that performance reporting has been curtailed in light of COVID-19.

We reaffirm our view that the Council should ensure that the Council Plan is clearly linked to the Partnership Plan when the Council refreshes the plan in 2020/21.

Leadership

2018/19 Conclusion: The Council has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of Shetland. Members, management and partners support the shared vision for the area. The wider leadership team need to continue to drive progress rather than being heavily reliant on the CEO.

2019/20 Update: There have not been any significant changes in executive management within the Council in the year. There have been a couple of changes at Member level, with Moraig Lyall replacing Mark Burgess and Stephen Flaws replacing Beatrice Wishart following elections in 2019/20.

Governance and transparency (continued)

Leadership (continued)

Members and executive management have worked closely together in response to COVID-19, with daily meetings held at the start of the COVID-19 pandemic, with these reduced to twice weekly as matters have progressed. The frequency and content of the meetings continues to evolve as the Council responds to the prevailing circumstances.

We have held meetings with the wider Corporate Management Team to follow up on our work and observed a meeting as the COVID-19 pandemic started.

2019/20 Conclusion: The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision making arrangements and the arrangements for developing the Council's local phasing recovery plans.

It was evident from our discussions with the wider Corporate Management Team and attendance at a meeting that there has been improved buy-in to the need for change across the Council. While COVID-19 has impacted on the timelines for this, we are satisfied that the Council has the correct attitude to driving the necessary change as it emerges from COVID-19.

Effectiveness of governance

2018/19 Conclusion: The Council does not have a structured approach to self-assessment, with only the Audit Committee subject to self-assessment in the year. The Council needs to develop a self-assessment programme covering annual reviews of governance arrangements, Committee and Council performance, supplemented by reviews by corporate and service level, which should be made public.

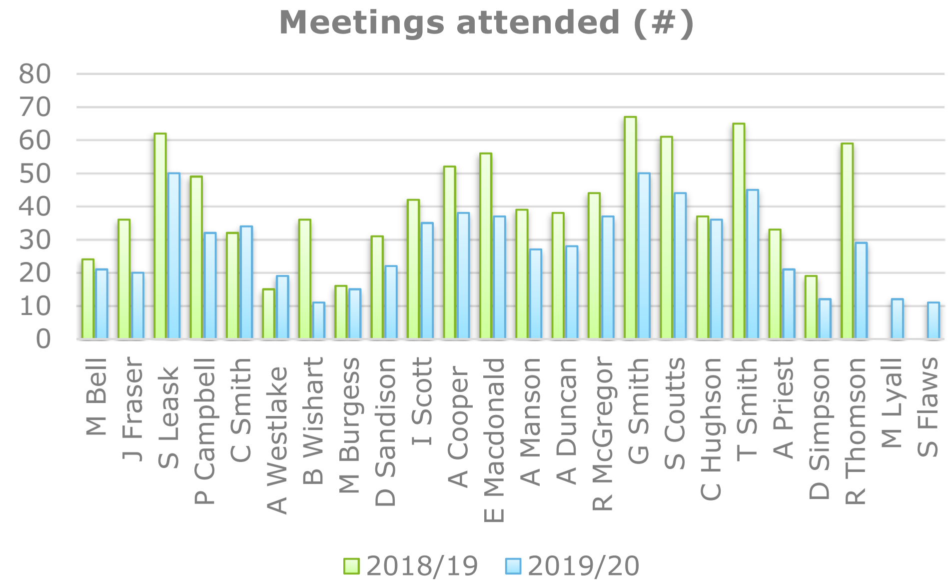
Attendance at Council meetings is commendably high, increasing from 81% in 2017/18 to 84% in 2018/19. The number of meetings grew by 37% in the year and attendance fluctuates significantly – some Members attend as few as 15 and some as many as 67, with attendance rates ranging from 57% to 100%. The Council needs to work with Members to more equitably share the workload of the Council.

The Council does not have a training plan at an individual Member, Committee or Council level. No skills gap analysis has been carried out and appraisals are not conducted for Members. The effectiveness of training which is provided is not regularly assessed. The Council needs to adopt a formal, ongoing approach to development.

2019/20 Update: We have not been provided with any evidence of self-assessments being carried out at service, corporate, Committee or Council level. We are aware that the Council published a review of compliance with governance arrangements in June 2019, although this was based on 2017/18 information and has not been updated for 2019/20.

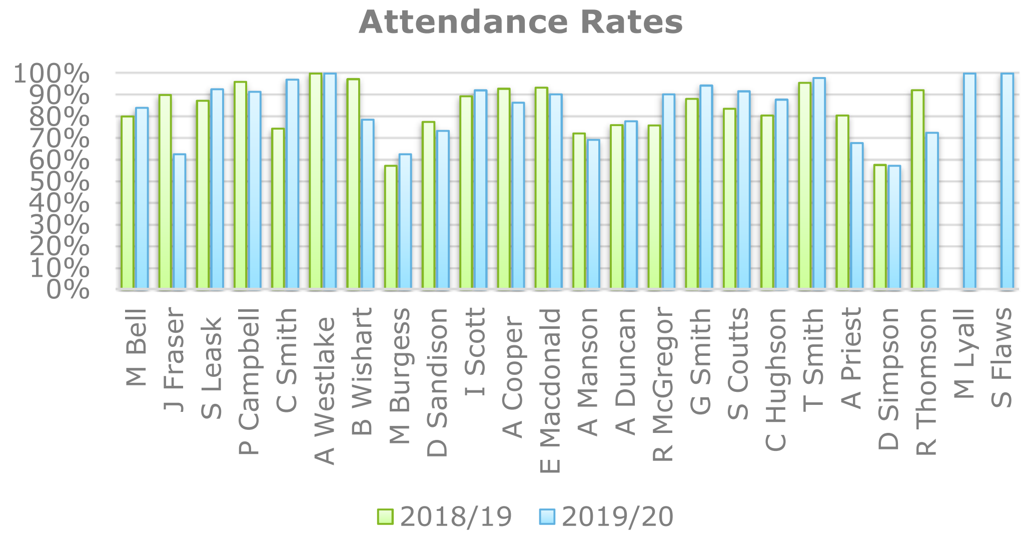
A skills gap analysis was not carried out in the year. In 2019/20, 40% of Members completed a self-evaluation, with 23% of Members having a personal development plan in place. Further work is needed to ensure that all Members are carrying out self-assessments and agreeing personal development plans, with any gaps at a Committee or Council wide level then being identified and a plan put in place to address thematic areas for development.

Council meetings have declined in the year, from a total of 98 meetings in 2018/19 to 69 in 2019/20 (which is in line with the 71 meetings in 2017/18). Attendance remains high, at 83%. Attendance continues to vary significantly between members (between 57% and 100%), with the number of meetings attended varying from 11 to 50.



Governance and transparency (continued)

Effectiveness of governance (continued)



The Council's Committee structures were temporarily suspended during the COVID-19 outbreak and it was agreed to suspend all Council and Committee meetings with immediate effect from March, which was formally approved on 22 April 2020. Decisions were delegated to the Corporate Management Team, supported by a Tactical Team. Elected members have been provided with regular COVID-19 briefings from the Chief Executive. The temporary arrangements remain under review but Council and Committee meetings have started to resume in summer 2020.

2019/20 Conclusion: We welcome the continued high attendance by Members at Council meetings and the Council's adaptability in response to the COVID-19 pandemic. It is positive to note that the Council is considering lessons that can be learned from the COVID-19 pandemic and using the opportunity to implement changes in its governance processes (such as hosting webcast Council meetings, discussed across).

We have not noted any improvements in the Council's approach to self-assessment in the year, although we have noted some progress in the approach to training. Similarly, while there have been changes in Committee membership, there has not been a noticeable improvement in the sharing of Council workload amongst Members, with a number of Committees having vacant positions for long periods. Our conclusions in these areas from 2018/19 remain relevant and appropriate in 2019/20.

As part of our 2019/20 audit work, we issued a questionnaire to Members covering queries on the audit dimensions. Not a single Member responded to our questionnaire.

Openness and transparency

2018/19 Conclusion: The Council is generally positively disposed to improvements in openness and transparency, with planned improvements to the Council's website and publication of information. The Council has not carried out a review of its approach to openness and transparency or sought the views of the wider community and staff in this area.

2019/20 Update: In July 2020, the Council held its first webcast Council meeting, with this continuing to be available to view online after the meeting had completed.

The Council has rolled out the beta version of its new website, which is accessible through the Council's current website.

We have not seen evidence of any stakeholder surveys, staff surveys or reviews which consider the Council's approach to openness and transparency.

2019/20 Conclusion: In line with our previous year's conclusions, the Council continues to be open and transparent. We welcome the Council's move to webcasting Council meetings and the benefit this will have in engaging the wider community in local democracy. As recommended in 2018/19, in the interest of continuous improvement, the Council should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders.

Governance and transparency (continued)

Quality of information

2018/19 Conclusion: The Council provides extensive and timely information to Members to enable them to take decisions. The Council should review the style of reporting and whether covering reports identify key matters and implications appropriately, in addition to whether the minutes of meetings are clear and have sufficient detail.

The Council should consider webcasting of meetings, holding meetings in alternative locations and the publication or a quarterly or annual newsletter setting out key decisions of the Council, how the Council is performing and how the public can get involved.

2019/20 Update: We have not seen any evidence of a review into the style of reporting and minute taking in the year, although we do note training was provided in this area. Similarly, from our review of reporting to the Council, we have not identified any noticeable changes in these areas.

As discussed on page 19, the Council began webcasting Council meetings in July 2020. We are aware that the Council is preparing to permanently move Council meetings to a new building in Lerwick to enable greater public attendance and participation.

There have been a number of comments in the local press during the year by members of the community about the quality and accuracy of information provided to Members in relation to topics of particular public interest. In August 2020, a local community council highlighted these and called for an independent investigation into the integrity of information provided to Members – in particular in relation to ferry funding, fixed links and consultations.

2019/20 Conclusion: The Council continues to provide extensive, timely and high quality information to Members. We have not identified any issues with the completeness or accuracy of information provided in relation to ferry funding (and note that the amounts were prepared jointly with the Scottish Government) and have commended the Council on the quality of consultations in relation to large-scale transformation and redesign projects.

As highlighted throughout this report, we have identified areas for further improvement (for example, in relation to the MTFP, budgeting and performance reporting). We welcome the webcasting of meetings and the Council's plans to enable greater public attendance and participation at meetings.

We would encourage the Council to progress a review of reporting and minute taking to ensure that these demonstrate that the information provided to Members is high quality.

Community engagement

2018/19 Conclusion: The Council needs to improve its community engagement and consultation in relation to financial planning, with there being no evidence of structured community engagement in the budget setting process. The Council should also carry out regular stakeholder surveys to monitor changing expectations.

The Council is not meeting all of its obligations under the Community Empowerment Act, being non-compliant with the requirement to have locality plans in place.

2019/20 Update: There is no evidence of community engagement and consultation in relation to the budget setting process. The MTFP and LTFP have not been revised in the year. There continues to be community engagement on large scale projects in the Business Transformation and Service Redesign Programmes (as discussed on page 15), for example in relation to bus and air service retendering and the 'recreate Scalloway' plan.

The Council has worked with its partners to develop locality plans in the year. However, these were not developed in the year and the Council remained non-compliant with the Community Empowerment Act until September 2020.

There is no evidence of the Council reviewing or documenting its approach to community engagement in the year.

2019/20 Conclusion: We welcome progress the Council has made in developing locality plans to ensure the Council is compliant with its responsibilities under the Community Empowerment Act, although we do note the delay in addressing this, with the Council becoming compliant in September 2020. As the Council prepares to enter the budget setting period for 2021/22, revise its MTFP and LTFP, we would encourage the Council to consider innovative ways of engaging and consulting the community in that process.

Governance and transparency (continued)

Following the public pound

2018/19 Conclusion: The Council has clear policies in place to comply with the Following the Public Pound (FtPP) Code, which was last reviewed by internal audit in 2017/18. A number of issues were identified and we concluded that the Council should include compliance with FtPP as a standard item in the internal audit annual plan until sufficient assurance is received that the issues identified have been remedied.

The Council's policy requires summary reports to be provided to the relevant service committee. No reporting was noted in either 2017/18 or 2018/19.

2019/20 Update: The statutory requirements to comply with the Following the Public Pound (FtPP) Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

We were provided with summary reports of grants issued in the year. However, from our review of reporting to committees in the year, we have not identified that these reports were presented to the relevant committees.

The internal audit annual plan for 2019/20 did not include a review of FtPP and it is not referenced in internal audit's opinion.

2019/20 Conclusion: We have not identified any improvements in the year in relation to the Council's approach to FtPP. Our conclusions from 2018/19 remain relevant and appropriate in 2019/20.

Health and social care integration

2018/19 Conclusion: Financial planning is not integrated, long term or outcome focused. The Council needs to work with the IJB in developing its MTFP. The Council should work with the NHS to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The Council needs to make sure it involves the IJB in the development of the Council workforce plan.

The Council, NHS and IJB need to work together to review the Integration Scheme, with a legal deadline of June 2020.

2019/20 Update: In 2019/20, £2.53m of savings were required, with £1.43m of savings achieved (56%). This is a significant improvement on the prior year, although there is heavy reliance on non-recurrent savings. In it's 2020/21 budget, the IJB noted a significant increase in funding from both SIC and NHSS, increasing its funding from £45.648m to £50.736m. This enables the IJB to set a balanced budget for 2020/21, and reduces the funding shortfall by 2023/24 from £7.66m (14%) to £1.73m (3%). This savings target is in line with the efficiency targets set by the Scottish Government. The MTFP has not been reviewed in the year, with delays as a result of the 2020/21 budget settlement process and COVID-19.

In May 2020, the IJB set its 2020/21 budget. The IJB has set a balanced budget for the first time since its inception, following significant uplifts in the funding provided by both SIC and NHSS.

The IJB received no reporting on workforce planning in the year, relating either to the NHS or Council plans. While the Chief Officer was consulted in the development of both plans, the Board was not involved and has not received assurance on what the IJB's needs are, how these will be met and how any gaps will be addressed.

In line with the Public Bodies (Joint Working) (Scotland) Act 2014, the Council is required to work together with the IJB and NHS to formally review the Integration Scheme by the fifth anniversary of its approval, being June 2020. This review has not been completed and the Council, along with its partner organisations, is non-compliant with the relevant legislation. The requirement for this review was communicated to all three organisations during our audits in summer 2019, and insufficient progress was made in early 2020, with planned work on this area then further delayed due to the COVID-19 pandemic.

2019/20 Conclusion: The Council is currently non-compliant with its responsibilities under the IJB's governing legislation and needs to address this as a priority. We welcome the Council working with the IJB and NHS to ensure that the IJB was able to set a balanced budget for 2020/21 and reiterate our recommendation that the Council should work closely with the IJB in the development of its MTFP and workforce plan.

Governance and transparency (continued)

Deloitte view – Governance and transparency

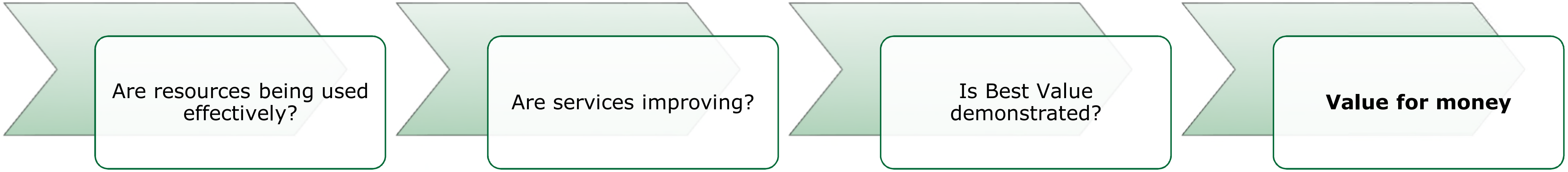
The Council continues to have strong leadership, which has been particularly evident in the Council's response to COVID-19. We commend the continuing high level of participation at Council meetings by Members and are satisfied that the Council provides sufficient information to Members to enable effective scrutiny and decision making.

The Council continues to have a good attitude towards openness and transparency, demonstrated by their decision to begin webcasting Council meetings in July 2020 and through the roll-out of a new Council website which will see additional information made publicly available. We welcome the development of a delivery plan and supporting project charters for the Shetland Partnership Plan and improvements in collaboration with the IJB in the year, enabling the IJB to set a balanced budget for 2020/21 and significantly reduce it's medium-term funding gap.

There remain a number of areas where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement. For example, we have noted that the Council remained non-compliant with its obligations under the Community Empowerment Act until September 2020 and became non-compliant with its obligations under the Public Bodies Act in June 2020. Given issues identified with regards to Following the Public Pound, the Council should ensure that this is considered in 2020/21 and any issues rectified. The Council should improve its approach to self-assessment and community consultations, consider its approach to openness and transparency and reporting, and ensure that it involves the IJB in the development of its MTFP and workforce plan.

Value for money

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



Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is an ongoing risks that members are not provided with the required information to monitor the Council's performance and focus on continuous improvement. We will continue to review the Council's performance, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council."

Performance management framework

2018/19 Conclusion: There is a clear framework in place to ensure that Council performance is monitored and reported. We noted the Council was developing a new Performance Framework to be used by the Council and the Shetland Partnership.

2019/20 Update: The Council approved a revised Performance Management Framework in July 2019. However, the Council's approach to performance management has remained relatively consistent during 2019/20 as it has put in place transitional arrangements for fully embedding the revised framework.

Performance is compared through a range of national benchmark forums, including the Local Government Benchmarking Framework (LGBF), as a means of identifying good practice and supporting continuous improvement. This benchmarking is used to support the Council's work to ensure that local communities receive the best possible services and outcomes.

2019/20 Conclusion: We welcome the revision of the Council's Performance Management Framework in the year and that in line with best practice, it clearly links performance measures to the National Performance Framework.

Statutory performance indicators (SPIs)

2018/19 Conclusion: The Council has appropriate arrangements for the publication of fair, balanced and engaging performance information.

2019/20 Update: The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which applies from 2019/20 and requires a council to report a range of information.

Following the review of the SPIs and reporting arrangements carried out in 2018/19, the SPI framework was revised and reduced from 66 performance indicators to 55, to ensure there is sufficient focus.

SPI 1: Improving local services and outcomes

- performance in improving local public services provided by (1) the Council itself and (2) by the Council in conjunction with its partners and communities; and
- progress against desired outcomes.

Value for money (continued)

Statutory performance indicators (SPIs) (continued)

SPI 2: Demonstrating Best Value

The Council's assessment of how it is performing against its duty of BV, and how it plans to improve against this assessment;

- audit assessments of how its performance against its BV duty, and how it has responded to these assessments; and
- in particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place.

In view of the approach embedded within the Council for a number of years, with performance monitored through the Partnership Plan, the requirement to report on performance for both the Council and with its partner communities was already standard practice.

2019/20 Conclusion: The Council has robust and long standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

Accuracy of reporting

2018/19 Conclusion: We identified instances where information differed between reports, with the reasoning for this being unclear. This undermines the ability of Members to effectively monitor performance. The Council needs to standardise reporting to committees.

2019/20 Update: We have not identified any inaccuracies or inconsistencies in reporting through our work in 2019/20. As part of the revised Performance Management Framework (discussed on page 23), the Council has developed standard templates for reporting on performance.

2019/20 Conclusion: We welcome the improvement in the year and are satisfied that information reported to Members, based on the work performed, is accurate.

Self-assessment

2018/19 Conclusion: The Council does not carry out self-assessments at an operational level. The lack of a centralised Improvement Plan makes it difficult to monitor improvement across the Council as a whole and to identify areas where improvement is not progressing as planned.

2019/20 Update: As discussed on page 18, we have not seen any evidence of the Council carrying out self-assessments at an operational level in the year. We do note that the Council has established a 'Learning Board', which invites relevant officers to report to the Corporate Management Team on lessons learned from projects across the Council. The Learning Board met 8 times in 2019/20.

The Council has not developed an Improvement Plan or reported on improvements in the year.

2019/20 Conclusion: We welcome the establishment of the Learning Board and consider that this will enable the Council to ensure that lessons learned from key projects are applied across the Council. Our conclusions in relation to annual improvement plan or annual improvement report remain and the establishment of a self-assessment programme at an operational level remain in place.

Major transformation projects

2018/19 Conclusion: The Full Business Cases for both the acquisition of SLAP and the College Merger demonstrated clear financial savings, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved.

2019/20 Update: There were significant delays with the finalisation of the acquisition of SLAP and completion of due diligence work. In September 2019, we reported to the Council that we considered that SLAP's assets were over-valued and the Council had paid £1.55m above the value of the assets to acquire SLAP. Delays in filing the completion accounts resulted in a cost of £0.38m for the Council. Ongoing litigation resulted in the Council not completing the hive up process within 2019/20, although it expects to do so in 2020/21.

Value for money (continued)

Major transformation projects (continued)

There have also been delays to the implementation of the College Merger due to ongoing discussions between the Council, Scottish Funding Council and NAFC. This has resulted in a substantial increase to the Council's provision for pension cessation costs and a reduction and delay in the anticipated savings which will be achieved as a result of the merger. The Ministerial Business Case was approved in April 2020 and it is anticipated that the merger will be completed in 2021/22.

2019/20 Conclusion: The acquisition of SLAP and implementation of the College Merger are significant milestones for the Council and represent key strands of its Business Transformation and Service Redesign Programmes. Due to delays and inadequacies in their implementation – not all of which were within the Council's control – the Council will not realise the financial savings initially anticipated. However, the Council will continue to generate savings over the longer-term and the projects will enable the Council to progress other transformation projects and improve service delivery. While we consider that there are lessons to be learned from these projects, we are satisfied that they continue to represent value for money.

Homelessness

2018/19 Conclusion: The Council is in the bottom quartile of all social landlords in relation to key indicators such as tenant satisfaction, communicate, tenant participation, value for money, days to complete repairs and repairs completed right first time. The Council needs to create a specific plan to address these areas.

2019/20 Update: The Scottish Housing Regulator has preliminarily concluded that there has not been a significant improvement in service quality or services for people who are homeless, and that quarterly meetings with the Council will continue. The Council has confirmed that it is prioritising improvement in this area and that it believes improvements have been made in the year.

2019/20 Conclusion: From review of reporting to the Development Committee in September 2020 and discussions with the Scottish Housing Regulator, we have noted minor improvements in performance, primarily in relation to tenant satisfaction scores. We will continue to work with the Scottish Housing Regulator in assessing the Council's performance in this area in 2020/21.

Shetland Partnership Plan / Service performance

2018/19 Conclusion: Performance is reported to service committees on a quarterly basis. In Q3 2018/19, of 40 measures reported, 24 due dates had been amended with no narrative to explain the rationale. There are no targets for any of the outcomes reported, with the accompanying narrative lacking in any measurable data or specific actions to address underperformance. The information reported is insufficient to enable Members to properly monitor and scrutinise performance.

Performance at a service level improved marginally between 2017/18 and 2018/19. However, there are a large number of indicators where there is no target or where no information is provided (increasing from 40% in 2017/18 to 46% in 2018/19). There is no link between indicators, the Council's priorities and outcomes for communities.

2019/20 Update: Due to the outbreak of COVID-19, performance reporting was curtailed. Performance reporting on the Partnership Plan and service targets was presented up to Q2 of 2019/20 only (with some services not reporting at all in the year). In the available reports, we noted no improvements in 2019/20.

We requested evidence from the Council to outline if further revisions to due dates and targets had been made and an analysis of targets achieved to date. The Council confirmed that as the Partnership Plan has now developed a delivery plan, targets will be revised to 2022. This does not align with the Council's internal performance reporting in Q2 of 2019/20.

2019/20 Conclusion: Due to insufficient reporting due to the transition to a new Performance Management Framework and a curtailment in performance reporting due to the outbreak of COVID-19, it is not possible for us to conclude on progress made in the year.

The Council needs to ensure its revised reporting (in line with the new Performance Management Framework) in 2020/21 accurately captures revisions to due dates (and the rationale for them), has measurable targets and provides appropriate narrative information to enable Members and the public to understand how the Council will address areas of underperformance. We will consider the Council's progress in this area in 2020/21.

Value for money (continued)

Local Government Benchmarking Framework

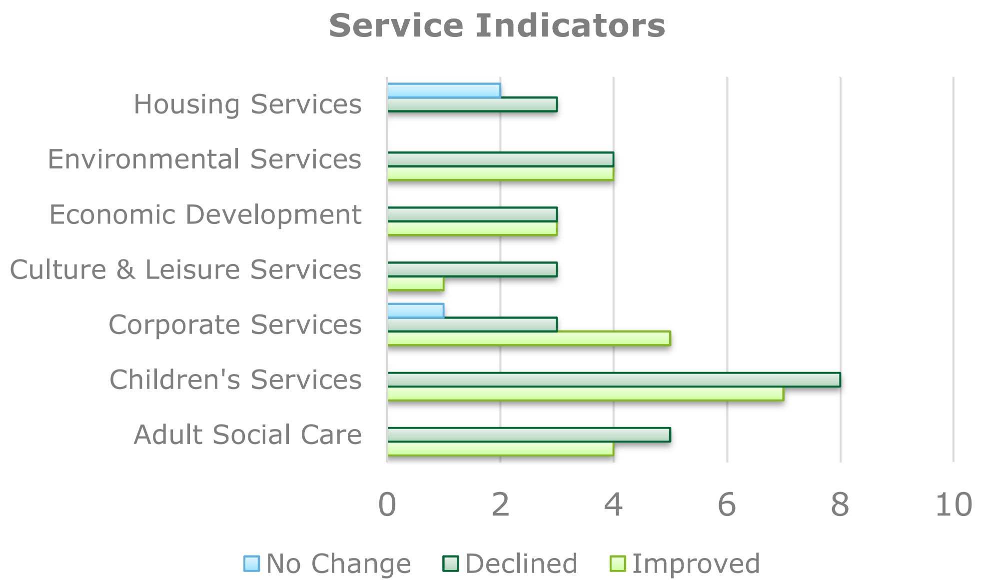
2018/19 Conclusion: Council performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services reduced in 10 areas, increased in 6 areas and was maintained in 3 areas. The Council's performance is better than the Scottish average in 31 areas (worse in 16). The Council spends more than the national average in 68% of areas and performs better in 57%. This information is provided in full to the Council but the report lacks detail of which areas the Council considers to be a priority and lacked supporting narrative. The reporting did not enable a whole-Council view to be taken or to enable trends across the Council to be identified.

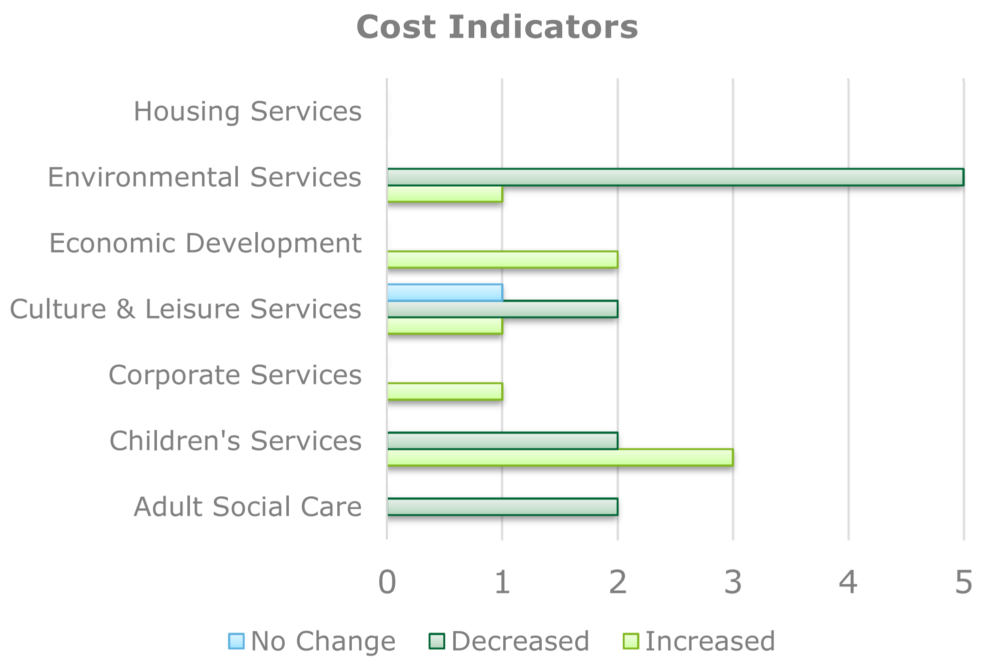
2019/20 Update: The 2018/19 LGBF report was presented to the Council in March 2020. In line with our conclusions in the prior year audit report, the accompanying report continued to lack analysis of the Council's priority areas, analyse trends across the Council or effectively set out future plans to address underperformance.

In 2018/19, Council service performance improved in 24 areas, declined in 29 areas, with no change identified in 3 areas. The cost of services was reduced in 11 areas, increased in 8 areas, and maintained in 1 area.

The main areas where spend was reduced was Environmental Services (5 out of 6 indicators) and Culture and Leisure Services (2 out of 4 indicators). This had an impact on these services: 50% of indicators in Environmental Services and 75% within Culture & Leisure Services showed a decline in performance. Spend was also reduced in 2 areas of Children's Services, which had an adverse effect: 53% of service indicators reported a decline. This decline in spend and performance does not appear to be in line with the priorities set out in the Council Plan.

2019/20 Conclusion: Although performance has declined locally, Council performance is better than the Scottish average in 36 areas (worse in 20). Against similar councils, Shetland Islands Council performs better in 32 areas (worse in 24). However, this higher level of performance needs to be considered in the context of the higher spend in Shetland - Shetland Islands Council spends more than comparable councils in 15 areas (less in 5), and more than the national average in 13 areas (less in 7). Similar to 2018/19, the Council has performed better than the national average in 64% of areas but spends more in 75% of areas.





Value for money (continued)

Deloitte view – Value for money

The Council has revised its Performance Management Framework and in line with best practice, reports will clearly link its performance measures to the National Performance Framework. It also has long standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting for us to conclude on whether the Council's performance at a service or Partnership level has improved in the year and to assess the pace of that improvement.

The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework, although there has been a decline in performance in more areas. The Council continues to perform well against the national average, although this comes at additional cost. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

The Scottish Housing Regulator has concluded that the Council's performance in addressing underperformance in relation to housing and homelessness has not improved significantly in the year, although monitoring subsequent to 2019/20 has been impacted by COVID-19. The Council has confirmed that it is prioritising improvement in this area and has reported on its plans and progress to the Development Committee in September 2020. We will continue to liaise with the Council and the regulator to monitor performance in 2020/21.

While we have identified issues with the implementation of the acquisition of SLAP and the College Merger, from which the Council should ensure it learns lessons, we are satisfied that these projects continue to represent value for money as they will deliver longer-term savings for the Council whilst also being expected to improve service delivery.

Best Value

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

Duty to secure best value

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

BV arrangements

The BV framework follows a five year approach to auditing BV. 2019/20 represents year four of the BV audit plan. Due to anticipated changes to the audit engagement as a result of COVID-19, the Best Value Assurance Report for Shetland Islands Council is expected to be completed in 2021/22.

The Council has a number of arrangements in place to secure Best Value, including an established governance framework and strong leadership.

The Council recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is still required to achieve long term financial sustainability.

We have highlighted improvements in a number of areas throughout this report. However, we have similarly highlighted a number of areas where there has been no improvement or disimprovement in the year. There are a number of key areas where the Council must prioritise improvement in order to demonstrate Best Value – for example, self-assessments and compliance with key legislative provisions.

In February 2020, the Local Area Network of regulators (consisting of Audit Scotland, Deloitte, Education Scotland, the Care Inspectorate and the Scottish Housing Regulator) highlighted concerns on the pace of change within the Council and its focus on improvement.

Deloitte view – Best Value

The Council has a number of arrangements in place to secure Best Value. While the Council continues to demonstrate improvements in a number of areas and is committed to improvement, further improvements are needed in key areas and the Council needs to ensure that the pace of change is appropriate.

Emerging issues

Climate change

Background
As noted in our audit plan, climate change is likely to drive some of the most profound changes to businesses in our lifetime. The global response to the COVID-19 pandemic could inform the fight against climate change and advantages taken of the inevitable response, such as less unnecessary air travel for business meetings, more home working, supported by better videoconferencing facilities. In collaboration with the ICAEW, Deloitte have launched a site to www.deloitte.co.uk/climatechange

Council preparedness

As part of our audit work in 2019/20, we have carried out a high level assessment of the work that Shetland Islands Council has done in relation to preparing for the impact of climate change and concluded as follows:

Baseline expectations	Shetland Islands Council position
Governance: Climate change is a strategic issue and should be on the Council agenda. Explain how you assess climate change risk as a strategic issue.	Climate change is clearly on the Council's agenda, as evidenced from the following examples: • In January 2020, the Council approved the creation of a Climate Change Programme team to consider the Council's ambitions in light of the approval of the Climate Change Strategic Outline Programme. The Council also 'recognised' the global climate emergency. • In approving the 2020/21 budget, the Council recognised that the financial impact on the Council of climate change is likely to be significant both in terms of improving resilience to extreme weather events, dealing with an increased frequency of emergency episodes and contributing to carbon reduction in the longer term. • The Business Transformation and Service Redesign Programmes incorporate a number of themes linked to climate change, including managing the property estate, improvements in technology and changes to bus, air and ferry services. As the work of the Climate Change Programme team develops, the Council should monitor the impact and make revisions where required.

Emerging issues (continued)

Climate change (continued)

Council preparedness (continued)	
Baseline expectations (continued)	
Risks and Strategy: Articulate clearly whether climate change represents a principal or emerging risk and how it is being managed.	Climate change is identified as a risk on the Council’s risk register. In the risk register reporting in July 2020, it was given the highest risk rating possible and the Council has set out mitigating actions it plans to take.
Targets and metrics: If targets and metrics are disclosed, explain how those targets or metrics fit into strategic targets/ approach.	The Climate Change (Scotland) Act 2009 set a long-term target to reduce emissions of greenhouse gases by at least 80% in 2050. Over the past 10 years, the Council’s annual Climate Change Declaration has evidenced the Council’s progress towards achieving these targets. However, recent scientific evidence, presented to the Committee on Climate Change, has set out that a greater level of change is needed. The Scottish Government passed the Climate (Scotland) Act which received Royal Assent on 31 October 2019. This Act legislates new, more stringent, targets for Carbon reduction. In January 2020, the Council approved its first Climate Change Strategic Outline Programme, which established a Climate Change Programme team led by the Director of Infrastructure. This is still in its early stages and we will consider its progress as part of our 2020/21 audit.
Reporting/Financial Statements: Transparency in the annual report.	The Council includes sufficient narrative within its annual accounts to set out what work the Council is doing to address the climate change risk.

Sector developments

Sector developments

Responding to COVID-19

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

An emerging legacy

How COVID-19 could change the public sector

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

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

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

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

Seven emerging legacies:

1. Our view of resilience has been recast;

2. Governments could be left with higher debt after a shock to the public finances;

3. Debates around inequality and globalisation are renewed;

4. Lines have blurred between organisations and sectors;

5. The lockdown has accelerated collaborative technologies;

6. Civil society has been rebooted and citizen behaviour may change; and

7. The legacy that still needs to be captured.

Read the full article at:

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

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

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

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

Copies of this report can be accessed through the following link:
https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html

COVID-19: Impact on the workforce

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

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

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

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

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

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Committee and the Council discharge their governance duties. Our report includes our work on the following:

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

What we don't report

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

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

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

The scope of our work

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

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

Use of this report

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

P. Kenny

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 11 September 2020

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and transparency	The Council, IJB and NHS need to work together to review the Integration Scheme, in line with their responsibilities under the IJB's governing legislation.	The Council has been working with partners to fulfil its statutory obligation to review the integration scheme for the IJB. Completion of the review has been delayed due to the COVID-19 pandemic, although the review itself has largely been completed. The Council has plans to report the outcome of the review to elected Members by 31 December 2020.	Interim Director – Adult Health & Social Care Executive Manager – Governance & Law	31/12/20	High

Action plan (continued)

Follow up on 2018/19 action plan

We have followed up the recommendations outstanding from our 2017/18 report and those made in our 2018/19 annual report and note that 7 of the total 24 recommendations made have been fully implemented, with 1 not yet being due. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term.	The Council recognises the challenges it faces. We will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP in the autumn. Where possible, likely savings determined through the initial scoping of service redesign and business transformation activities will be built into the Council's planning assumptions.	Executive Manager - Finance	31/03/20	High	*Not implemented:* The MTFP has not been revised in the year. **Updated management response:** The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan. **Updated target date:** 31/03/21
Financial Management	For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.	The Council welcomes the opportunity to improve transparency and accountability. An annual update report will be prepared by the end of the 2019/20 financial year.	Executive Manager – Assets, Procurement & Commissioning Executive Manager - Finance	31/03/20	High	*Not implemented:* The changes recommended were not made in the year and an annual update report was not presented. **Updated management response:** The Council is committed to improve its reporting of capital expenditure in line with this recommendation and best practice, which will also include an evaluation of completed capital projects that will provide an objective assessment of actual performance against budgetary expectations. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members.	Attendance at all development events is logged. Feedback will now be requested from formal and informal Member development events. Members are currently participating in the Improvement Service CPD Framework. PDPs and a refreshed Member Development Programme will be prepared once completed. Training need for Members formed part of the Committee and Governance review reported to Members on 11 June 2019. A more in depth analysis leading to a training plan is underway.	Executive Manager – Executive Services	31/03/20	High	*Partially implemented:* Feedback and attendance is now collated. Further improvements are needed in agreeing training plans for Members. **Updated management response:** The Council already keeps records of Member attendance at training and development events through the year. The Council, in conjunction with the Improvement Service, is supporting elected Members with personal development: 40% have completed a self-evaluation through the Improvement Service CPD Framework and 23% have a Personal Development Plan in place as a result. The Council will continue to support Member development and consider monitoring the effectiveness of the training provided to all Members. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place. The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.	The Council considered an initial Governance review report as part of the review of its Code of Corporate Governance in June 2019. An updated report is promised for September 2019, and annually thereafter.	Executive Manager – Governance & Law	31/12/19	High	*Not implemented:* The Council has not carried out self-assessments or developed a self-assessment programme. **Updated management response:** The Council approved an update to its Code of Corporate Governance in June 2019, which introduced an annual review process, with the first annual review expected to start in March 2020. Due to COVID-19, the annual review process did not commence, as planned. Completion of a self-assessment evaluation at this time would have to reflect on the impacts of the pandemic on the Council's governance arrangements, and would perhaps not provide sufficient evidence to allow the Council to fully consider the impacts and any improvements required in governance, whilst the Council remains in recovery phase. However, the Council's Recovery and Renewal Plan, and in particular Work Strand 7 - Council Change/Renewal Programme, will provide opportunities to reflect on ways of working, including governance arrangements. This Programme is in the early stages of planning, and whilst no specific dates have yet been assigned to it, updates will be provided to Council, and any specific impacts on the Council's Governance arrangements will form part of the next annual review and self-assessment, to commence in March 2021. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Value for Money	Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year. Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against.	A performance Framework for Shetland has been developed and is being presented to the Council, the NHS and IJB for approval; in June/July 2019. The Framework incorporates the commissioning cycle and is designed to be used for joint commissioning, performance management and reporting for the Shetland Partnership. The Framework will be fully implemented by 31 March 2020 with 2019/20 a transition year during which time the Framework will continue to evolve informed by practice.	Director – Corporate Services	31/03/20	High	*Partially implemented:* The Council has approved a revised Performance Management Framework. Performance reporting has been curtailed and so it is not possible to conclude that this has been fully implemented in 2019/20. **Updated management response:** The dedicated quarterly performance management meetings have been removed from the Council Diary of meetings in 2020/21 as part of the implementation of the new Performance Management Framework. Reports were presented in line with the Framework in January / February 2020 and end of year reports were presented to the Special Council meeting on 2 July 2020 during COVID-19 restrictions. Performance reports in line with the Framework will be presented during 2020/21. The new website is currently being tested ahead of implementation in October 2020,and will allow the publication of data and statistics as per the Framework to be completed timeously going forward. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget (as opposed to being separate 'savings lines' in the budget) and be separately disclosed in the narrative to enable monitoring of progress against savings in the year.	The Council opted against using 'savings lines' to enable balanced budgets to be set in 2019/20. The Council will include all efficiencies or savings targets expected to be realised through service redesign or business transformation activities in the next budget-setting cycle.	Executive Manager - Finance	31/03/20	Medium	*Not implemented:* The Council's 2020/21 budget did not quantify savings from transformation or elsewhere. **Updated management response:** The Council is in the process of refreshing its Service Redesign and Business Transformation programmes and will present a refreshed Change Programme in November 2020. The refreshed Change Programme, co-ordinated by a Project Management Function within Corporate Services, will set out the Council's priorities for change and transformation projects over the next 5 years, linked to the updated MTFP and Corporate Plan. The Council is aiming to quantify the savings, efficiencies and/or non financial benefits expected to be realised from each project which will enable progress to be monitored and reported more effectively than at present. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning.	The Council will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP to Council in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in the the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.	Executive Manager - Finance	30/09/19	Medium	*Not implemented:* The MTFP has not been revised in the year. **Updated management response:** The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan. **Updated target date:** 31/03/21
Financial Sustainability	The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.	The Council is keen to present financial information in an accessible and open way. The Council acknowledges that reports requiring decisions could be clearer in this area, and will seek to set out the likely financial implications on a short, medium and longer-term basis in the relevant section.	Executive Manager - Finance	31/12/19	Medium	*Not implemented:* We have not identified improvements in reporting in this area in the year. We anticipate improvements will be possible following revision of the MTFP and LTFP. **Updated management response:** The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan. The refreshed MTFP will provide the 'baseline' from which the estimated short-,medium-, and longer-term financial impact of Council decisions can be determined and reported. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Management	The Council's budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget.	The Council is keen to present financial information in an accessible and open way, not just to elected members but the wider community. The Council will aim to address this recommendation during the next budget cycle as it sets the 2020/21 budget.	Executive Manager – Finance	31/03/20	Medium	*Not implemented:* The Council's budget did not change how it linked to the Corporate Plan. **Updated management response:** The Council is in the process of refreshing the Corporate Plan, with a focus on sustainability. Although difficult to link budgets to outcomes on a quantitative basis, the refreshed Corporate Plan should make it easier for the Council to link what it plans to spend on each priority to the outcomes it expects to achieve as part of its 2021/22. **Updated target date:** 31/03/21
Financial Management	The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management.	The Council will consider the feasibility and advantages and disadvantages of moving to a different structure for the finance team.	Executive Manager - Finance	31/03/20	Medium	*Not implemented:* We have not seen evidence of a review carried out in the year. We have not noted any changes to the structure of the finance team. **Updated management response:** A review of the finance team structure has not taken place, as the team has prioritised supporting other services and Council priorities during the year. The resourcing and development of the finance team is kept under continual review by the Finance management team to ensure continuity of service delivery to both internal and external stakeholders and in terms of future workforce development and succession planning. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey.	One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development. HR are leading on the continuing development of action plans to take forward issues from previous Viewpoint Surveys and will repeat the survey to ensure comparisons over time.	Director – Corporate Services	31/03/20	Medium	*Not implemented:* We have not seen evidence of a review carried out in the year. **Updated management response:** The Viewpoint Survey was repeated in December 2017 and will be done again in December 2020. A separate Pulse Survey was undertaken in May 2020. The results were compared with the Viewpoint Survey findings and used to inform planning for the response , recovery and renewal phases of COVID-19. **Updated target date:** 31/03/21
Governance & Transparency	The Council should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it for reporting.	A review of report writing has been completed resulting in training being delivered in June 2019 which will inform further work developing Council Guidance for Report Writing and Presenting.	Executive Manager – Human Resources Executive Manager – Governance & Law	31/03/20	Medium	*Partially implemented:* The Council completed a review of report writing in June 2019. We are not aware of further progress with Council guidance for report writing and presenting. **Updated management response:** Training has been delivered and will continue to feature in training plans going forward. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council.	The Council is committed to enabling public scrutiny through virtual attendance by audio or webcasting meetings. This is an ambition which is linked to the recent decision in June 2019 to move the Council debating chamber to a new location at St Ringan's Church. One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development.	Director – Corporate Services	31/03/20	Medium	*Partially implemented:* The Council has started webcasting Council meetings and moved to a larger location to accommodate public attendance. Improvements are outstanding in relation to wider community engagement in financial planning, provision of information and stakeholder surveys. **Updated management response:** The Council is progressing the delivery of live-streaming/webcasting of Council and committee meetings, as part of the planned relocation of the Council Chamber. As an interim measure, the Council has started to record and publish its formal Council and committee meetings in response to the COVID-19 pandemic which has precluded public attendance at meetings. The Council plans to launch its redesigned website in October, which will facilitate digital communication with Council services and enable more accessible performance reporting. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council should provide summary reports on the external support provided to organisations and the outcomes achieved through that support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code.	Reports will be presented to Development Committee and Policy and Resources Committee. Issues of procurement and Best Value form part of the 2019/20 Internal Audit Plan and the Council will discuss with Internal Audit whether the provision of support to external organisations can form part of these audits.	Director – Development Director – Corporate Services	31/03/20	Medium	*Not implemented:* We have not seen evidence of reporting to committees in the year. FtPP was not considered by internal audit. **Updated management response:** A report will be presented on an annual basis to Development and P&R Committees providing a summary of support provided to external organisations and analysis of Outcomes achieved. This report will be as an appendix to the established Directorate performance reports. Training on commissioning and procurement was delivered by Scotland Excel in February 2020. A number of actions were agreed as a result with regard to processes and reporting. These have not been completed due to prioritisation of the COVID-19 response. Work in this regard will be co-ordinated with work arising from internal audit findings on procurement. **Updated target date:** 31/03/21

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Value for Money	The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas.	LGBF information is considered and reports are prepared for discussion at committee. LGBF will also be discussed by CMT going forward to ensure key issues identified are prioritised and built into work programmes.	Director – Corporate Services	31/03/20	Medium	*Not implemented:* There were no changes to reporting in the year. **Updated management response:** LGBF has featured in discussions on performance and service planning. The Council's Recovery and Renewal Framework and the Change Programme currently being developed will use LGBF information to inform proposals for change. **Updated target date:** 31/03/21
Financial Sustainability	The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately. On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable.	The Council presented its 2019/20 Annual Investment and Treasury Strategy to committee in March 2019. The Council has been transitioning to a revised investment strategy since January 2019. Once complete, the Annual Investment and Treasury Strategy will be reviewed to ensure it addresses the points raised in this recommendation and to reflect best practice.	Executive Manager - Finance	31/03/20	Low	*Not implemented:* There were no changes to the information in the Annual Investment Plan in the year. **Updated management response:** This recommendation is still being addressed. The Council's annual investment and treasury strategy for 2021/22 will be updated in line with the audit recommendation and best practice, including an assessment of the planned use of earmarked and uncommitted reserves and the consequential impact on overall Council reserves. The updated strategy will also link to the refreshed MTFP, by taking any updated assumptions and estimates of future funding and expenditure into account. **Updated target date:** 31/03/21

Deloitte.

2019/20 Audit Action Tracker - Wider Audit Dimensions

Appendix 3

Area	Action Reference	2018/19 Recommendations	2019/2020 Recommendations	Status
Financial Management	FM-1819-02	For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.	For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.	**IN PROGRESS**
Financial Management	FM-1819-04	The Council’s budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget.	The Council’s budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget.	**IN PROGRESS**
Financial Management	FM-1819-06	The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management.	The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management.	**IN PROGRESS**

Area	Action Reference	2018/19 Recommendations	2019/2020 Recommendations	Status
Financial Sustainability	FS-1819-01	The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term.	The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term.	**IN PROGRESS**
Financial Sustainability	FS-1819-04	In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget and be separately disclosed in the narrative to enable monitoring of progress against savings in the year.	In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget (as opposed to being separate 'savings lines' in the budget) and be separately disclosed in the narrative to enable monitoring of progress against savings in the year.	**IN PROGRESS**
Financial Sustainability	FS-1819-05	The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning.	The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning.	**IN PROGRESS**
Financial Sustainability	FS-1819-06	The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer term financial impact that decisions are expected to have, rather than simply understanding the impact in the short-term.	The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.	**IN PROGRESS**
Financial Sustainability	FS-1819-07	The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately. On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable.	The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately. On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable.	**IN PROGRESS**
Governance & Transparency	GT-1819-01	The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members.	The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members.	**IN PROGRESS**
Governance & Transparency	GT-1819-02	The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.	The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place. The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.	**IN PROGRESS**

Area	Action Reference	2018/19 Recommendations	2019/2020 Recommendations	Status
Governance & Transparency	GT-1819-03	As with a number of councils across Scotland, the Council is not meeting its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.	As with a number of councils across Scotland, the Council is not meeting its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.	**IN PROGRESS**
Governance & Transparency	GT-1819-05	The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey.	The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey.	**IN PROGRESS**
Governance & Transparency	GT-1819-06	The Council should review whether the style of reports and minutes used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it for reporting. Minutes should include sufficient detail to demonstrate how scrutiny has been effective and how decisions have been made.	The Council should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it or reporting.	**IN PROGRESS**
Governance & Transparency	GT-1819-07	The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council. The Council should also consider utilising technology or traditional surveys to improve community involvement in the financial planning process: a number of councils across Scotland now allow the public to 'create your own' budget online, with the findings from this considered when developing the budget. The Council should carry out regular stakeholder or citizen surveys, which will enable the Council to monitor changing expectations and respond to perceived or actual weaknesses. When reporting on stakeholder surveys, the Council should include historical information or trend analysis, targets and clear linkage to Council priorities or performance measures.	The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council.	**IN PROGRESS**
Governance & Transparency	GT-1819-08	The Council's should provide summary reports on the support provided to organisations and the outcomes achieved through the support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code.	The Council should provide summary reports on the external support provided to organisations and the outcomes achieved through that support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code.	**IN PROGRESS**
Value for Money	VFM-1819-01	Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year. Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against. The indicators reported should be linked to the Council's priorities and outcomes for communities. The narrative provided alongside performance indicators needs to be more detailed to enable an observer to understand specifically why performance has or has not met target, whether that was within or outwith Council control, and what specifically will be done to address areas of underperformance.	Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year. Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against.	**IN PROGRESS**

Area	Action Reference	2018/19 Recommendations	2019/2020 Recommendations	Status
Value for Money	VFM-1819-02	The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas.	The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas.	**IN PROGRESS**

2019/20 Audit Action Tracker - Financial Statements

Area	Reference	2018/19 Recommendations	2019/2020 Recommendations	Status
Review of expert reports	ACC-1920-01		In our review of reports received by management in relation to property valuations, investment values and fishing quota valuations, we noted that initially the property valuation did not include a material uncertainty, that the investment values were based on 'day trading' rather than 'close' rates and that the fishing quota valuation did not include detailed narrative supporting the valuation and consideration of key matters (such as EU Withdrawal). While it is appropriate to engage experts to assist in valuing complex balances, the valuation ultimately remains management's judgement and management should carry out reviews to assure itself as to the reasonableness of the valuations provided and judgements reached.	***NEW***
IT Controls	ACC-1920-02		Given the substantial number of control deficiencies identified in the IT environment (**page x**), management should review existing controls and policies, making appropriate adjustments to satisfy themselves that the control environment is appropriate and that controls are designed effectively and appropriately implemented.	***NEW***
Valuation of property assets	ACC-1819-01	Where the Council's valuer is deviating from recognised third party data sources for build costs, the rationale for this and supporting evidence needs to be clearly set out. The Council should assess useful lives of housing stock in line with industry averages. The valuer should ensure that investment properties are valued net of Land & Building Transaction Tax, agent and legal fees.		**COMPLETE**
IFRS 16	ACC-1819-02	Given issues identified in the testing of operating leases both historically and in the current year, we recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.		**COMPLETE**
Review of Financial Statements	ACC-1819-03	The Council needs to ensure that it has a thorough internal review of the supporting working papers which are used in the preparation of the financial statements prior to their publication. Going forward, we would expect to see documented evidence of the amendments identified in the review process by the Financial Accountant and Executive Manager – Finance.		**COMPLETE**

Annual Accounts

2019/20

SHETLAND
ISLANDS COUNCIL

Contents

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.

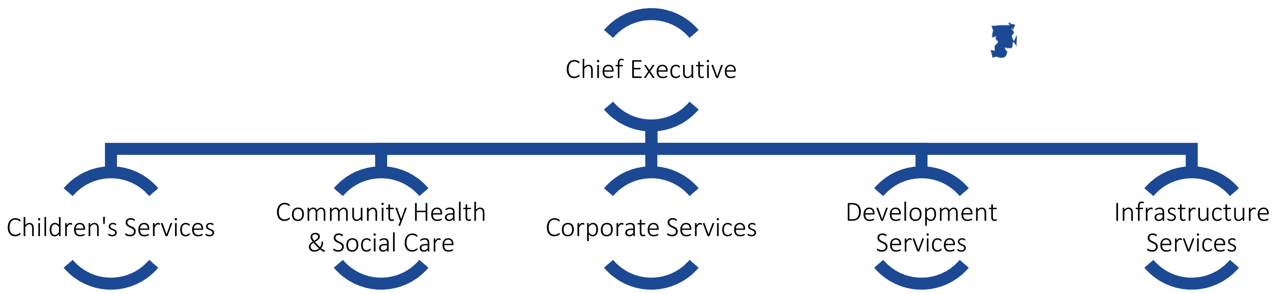
22,920

Population (mid-2019)

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

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). 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"**
> ***Shetland's Partnership Plan 2018-2028***

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:

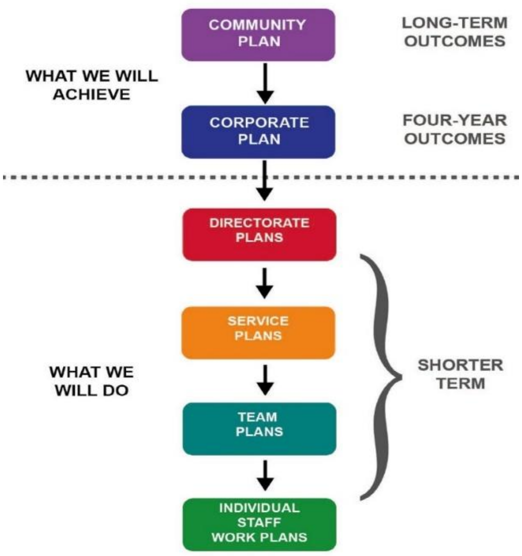
Priority	Delivery Plan Outcomes		
People	**1.** The number of disadvantaged people and households in Shetland will be considerably reduced as a result of people being enabled and empowered to address the issues they face and helping others to thrive in the same way	**2.** The Shetland Partnership will 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
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

Priority	Delivery Plan Outcomes			
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, increasing from 917 in April 2016 to 1,157 in December 2019; The Intermediate Care Service 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.](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%) (2018 - 21.3%)

Council Performance

Performance Management Framework

The Performance Management Framework (PMF) for Shetland was approved by the Council, NHS Shetland and Shetland's Integration Joint Board (IJB) in July 2019. It is part of the 'commissioning cycle' which seeks to provide good evidence to ensure that services are prioritised, designed and delivered to meet need. It is 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 (MTFP), 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 2020. 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. The savings were initially estimated as £2m.

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 to 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 due to some of the contracts being awarded to a local operator who has now ceased trading, increasing costs by £111k per annum. The additional costs of re-tendering are partly 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 tendered 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 (£5.0m 2018/19) towards the operating costs of Shetland's inter-island ferry services, which was £2.9m (£2.6m 2018/19) less than the Council requested. In 2020/21, the Scottish Government has agreed to provide £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 31 August 2020, all 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 to the Council's settings, four private or voluntary sector providers, and five childminders, were also delivering the funded hours. The Scottish Government deadline of August 2020 was put on hold due to the COVID-19 pandemic, however the Council was still able to meet the statutory deadline.

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 IJB, 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 *Customer First* 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 *digital by default* service delivery model.	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 *Digital First* team in place to support and encourage use of the platform. Phase 2 is underway. A new website and Content Management System has been procured by the Council. The site is currently live as a Beta, and will go fully live in October 2020.	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.

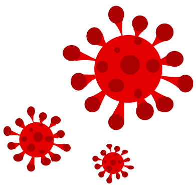
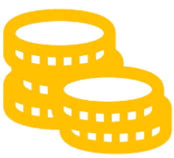
Workstream	Objective	Progress	Future Plans
Workforce Strategy	Implement Workforce Strategy across the Council.	Discussions have now taken place with all Directorates to inform future workforce planning, also including NHS Shetland to gather information on the IJB workforce needs.	A draft Strategic Workforce Plan is to be presented to committee in November 2020. Priorities will align, as far as possible, with the impacts of COVID-19 and the Council's recovery/renewal plans.
Accommodation Rationalisation	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.
Broadband and Connectivity	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.
Information Management and Improvement	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.

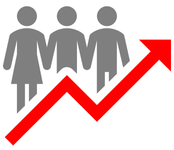
Workstream	Objective	Progress	Future Plans
 **Performance Management and Reporting**	To develop a new planning and performance management framework, including a review of reporting arrangements and the complaints handling process.	Performance Management Framework approved in July 2019. Transitional reporting 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 2 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	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*' 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. 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 The Council has, to the date of this report, incurred £2.4m additional costs associated with the pandemic response. These have been partly offset by £1m in reduced costs, such as reduced energy costs, fuel usage etc.
 Revenue and Capital Budgeting	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. 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

Risk / Uncertainty	Mitigating actions
	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. A revised 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	Demographic and societal changes in Shetland's population are driving increased demand for Council services, particularly for health and social care services. The Council already faces a cumulative budget deficit of £40.7m by 2023/24 and will need to adapt its service provision if it is to continue delivering positive outcomes for service-users in the future without exacerbating the existing cumulative budget deficit. 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 has started 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 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 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 Intrepreneurship 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 (the Code).

A description of the purpose of the primary statements has been included immediately prior to the four primary 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.](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 £43.2m, 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 2019/20	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
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 96.9% (97.1% 2018/19) 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, in line with an investment strategy that is designed to ensure the reserves increase in value over the long term. The Council is able to draw down some of the returns generated from these investments to support service delivery, while maintaining a robust asset base that continues to grow and enabling the Council to supplement government funding over the long term. The level of funding drawn from reserves in the year, to meet an anticipated budgetary shortfall, exceeds the draw down deemed to be sustainable in the long-term. If the Council does not take action to reverse a recent trend of using its reserves to fund budgetary deficits, and to limit the draw on reserves to a sustainable level (in line with the investment strategy) it will likely result in the erosion of the asset base within 10 years. Despite the sudden and sharp contraction in asset values in March 2020 inflicted by the onset of the COVID-19 pandemic, asset values have broadly recovered to pre-pandemic levels. The Council considers the investment strategy to be robust, and is confident it can continue to supplement its's annual budget with returns generated from its long-term investments, subject to the sustainability of the long-term investment asset base, as above.

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. A link to the business plan can be found here:
http://www.shetland.gov.uk/housing/documents/HRABusinessPlan2017.pdf

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 33: Capital Expenditure and Capital Financing.

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the position as at 31 March 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 £31.8m. 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 (£30m 2018/19) 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 (£17m 2018/19) 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% (7.4% 2018/19) 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 2020/21 report and strategy can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=25141.

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 (£49.2m 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 33: 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 3.0% 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 £171.9m 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 £37.9m 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 £64.2m. The assumptions interact in complex ways, however, and are established for particular reasons. Further information can be found in Note 28: Defined Benefit Pension Schemes.

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

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

IJB

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 IJB was formally constituted on 27 June 2015 with voting members from both the Council and the Health Board.

There is a statutory obligation under section 44 of Public Bodies (Joint Working) (Scotland) Act 2014, to review the integration scheme for the IJB. The review was not completed before the deadline date of 30 June 2020. The principle cause of the delay was the COVID-19 pandemic and a revised plan is in place to complete this by 31 December 2020.

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	137.124
Housing Revenue	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	328.734

The overall level of usable reserves was £328.7m at 31 March 2020, a decrease of £40.4m 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 £7.1m to £32.0m as at 31 March 2020 from the previous year (see Note 7: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 28.1% (22.8% 2018/19) 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 decrease in value is attributable to COVID-19 as world economies ground to a halt at the end of the financial year and a cash withdrawal to meet the cash flow requirements of the Council. 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 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 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 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

The Council has, to the date of this report, incurred £2.4m additional costs associated with the pandemic response. These have been partly offset by £1m in reduced costs, such as reduced energy costs, fuel usage etc.

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 has begun 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 of £1.2m 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 MTFP which sets out expected levels of expenditure for the period. The budget does not align with the expectations of the MTFP as the Council has been unable to reduce service expenditure to the assumed levels contained in the MTFP. The General Fund budget will be supplemented with an additional £30.9m (£24.7m 2019/20) from its reserves, including a one-off, draw of £10.5m (£3.5m 2019/20) to meet the expected shortfall in funding for the year ahead. The financial settlement for the Council included £5.2m (£5.2m 2019/20) of funding to support the operating costs of the inter-island ferry services which is £4.8m (£2.7m 2019/20) 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 MTFP 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 MTFP was approved by the Council on 22 August 2018, which covers a five-year period to March 2024. This will be refreshed over autumn 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	Maggie Sandison	Jamie Manson CPFA
Leader of the Council	Chief Executive	Section 95 Officer
23 September 2020	23 September 2020	23 September 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

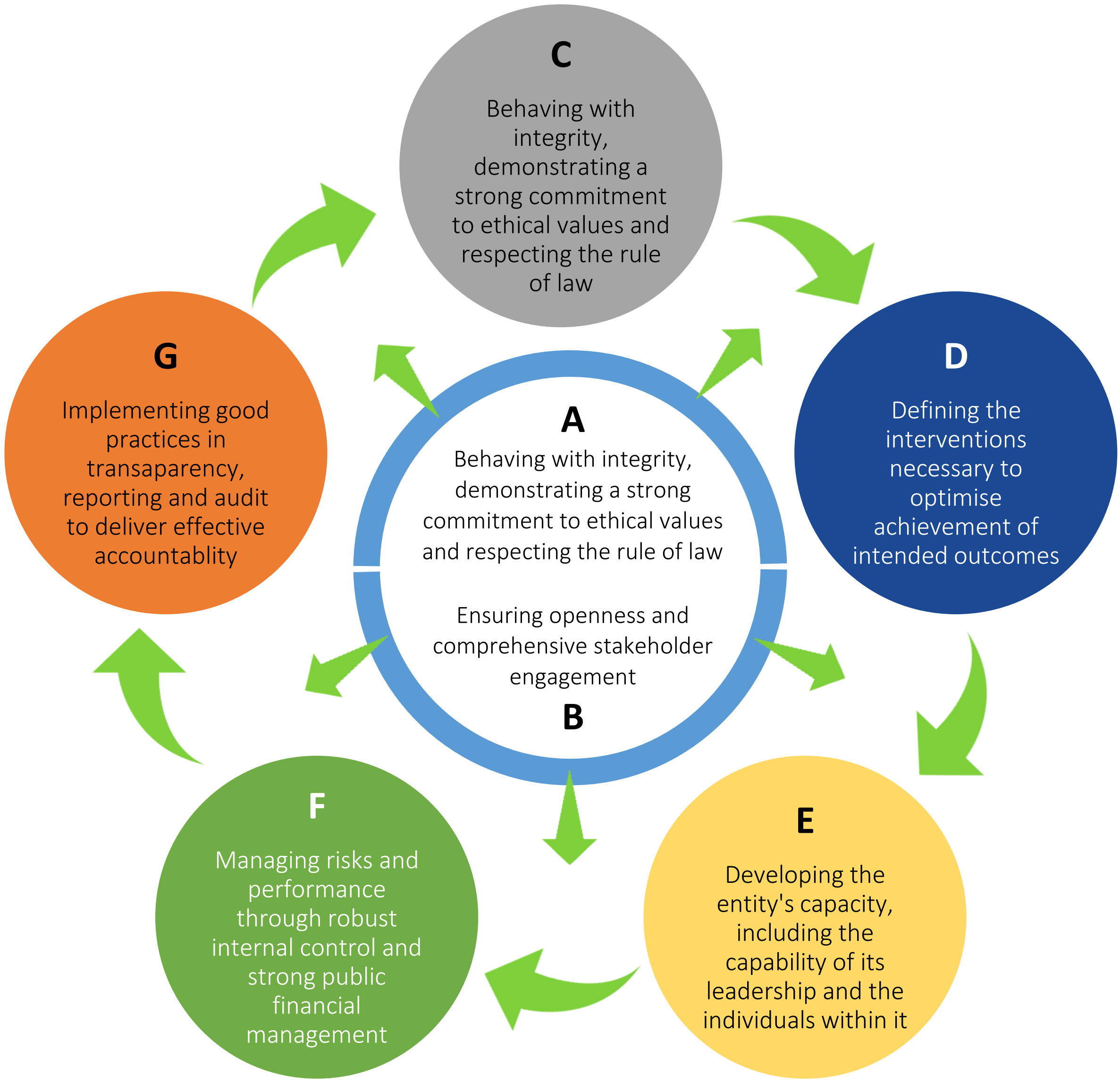
The governance framework has been in place for the year ended 31 March 2020 and up to the date of approval of the annual accounts.

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 inspectorates.

The Annual Report can be viewed on the Council's website at: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=25400

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;
- 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 National Scrutiny Plan for Local Government 2019/20 summarises all planned and announced strategic scrutiny activity in each of Scotland's councils. The Scrutiny programme for the Council addressed the following areas of activity 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 conclude 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

In addition to the significant governance issue highlighted within the Internal Audit Annual Report, the Council has also identified the following as significant governance issues with regard to compliance with legislation:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Noncompliance with the statutory obligations under Community Empowerment (Scotland) Act 2015.	Corporate Management Team	Failure to comply with the statutory obligations to prepare and publish a Locality Plan.	During 2019/20, the Council along with the other 4 duty holders continued 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. The work, which was due for completion in June 2020, was delayed as the consultation events with island communities were halted due to COVID-19. The work re-commenced in July 2020, with the draft Locality Plan being prepared by August 2020.	The Council approved the draft Shetland's Islands with Small Populations - Locality Plan on 9 September 2020.	September 2020

Noncompliance with the statutory obligation under section 44 of Public Bodies (Joint Working) (Scotland) Act 2014.	Corporate Management Team	Failure to comply with statutory obligation to review the integration scheme for the IJB by the deadline date of 30 June 2020.	The Council was working with its partners to complete the statutory obligation to review the integration scheme for the IJB. Completion of the review has been delayed due to the COVID-19 pandemic, a revised plan is now in place to complete the review.	Review of the integration scheme for the IJB to be completed by 31 December 2020.	31 December 2020

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.
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 which the Council has been working to address throughout 2019/20. The interim 2018/19 audit report, and associated audit action plan, can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24177.

As part of the current year's audit process, external auditors have considered the progress the Council has made during the 2019/20 financial year. The auditors will present an update on progress against the audit action plan as part of their final audit report, which is to be presented to Audit Committee in September 2020.

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 wellbeing 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 have been kept under active review over the summer as restrictions have gradually eased. Arrangements have been made at the Town Hall to allow Member attendance at Council committee meetings in person, where connectivity prevents a Member from attending meetings remotely from home. In such cases, Members attending in person are required to adhere to strict physical distancing requirements while present at the Town Hall. The normal Council committee meeting cycle is expected to be reinstated in September, with Members attending meetings virtually or in person as their connectivity allows.

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
23 September 2020

………………………………………………….
Maggie Sandison
Chief Executive
23 September 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 also requires the disclosure of exit packages.

All the information disclosed in the following tables in this Remuneration Report have been audited by Deloitte LLP:

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

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 IJB;
- 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 OSVJB.

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

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

The Convener of the OSVJB 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 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	Infra-structure 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 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) Number of compulsory redundancies		(b) Number of other departures agreed		(a+b) Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	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 Total Remuneration £	Name of Councillor	Designation	2019/20 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 OSVJB 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 IJB 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 Total Remuneration £	Name of Senior Employee	Designation	2019/20 Salary, Fees and Allowances £	2019/20 Taxable Expenses £	2019/20 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:

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

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

c) 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 IJB;

d) 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;

e) 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;

f) 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

g) 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			
				As at 31 March 2020		Difference from 31 March 2019	
		31 March 2019 £000	31 March 2020 £000	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 (b)	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			
				As at 31 March 2020		Difference from 31 March 2019	
		31 March 2019 £000	31 March 2020 £000	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:

a) 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 IJB;

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

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

d) M Nicolson figures for 2019/20 are reported up to the leave date of 17 July 2019;

e) 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

f) 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 £2k and £3k 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. The LGPS is a funded pension scheme that receives contribution payments from both Scheme members and participating employers.

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

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

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

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

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

Tiered contribution rates on whole time pay are as follows:	2018/19 %	Tiered contribution rates on whole time pay are as follows:	2019/20 %
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
23 September 2020

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Maggie Sandison
Chief Executive
23 September 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 23 September 2020.

Signed on behalf of Shetland Islands Council.

The Executive Manager - Finance's Responsibilities

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

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

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

The Executive Manager - Finance has also:

- kept adequate accounting records which were up to date; 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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Steven Coutts
Leader of the Council
23 September 2020

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Jamie Manson CPFA
Executive Manager - Finance
23 September 2020

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

Report on the audit of the financial statements

Opinion on financial statements

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

In our opinion the accompanying financial statements:

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

Basis for opinion

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

Emphasis of matter – Material uncertainty relating to valuation of land and buildings

We draw attention to note 5 in the financial statements, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's land and buildings portfolio. As noted by the Council's valuers, the outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the land and buildings portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Risks of material misstatement

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

Responsibilities of the Executive Manager – Finance and Shetland Islands Council for the financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

Other information in the annual accounts

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

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

Report on the other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street
Glasgow
G1 3BX
United Kingdom
23 September 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		932	(110)	822
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	(30,538)	24,942
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**		**221,574**	**(105,853)**	**115,721**
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**		**283,498**	**(240,302)**	**43,196**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services			Notes	
		(23,701)	Surplus on revaluation of non-current assets			12	(20,423)
		28,975	Remeasurement of the net defined benefit liability			12	(54,599)
		5,274	**Other Comprehensive Income and Expenditure**				**(75,022)**
		(89,173)	**Total Comprehensive Income and Expenditure**				**(31,826)**

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	45,167	(1,972)	0	0	**43,195**	(75,021)	**(31,826)**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(18,796)	1,160	14,710	0	**(2,926)**	2,926	**0**
Net (Increase)/Decrease before transfers	**26,371**	**(812)**	**14,710**	**0**	**40,269**	**(72,095)**	**(31,826)**
Net Transfers to/(from) Other Statutory Reserves	11,766	0	(8,268)	(3,334)	**164**	(164)	**0**
(Increase)/Decrease in year	**38,137**	**(812)**	**6,442**	**(3,334)**	**40,433**	**(72,259)**	**(31,826)**
Balance at 31 March 2020	**(137,124)**	**(18,237)**	**(63,269)**	**(110,104)**	**(328,734)**	**(236,390)**	**(565,124)**

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 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(249,797)**	**(301,540)**	**(551,337)**
Adjustment	(108,464)	0	0	0	**(108,464)**	108,464	**0**
Restated balance at beginning of the year	**(168,782)**	**(17,335)**	**(66,330)**	**(105,814)**	**(358,261)**	**(193,076)**	**(551,337)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	13,786	231	0	0	**14,017**	4,022	**18,039**
Adjustments between accounting basis & funding	(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 2019	**(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	(19,128)
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		(35,009)
(49,164)	Long-term Borrowing	18	(49,130)
(209,906)	Pension Liability	28	(171,912)
(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		(269,372)
533,298	Net Assets		565,124
(369,167)	Usable Reserves	7	(328,734)
(164,131)	Unusable Reserves	12	(236,390)
(533,298)	Total Reserves		(565,124)

The unaudited financial statements were issued on 15 July 2020 and the audited financial statements were authorised for issue by the Council on 23 September 2020.

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Jamie Manson CPFA
Executive Manager - Finance
23 September 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	43,196
62,242	Adjustment to net surplus or deficit on the provision of services for non-cash movements	(34,662)
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	(15,197)
(1,515)	Amortisation	(1,767)
(190)	Increase in impairment for bad debts	(166)
(1,489)	Decrease in creditors	1,417
(945)	Increase in debtors	432
294	Decrease in inventories	118
(15,760)	Movement in pension liability	(16,605)
(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	(159)
62,242	**Total**	**(34,662)**

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 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 (£41k 2018/19). The bad and doubtful debt provision included within the Council's accounts at 31 March 2020 is £45k (£54k 2018/19).

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**

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	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,885	(1,056)	(1,007)	822
Children's Services	45,162	4,087	(2,295)	46,954
Community Care Services	20,290	4,630	22	24,942
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**	**23,014**	**(7,020)**	**115,721**
Other income and expenditure	(91,999)	(5,378)	24,852	(72,525)
(Surplus) or Deficit	**7,728**	**17,636**	**17,832**	**43,196**
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		(45,053)		
Closing General Fund and HRA balance		**155,361**		

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

**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	(1,089)	0	(1,056)
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**	**11,502**	**(174)**	**23,014**
Other income and expenditure	(10,481)	5,103	0	(5,378)
Total adjustments between accounting basis and funding basis	**1,205**	**16,605**	**(174)**	**17,636**

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

Adoption of new and revised Standards

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

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

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

b) Standards, amendments and interpretations early adopted this year

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

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year

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

- IFRS16: Leases – HM Treasury have agreed to defer implementation until 1 April 2021;
- IFRS 17: Insurance Contracts – applicable for periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU;
- Amendments to References to the Conceptual Framework in IFRS Standards – applicable for period beginning on or after 1 January 2020;
- Amendment to IFRS 3 (Definition of a Business) – applicable for periods beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8 (Definition of Material) – applicable for periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 29 and IFRS 7 (Interest Rate Benchmark Reform) – applicable for periods beginning on or after 1 January 2020
- Amendment to IAS 1 (Classification of Liabilities as Current or Non-Current) – applicable for periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

The Council not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except as noted below.

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

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of 'low value' has been mandated, the Council have elected to utilise the capitalisation threshold of £10,000 to determine the assets to be disclosed. The Council expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the Code for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Balance Sheet as (i) right of-use assets which represent the Council's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Balance Sheet will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively. Cash repayments will also be recognised in the Statement of Cash Flows, as required by IAS 7.

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

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 - Judgements	Effect if actual results differ from assumptions
Property Plant and Equipment: Valuations	At 31 March 2020 approximately 20% of the land and buildings portfolio was valued internally by the Asset & Properties Team. The Council undertakes this valuation exercise annually as part of a 5 year rolling programme. The valuations are made in accordance with the International Valuation Standards, which are incorporated in the RICS Valuation Global Standards and UK National Supplement (The Red Book). The valuation report highlighted the following material uncertainty due to the impact of COVID-19, which affects the land and buildings portfolio, which includes the Council Dwellings, Other Land & Buildings and Surplus Assets in Note 13 and Investment Assets in Note 14: 'The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, I consider that less weight can be attributed to previous market evidence for comparison purposes, in informing opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. This valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, I recommend that asset valuations are kept under frequent review. It may also be necessary to review the entire portfolio on understanding the short and long term effects of the pandemic on property values locally.' The valuation report has been used to inform the measurement of the land and buildings portfolio in these financial statements. Although the valuer has declared a material valuation uncertainty, the valuer has continued to exercise professional judgement in preparing the valuation, and therefore, this is the best information available to the Council as at 31 March 2020 and can be relied upon. As noted, the Council has not obtained a complete valuation of all assets in the land and buildings portfolio for 2019/20. The Council recognises that there may now be greater uncertainty in markets on which the valuations for the remaining assets were based (dating from 2014/15 to 2018/19), and on which asset measurements reflected in these statements have also been calculated. As noted by the Council's internal valuer, the outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the land and buildings portfolio at the balance sheet date.	It is not possible at this time to quantify the impact that COVID-19 might have on the real estate market, and the fair value of the land and buildings portfolio at the balance sheet date.

Item	Uncertainties - Judgements	Effect if actual results differ from assumptions
Property, Plant and Equipment: Depreciation	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.

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 probably that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations, however the transitional period to 31 December 2020 provides some short-term assurance.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.
Financial Instruments	At 31 March 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.

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 £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £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)
Movement in the fair value of Investment Properties	135	0	0	**135**	(135)
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	(30,069)	(537)	0	**(30,606)**	30,606
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	**(18,796)**	**1,160**	**14,710**	**(2,926)**	**2,926**

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

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	(99,759)	**(31,982)**
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	(103,786)	(137,124)
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	(158,072)	(328,734)

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% (70% 2018/19) on average was within the standard 30 day payment terms.

Timing of Payment	Average % 2018/19	Average % 2019/20
Paid at point of use	2.04%	1.87%
Paid in advance	15.13%	13.24%
Paid in arrears	82.83%	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 £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £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 Gover- nment £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £000
Agency Income	0	0	(24)	(944)	(620)	(1,588)
Care home fees	0	0	0	0	(2,356)	(2,356)
Course Fees	(1)	0	(2)	0	(698)	(701)
Other Income	(56)	(72)	(76)	(22)	(2,473)	(2,699)
Sale of materials / equipment	0	0	(2)	0	(1,009)	(1,011)
Sale of Meals	(1)	0	(1)	0	(1,222)	(1,224)
Transport Income	(77)	(15)	(1)	(16)	(1,960)	(2,069)
Waste disposal	(3)	(435)	(17)	(217)	(1,112)	(1,784)
General Fund	**(138)**	**(522)**	**(123)**	**(1,199)**	**(11,450)**	**(13,432)**
Dues	0	0	0	0	(1,655)	(1,655)
Jetty and Spur Booms Income	0	0	0	0	(3,159)	(3,159)
Other Income	(27)	-12	0	0	(736)	(775)
Tanker Income	0	0	0	0	(20,146)	(20,146)
Harbour Account	**(27)**	**(12)**	**0**	**0**	**(25,696)**	**(25,735)**
Rental Income	0	0	0	0	(6,918)	(6,918)
Other Income	0	0	0	0	(48)	(48)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(6,966)**	**(6,966)**
Total	**(165)**	**(534)**	**(123)**	**(1,199)**	**(44,112)**	**(46,133)**

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)
(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	171,912
(259,781)	Capital Adjustment Account	(277,780)
2,697	Employee Statutory Adjustment Account	2,523
(164,131)	Total Unusable Reserves	(236,390)

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	(54,599)
29,250	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	30,606
(13,490)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,001)
209,906	Closing balance	171,912

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)
0	Movement in the fair value of Investment Properties	(135)
1,515	Amortisation of intangible assets	1,767
(105)	Repayment of capital on finance leases	(811)
(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**	(277,780)

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 Code. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- the valuations are based on existing records, the accuracy of which could not be guaranteed and no inspection was undertaken. No liability can be held for any inaccuracies/errors arising as a result;
- where not part of a leasing arrangement, the property is feuhold and owned outright by the Council, with no burdens or encumbrances on the title;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that the inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- 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 classified and accounted for as Investment Property. The property is considered an investment property as there is no specific service need for the Council to occupy it and is rented for investment purposes.

The following items of income and expense 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:

	Other Significant observable inputs (Level 3)	
Recurring fair value measurements using:	**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 (£15.5m 2018/19).

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
	Cost or Valuation	
29,495	**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 Surplus or Deficit on the Provision of Services £000	2019/20 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 (Nil 2018/19) 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 (£341m 2018/19) 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 (£49m 2018/19) from the Public Works Loan Board. The balance of £0.16m (£0.20m 2018/19) 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 (£49.2m 2018/19) 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 (£341m 2018/19) 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 (£168m 2018/19) 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	(12,502)
(20,407)	Total	(19,128)

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	Decommiss-ioning £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 8 years.

Extension and break options are included in some of the leases.

The minimum sub-lease payments expected to be received in future years are:

As at 31 March 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 $1/49^{th}$ of pensionable pay. From 1 April 2009 to April 2015 the pension accrual rate guaranteed a pension based on $1/60^{th}$ of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on $1/80^{th}$ and a lump sum based on $3/80^{th}$ 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. In 2019/20, following the recent proposed changes to McCloud eligibility, the previously estimated McCloud element in the balance sheet has been reduced by £2m.

Goodwin

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

The Council has made an allowance for the estimated impact of the Goodwin ruling, resulting in an increase to the pension liability of £0.6m.

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	26,651
2,762	Past service cost (including curtailments)	(1,235)
	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**	**30,606**
	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	69,155
(662)	Actuarial (gains) and losses arising from other experience	5,818
275	**Total pension benefit charged to the CIES**	**85,205**
	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	(30,606)
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	(585,936)
441,695	Fair value of assets in the Local Government Pension Scheme	414,024
(209,906)	**Net liability arising from Defined Benefit Obligation**	**(171,912)**
(177,017)	Local Government Pension Scheme	(144,308)
(15,654)	Unfunded liabilities for Pension Fund	(13,111)
(17,235)	Unfunded liabilities for Teachers	(14,493)
(209,906)	**Total**	**(171,912)**

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	15,845
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	(69,155)
662	Actuarial (gains) and losses from other experience	(5,818)
(13,177)	Benefits paid	(13,107)
2,762	Past service costs including curtailments	(1,235)
651,601	**Closing balance**	**585,936**

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**
	Property:	
50,781	UK property	47,600
325	Overseas property	304
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:	
	Longevity at 65 for current pensioners (in years):	
22.1	Men	21.4
24.0	Women	23.2
	Longevity at 65 for future pensioners (in years):	
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%	64,262
0.5% increase in the salary increase rate	2%	10,601
0.5% increase in the pension increase rate	9%	52,790

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: Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2019/20 the Council collected £26.0m (£25.6m 2018/19) and received £25.9m (£23.9m 2018/19) contribution from the non-domestic rates pool.

The Council is required by legislation to provide a collection service for Scottish Water, involving the collection of £3.18m (£3.14m 2018/19) of Scottish Water charges. The legislation stipulates a minimum amount that Scottish Water must pay in commission for this service. The Council received £70k (£70k 2018/19) for providing this service.

Note 32: Related Parties

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits). Details of all grants received from Central Government and other public bodies can be found in Note 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 £8k (£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 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.

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 OSVJB 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 33: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the CFR, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

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 34: Contingent Liabilities

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

There are a number of current legal claims against the Council that are being contested. For cases where it has not been possible to establish a reliable estimate and the probability of settlement is between 10% and 50%, no value has been attributed to these claims in the financial statements.

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

Note 35: 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 (£0.030m 2018/19) and made payments of £0.018m (£0.024m 2018/19).

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 23 September 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The COVID-19 pandemic has had a substantial impact on the 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 £374m at the end of June 2020. Further details of the impact of COVID-19 including the additional costs associated with the pandemic response are detailed within the Management Commentary at page 18.

In September 2020, the Council reached a settlement of £75k in relation to a property matter, which concludes legal proceedings which were ongoing at the balance sheet date. No adjustment has been made to the 2019/20 accounts as the value of the settlement is considered to be immaterial.

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

One of the amendments required was due to the employment tribunal finding in favour of the claimant in the Goodwin case, and recent proposed changes to McCloud eligibility, resulting in an decrease to the pension liability of £1.4m. See Note 29: Defined Benefit Scheme for further information.

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 and it's probable the Council will be required to settle the obligation, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate or the probability of settlement , the claims have been accounted for as contingent liabilities;
- There is a high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that its assets may be impaired as a result of (for example) reduced maintenance;

- The Council has entered into a number of lease arrangements with a variety of lease terms. These arrangements are accounted for as operating leases. The Council has considered the tests under IAS17 and concluded that there is no transfer of the risks and rewards of ownership.
- 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; 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 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.

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 IJB meets the definition of a joint venture.

IJB

The IJB was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board. It represents a Joint Venture between these two bodies.

The Council contributed 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 IJB 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:

- OSVJB; and
- ZetTrans.

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**

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

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

The accounting convention adopted in the accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments, which are consequently measured at fair value. The accounts have been prepared on a going concern basis.

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

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

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

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

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

C Accruals of Income and Expenditure

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

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- supplies are recorded as expenditure when they are consumed, but where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the 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 four Fund Managers, Baillie Gifford, Blackrock, Partners 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.
- Partners have just started to invest in their mandate. Future income will be paid back to the Council.
- 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.

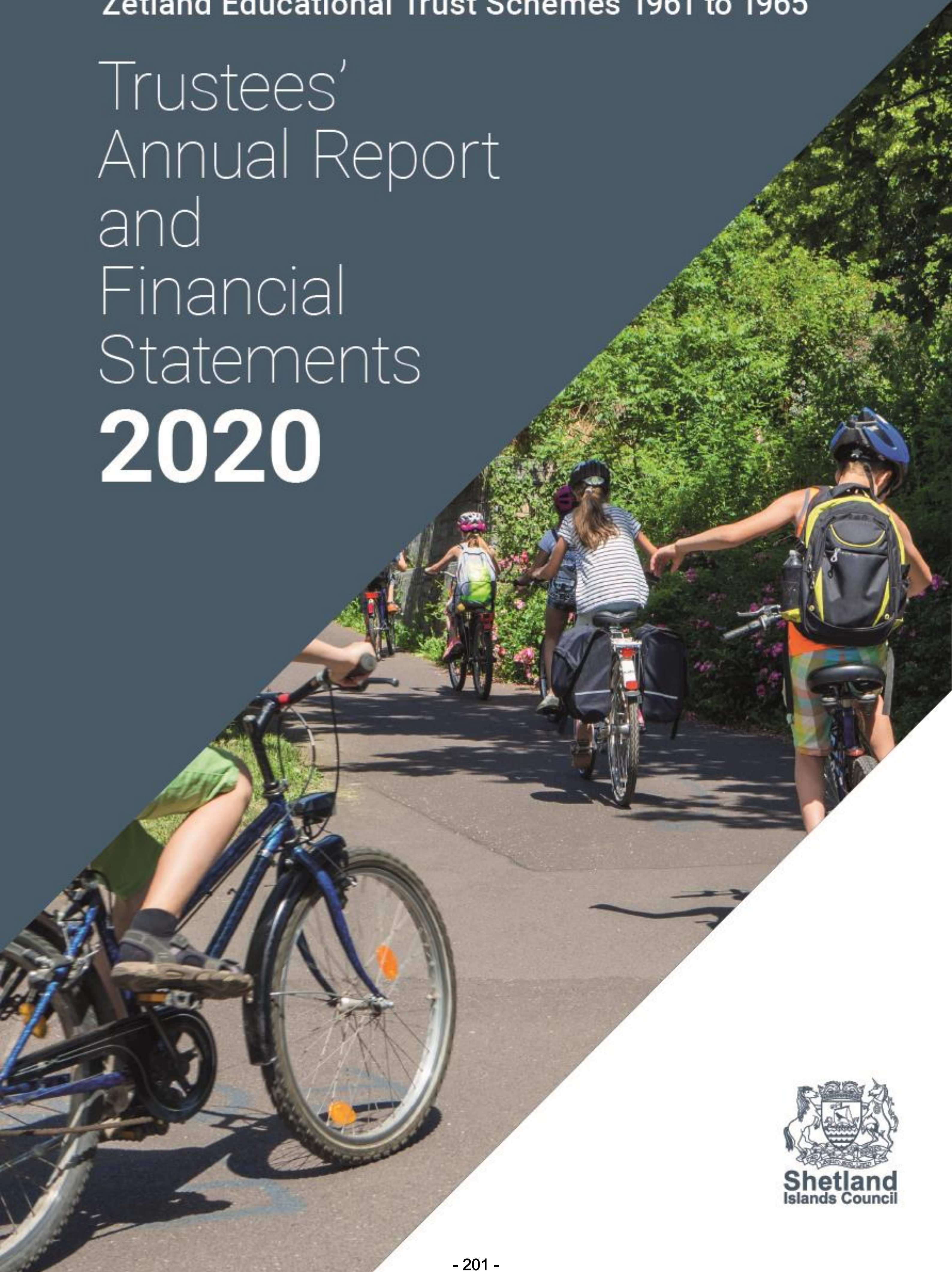
Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council; these reserves are explained in the relevant policies.

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.

Zetland Educational Trust Schemes 1961 to 1965

Trustees' Annual Report and Financial Statements 2020



Shetland Islands Council

Contents

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	Moraig 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)	
Auditor	Deloitte LLP 110 Queen Street Glasgow United Kingdom G1 3BX	

Structure, Governance and Management

Constitution

The ZET, as currently constituted, was formed in 1961 (amended in 1965) through the amalgamation of a number of bequests. It is registered with the Office of the Scottish Charity regulator (OSCR) and its governing document is a trust deed.

The ZET comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland.

Trustees

The trustees of ZET are the elected members of Shetland Islands Council and are appointed through their election to the Council.

The Executive Manager – Finance is the designated officer within Shetland Islands Council with responsibility for the proper administration of the trust's financial affairs and for keeping adequate and up to date accounting records.

The Executive Manager – Finance is responsible for ensuring that the financial statements of the trust are produced in accordance with the Charities Accounts (Scotland) Regulations 2006 (as amended), for making judgements and estimates that are both reasonable and prudent, and for taking steps to prevent and detect fraud and other irregularities.

The Executive Manager – Finance has considered and taken steps to address any risks to which the trust may be exposed, in particular those related to its operation and finances. The trustees are satisfied that adequate systems are in place to mitigate exposure to such risks.

Management

The elected members, as trustees, are responsible for all major decisions relating to the trust.

Authority to award grants has been delegated by the trustees to Shetland Islands Council Children's Services. The nominated officer is the Executive Manager – Quality Improvement.

The Executive Manager – Quality Improvement has the power to authorise expenditure within the limits of the trust's annual income. Designated staff within Children's Services are responsible for the day-to-day administration of the funds.

Objectives and Activities

Charitable purposes

The purpose of the trust is the advancement of education of people belonging to Shetland.

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

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

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) and paid bank charges of £1 (2018/19: £2).

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 23 September 2020 and were signed on its behalf by:

....
Steven Coutts - Trustee

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the statement of accounts of Zetland Educational Trust Scheme 1965 for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis.

In our opinion the accompanying financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2020 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

Responsibilities of the trustees for the financial statements

The trustees are responsible for the preparation of financial statements which properly present the receipts and payments of the charity, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the statement of accounts

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

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

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In our opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Charities Accounts (Scotland) Regulations 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

……………………………………………………………………………………

Sarah Anderson, FCCA (for and on behalf of Deloitte LLP)
1 City Square
Leeds
LS1 2AL
United Kingdom
23 September 2020
Deloitte LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

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	0	0	0	2,711
Grants	0	0	0	940
Income from investments other than land and buildings	25,316	0	25,316	25,964
Total receipts	**25,316**	**0**	**25,316**	**29,615**
Payments				
Grants and donations 3	15,748	0	15,748	21,287
Investment Management Costs	2,000	0	2,000	1,950
Governance costs:				
Audit fees 6	400	0	400	800
Total payments	**18,148**	**-**	**18,148**	**24,037**
Surplus for the year	**7,168**	**0**	**7,168**	**5,578**

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.

	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**

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

The financial statements were approved by the Board of Trustees on 23 September 2020 and signed on its behalf by:

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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.

3. Grants and Donations paid

Bursaries	2019/20		2018/19	
	Number	£	Number	£
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**

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.

4. Trustee Remuneration, Expenses and Related Party Transactions

a) No remuneration or expenses were paid during the year to any trustee or persons connected to a trustee during 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).

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. Governance Costs

Shetland Islands Council has an agreement with the trust whereby the audit fee is borne by the Council unless the trust earns a minimum income of £10,000 in the year. This income threshold was exceeded in 2019/20 and the trust has paid audit fees of £400 (2018/19: £800).

7. Taxation

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