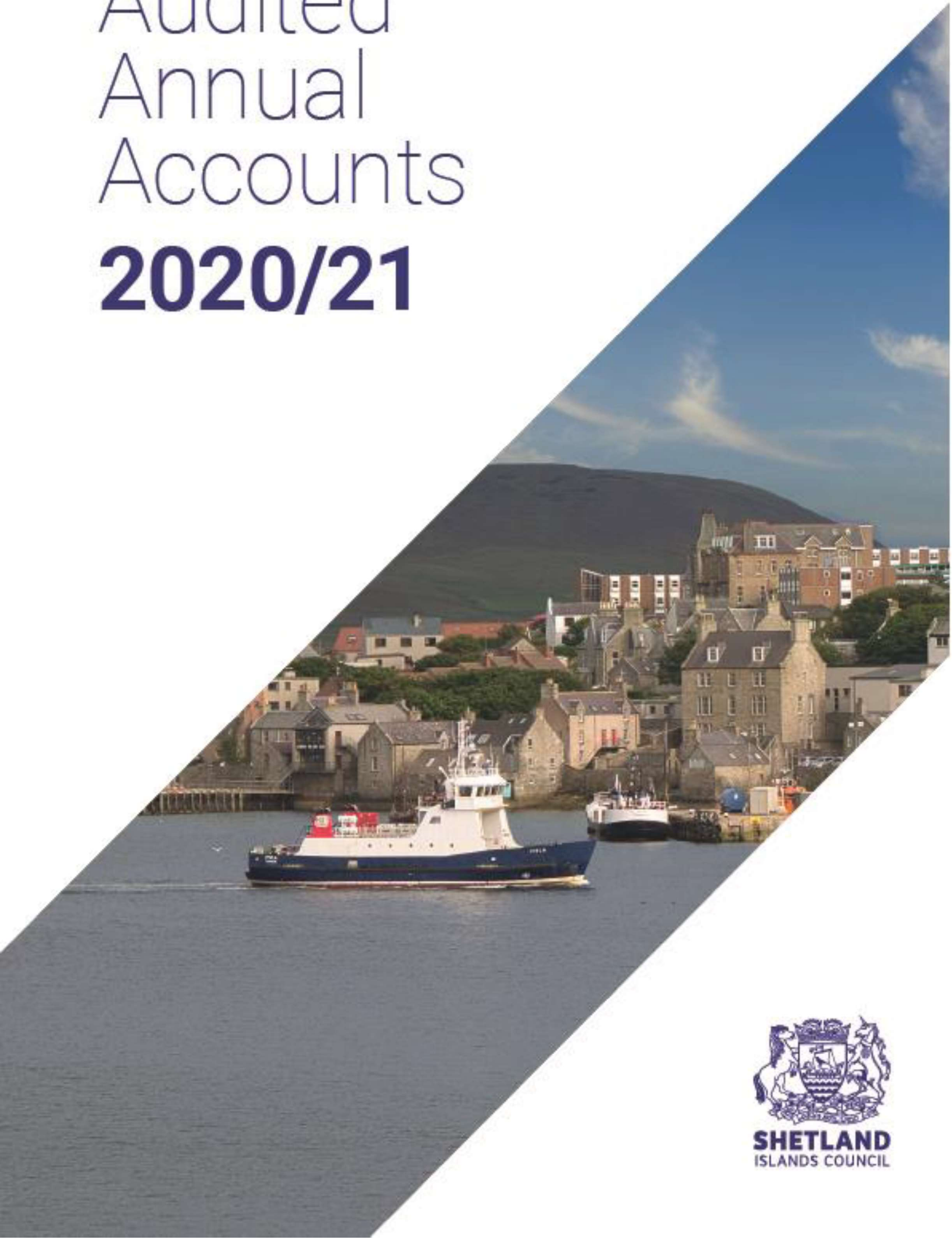
Audited Annual Accounts 2020/21



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 2021. It also sets out the main risks and uncertainties that the Council is likely to face in the future.

22,870
Population (mid-2020)

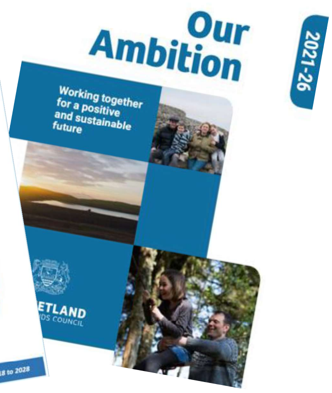
About Shetland Islands Council

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 22,870 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:

- Chief Executive
  - Children's Services
  - Community Health & Social Care
  - Corporate Services
  - Development Services
  - Infrastructure Services

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

Our Priorities



The Shetland Partnership Plan identifies a shared vision and priorities for all community planning partners to work towards in order to reduce inequalities of outcomes in our community.

You can find the Shetland Partnership Plan [here](#).

Our Ambition provides the strategic political direction to help us focus on the things that can help most to create opportunities and achieve long-term sustainability for Shetland. It sets out the priorities we will work on over the next five years, and replaces the Council's previous Corporate Plan that covered the period 2016/17 – 2019/20.

Our Ambition can be found [here](#)

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/national-outcomes

The Shetland Partnership contains objectives that are aligned to the National Performance Framework. The latest update was presented in September 2020 and can be found here:
https://www.shetland.gov.uk/downloads/file/2126/shetland-partnership-annual-report-2019-20
The Council's priorities identified in *Our Ambition* are also aligned to the National Performance Framework. Progress in delivering these priorities will be reported in December 2021.

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. The latest indicators for Shetland Islands Council for 2019/20 were presented to the Policy and Resources committee on 29 June 2021.

The full dataset covering all 32 Scottish Local Authorities can be explored online at the LGBF website at: https://www.improvementservice.org.uk/benchmarking/explore-the-data

The Impact of COVID-19

Shetland began to experience an outbreak of COVID-19 in early March 2020, which subsequently caused significant disruption and upheaval to the delivery of Council services, as it did elsewhere across Scotland and the rest of the UK. The Council quickly responded to nationally imposed restrictions, facilitating a large-scale shift to remote working, delivering services via alternative and digital means and prioritising the delivery of essential public services that could not be delivered remotely. During the year, national restrictions have varied in scale and severity as the pandemic has developed. Restrictions were eased over the summer, allowing a greater range of services to be delivered before further restrictions were reintroduced from late December 2020, when Shetland was placed in level 3 of the Scottish Government's 5-level system (comprising of levels 0-4). Shetland remained in level 3 until 17 May 2021, when it moved to level 1 before moving to level 0 on 4 June 2021. Restrictions have been in force throughout the full financial year, to varying degrees, which has had an impact on the Council's operations and its financial position.

The pandemic has meant the Council had to change the way it delivered many services during the year. While some changes made to services have resulted in additional expenditure, other changes have resulted in pausing or deferring some work or projects, and some changes to services have resulted in savings and efficiencies. Overall, the Council has spent £5.45m less than it anticipated on General Fund service delivery and £0.85m less than planned on the Housing Revenue Account. Total capital expenditure amounts to £15.7m against a revised budget of £16.87m. During the year, the original capital budget of £28.37m has been adjusted downwards and re-profiled into future years as a result of delays created by the COVID-19 pandemic.

The Council has distributed a significant number of grants on behalf of the Scottish Government through a variety of support schemes that have been announced during the year. The Council has distributed more than 10,000 grants to eligible individuals, households and businesses totaling £12m.

The Council would not have been able to deliver the range of services it has delivered during 2020/21 without the support of a flexible and agile workforce who responded positively, and with great resilience, to a rapidly changing situation.

Further detail about the impact of COVID-19 and how the Council has responded to the pandemic is set out in the Annual Governance Statement (from page 19).

Our Performance

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 website. The Council's performance indicators achieved during 2020/21 is also summarised below:

Performance Indicators	**2019/20**			**2020/21**		
	Target	**Actual**	**% Variance**	**Target**	**Actual**	**% Variance**
Finance						
General Fund: budgeted net revenue expenditure (£m)	£116.1	**£115.5**	- 0.5%	£125.5	**£120.0**	- 4.0%
Harbour Account: budgeted surplus (£m)	£12.6	**£18.3**	+ 45.0%	£11.2	**£14.7**	+ 30.8%
Housing Revenue Account: budgeted deficit (£m)	£1.1	**£1.5**	+ 34.9%	£0.7	**£(0.2)**	- 122.0%
Whole Council						
Sickness absence rate (%)	4.0%	**3.8%**	- 0.2%	3.4%	**4.1%**	+ 0.7%
FOISA responses within 20 day limit	95.0%	**88.2%**	- 6.8%	95.0%	**91.8%**	- 3.2%
Children's Services						
Attendance rate: primary schools	94.5%	**95.6%**	+ 1.1%	94.5%	**97.8%**	+ 3.3%
Attendance rate: secondary schools	90.7%	**93.0%**	+ 2.3%	90.7%	**96.7%**	+ 6.0%
Corporate Services						
% of invoices paid on time	90.0%	**91.9%**	+ 1.9%	90.0%	**89.6%**	- 0.4%
Community Care Services						
Number of 65 and over receiving personal care at home	200	**232.0**	+ 16%	200.0	**235.0**	+ 17.5%
Occupancy rate of care homes (%)	90	**89.4%**	- 0.6%	90.0	**81.9%**	- 8.1%
% adult mental health psychological therapies delivered within 18 weeks	90%	**29.0%**	- 61.0%	90.0	**19.0%**	- 71.0%
Development Services						
Success rate of external funding applied for by community groups	*this data has not been collated due to the COVID-19 pandemic*					
Households with home internet access (comparison to Scotland)	*this data has not been collated due to the COVID-19 pandemic*					
Infrastructure Services						
% of household waste recycled	10.50%	**17.6%**	+ 7.1%	10.5	**18.0%**	+ 7.5%

Our Change Programme

The Council established its Service Redesign Programme (SRP) in 2018, which had the key aim of delivering significant changes to services to address the anticipated financial challenges for the Council outlined in its Medium Term Financial Plan. The SRP comprised a collection of projects from across the Council that varied in scale and scope, but all shared an overriding objective to redesign services in a way that ensured services were responsive to changing demands and that they could be delivered sustainably and efficiently into the future. In addition to the SRP, the Council's Business Transformation Programme (BTP) aimed to change how the Council conducted its business by enabling improvements to services, such as rationalising its estate and embracing a *Digital First* approach to service delivery.

During the year, the Council has developed an overarching Change Programme to co-ordinate all of the Council's forthcoming change activity arising from *Our Ambition*. A Change Programme Framework was approved on 13 April 2021, which identifies the key Council policies and strategic plans that collectively set out the context and drivers for change. The Change Programme builds on the work streams contained in the Council's Recovery and Renewal Framework, approved in July 2020, specifically to '*ensure a co-ordinated approach is taken to our COVID-19 Recovery and Renewal phases, maximising impact from our available resources and ensuring everyone is aware of how their contributions help us achieve our shared goals for Shetland'*.

The Change Programme will supersede both the Service Redesign and Business Transformation Programmes, which have been wound down during the year. Some change activity remains in progress and has transferred across to the Change Programme.

The most recent update report summarising the progress of the BTP was presented to the Policy & Resources Committee on 23 November 2020 and can be found here:

Business Transformation Programme - November 2020 Update

The Council acknowledges the scale of change that lies ahead and is mindful that it cannot deliver everything simultaneously within the confines of limited resources, both from a financial and workforce perspective. Detailed delivery plans, including timescales for each project, are currently being developed for each strand of the Change Programme which will help the Council prioritise the use of resources in the short and medium-term. A 'Programme Management Office' (PMO) function has now been established within the Corporate Services Directorate to facilitate change activity in the coming years. This function is led by an Executive Manager and will draw experience from across the Council using a range of secondments and graduate placements to help facilitate and co-ordinate transformational activity.

The alignment of all 'change' activity under one framework, including change activity associated with the recovery from COVID-19, Islands Growth Deal and *Our Ambition*, will enable more regular reporting of progress against Council priorities and create clear linkages to the refreshed Medium-Term Financial Plan (MTFP), which sits alongside the refreshed change programme framework. It was envisaged that this work would be completed in the first half of 2021, but has been delayed by other work pressures.

A Workforce Strategy has also been approved, which describes the way we plan to develop our current and future workforce to ensure staff have the right skills, environment and values to enable the Council to deliver the priorities in *Our Ambition* over the next five years. The Workforce Strategy sits alongside the Change Programme Framework, Medium-Term Financial Plan and *Our Ambition*. Collectively, these documents describe the ambition we have for our Community, the people we need and the funding available to help deliver this ambition successfully.

A summary of the progress made on former and ongoing SRP projects is detailed overleaf:

Tertiary Education

Implementation of the planned merger of tertiary education institutions in Shetland continued throughout 2020/21, culminating in a successful merger taking place on 1 August 2021. The Council transferred staff and assets of Shetland College and Train Shetland to the new college, Shetland UHI, on schedule on 1 August 2021. The project team will now move to the monitoring and evaluation phase to ensure the merger delivers its stated objectives. The Council will be revising its arrangements with regard to commissioning services from Shetland UHI to reflect their independence from the local government sector. The Council expects a recurring revenue saving of around £1m/year as a result of the merger.

Fair Funding for Ferries

The Council continued to engage with Transport Scotland and Scottish Ministers in order to reach agreement on the funding of inter-island ferry services. In December 2020, the Council launched the #MyFerry campaign which used case studies and social media to highlight the importance and benefits of Shetland's inter-island ferry services. Following a positive campaign, the Scottish Government included an additional £10.784m in the local government finance settlement for 2021/22, which means the full operating costs of our inter-island ferry services will be met for the first time in 2021, reducing the financial pressure on the General Fund net revenue budget.

Early Learning and Childcare

All Early Learning and Childcare (ELC) settings in Shetland have been delivering 1,140 hours of free childcare since 31 August 2020, meeting the Scottish Government's original deadline. In addition to the Council's settings, four private or voluntary sector providers, and five childminders, were also delivering the funded hours meaning that all three and four year olds plus eligible two-year olds have access to flexible childcare arrangements. During the year, three ELC settings were refurbished or expanded, with work on the remaining five settings due to conclude in 2021/22.

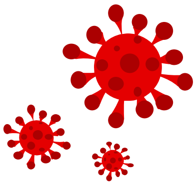
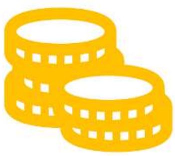
Community Led Support

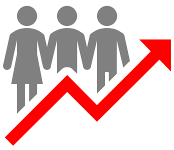
Community Led Support is a project involving organisations with a statutory responsibility for adult social care, practitioners, partners and the community to design and deliver different ways of working to ensure services work for everyone in the local community, while evolving and continually refining 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 to look at how local health and social care services can be redesigned in ways which best meet the needs of the local community.

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 6 September 2021 and can be found here.

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 necessitated significant changes to a range of services during 2020/21. From the outset, the Council has prioritised the delivery of essential and business-critical services and has adapted to the changing restrictions imposed by the Scottish Government as it sought to contain the spread of the virus. The Council has received additional grant funding from the Scottish Government to offset the additional expenditure incurred and the income it has not been able to generate from fees and charges. It is clear that COVID-19 will continue to impact Council activity in the year ahead, as restrictions on social and economic activity remain in place, even in the lowest level of Scotland's COVID-19 protection level system. Continued restrictions will ultimately translate into a financial impact as the Council's ability to generate income will be curtailed, along with an expectation of additional expenditure to enable the Council to maintain the safe delivery of services for both staff and the community. The Council has received additional grant funding to help offset this expected financial pressure in 2021/22 and will continue to monitor the financial impact through the year as the consequences of a sustained pandemic become clearer.
	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 £103.6m by 2025/26. 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 change projects underway that vary in scale and scope. The aim of these projects is to transform the way services are delivered and to ensure services are delivered as cost effectively as possible. During the year, the Council has established a Programme Management Office function within Corporate Services that will oversee and co-ordinate the Council's change programme activities, including '*spend to save*' and '*change fund*' projects. A revised MTFP was presented in December 2020 and will be updated again over the summer of 2021 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 incorporate the likely impact the Change Programme and other the actions the Council will take to bring its spending in line with its available resources on a sustainable basis within 5 years.

Risk / Uncertainty		Mitigating actions
	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 has been subject to a formal valuation process in 2020, which has resulted in an increase to most employer contributions to maintain the Pension Fund's trajectory of becoming fully funded by 2027. The Council expects additional costs from increased employer contributions from 1 April 2022. These costs will be incorporated into future revenue budgets. As the largest employer participating in the Shetland Islands Council Pension Fund (the Pension Fund), the Council is also 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 must now 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 likely cumulative budget deficit of £103.6m by 2025/26 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 Scottish Government has published a wide-ranging consultation on the creation of a National Care Service, following the publication of the Independent Review of Social Care in February 2021. The Scottish Government's proposal is wider in remit than the recommendations made in the Independent Review of Social Care, and if implemented, will represent the single most significant reorganisation of public services in a generation, potentially affecting what services the Council will deliver in the future. The Council is actively collaborating with its partners as part of the consultation process to highlight the potential impact the Scottish Government proposal will mean from Shetland's perspective.
	Withdrawal from the European Union	The Council still considers the UK's withdrawal from the European Union as a key risk to its operations. The UK/EU Trade and Co-operation Agreement was signed on 30 December 2020 and came into force from 1 January 2021. There remains a continuing lack of clarity on the practicalities of leaving the European Union. The Council is beginning to experience challenges in sourcing the raw materials it requires and has also seen higher prices for commodities due to supply chain issues following the UK's withdrawal from the EU. These issues are exacerbating global supply chain issues caused by reduced economic output because of the COVID-19 pandemic. The Council continues to monitor developments and revise its planning assumptions. The Council has set aside additional contingency as part of its 2021/22 budget to help alleviate financial pressure associated with this uncertainty.

Our Highlights 2020/21

COVID-19 Response

Further information about the Council's response to COVID-19 has been included in the Annual Governance Statement. In brief, the Council's key work streams during the initial response phase were:

- **Caring for People** enabled the Council to fulfil its statutory and other duties to care for people, communities and to support vulnerable and other individuals throughout the pandemic
- **Effective partnership working** enabled a Shetland-wide response. The Council provided administrative resource, temporary accommodation for key workers in the NHS and other agencies and Council premises to facilitate COVID-19 testing and vaccination clinics.
- A **Tactical Team** co-ordinated the Council's decision-making in a rapidly changing policy environment.
- Provision of **childcare for key workers** to help alleviate pressures on key workers during periods of school closure.
- **Keeping staff informed** with regular updates and frequently asked questions on a COVID-19 specific intranet site. Significant health, safety and wellbeing information, guidance and support has been provided to all staff, including those delivering frontline council services in schools and social care.
- **Positive employee relations** maintained through weekly meetings with Trade Unions.

Employee Assistance Programme

- The Council launched a new Employee Assistance Programme (EAP) which includes a range of services available to all staff, such as 24/7 telephone counselling and advice services to help individuals deal with all kinds of practical and emotional issues such as well-being, family matters, relationships, debt management, workplace issues and much more.

- The EAP also includes access to an employee discount scheme.

Island's Growth Deal

The Heads of Terms Agreement for the Islands Growth Deal was signed on 17 March 2021 by UK Government Minister for Scotland Iain Stewart, Scottish Government Cabinet Secretary for Transport, Infrastructure and Connectivity, Michael Matheson, and the political leaders of Comhairle nan Eilean Siar, Orkney Islands Council, and Shetland Islands Council.

OUR ISLANDS OUR DEAL

The Islands Growth Deal aims to harness the islands' unique assets to create world class, innovative and globally focussed industries that will help address the islands' severe demographic challenges and strengthen the distinct and important contribution the islands make to the economic vitality and international reputation of Scotland and the United Kingdom. The Council is working with the other island authorities and stakeholders in order to refine the business cases required to unlock funding for Shetland projects.

Northern Isles Fibre

In March 2021, the Council completed the first ever fibre optic link to the island of Yell by utilising fibre cores in the SSEN submarine electricity distribution cables. The new link will complement a soon-to-be-commissioned high-capacity microwave radio link between the islands and will enable fibre broadband connections to schools, health centres and other council buildings in Yell and Unst.

Toft Pier

Toft Pier reopened on 17 May 2021, following a £3.5m reconstruction project that began in 2019. The project was awarded £1m from the European Maritime and Fisheries Fund and its completion will help to sustain a diversified economy in the north mainland of Shetland.

Primary Financial Statements

The financial statements summarise the Council's transactions for the year, its cash flows throughout the year and its year-end position as at 31 March 2021. The financial statements 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 (CIES),
- the Movement in Reserves Statement (MIRS),
- the Balance Sheet (BS), and,
- the Cash Flow Statement (CFS).

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 part of the Council's annual accounts for the purpose of the audit report.

Financial Performance in 2020/21

The Comprehensive Income and Expenditure Statement presents the full economic cost of providing Council services in 2020/21. This differs from the draft financial outturn report that was presented to the Full Council on 16 June 2021. 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 gain on Provision of Services of £92.9m (deficit of £43.2 In 2019/20), disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £0.0m (£7.7m deficit in 2019/20) in the Expenditure and Funding Analysis, shown in Note 1 on page 48.

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 narrative in the following section explains the financial performance of each of the funds during the year.

Budget v Actual Expenditure 2020/21	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund Revenue *(inc Spend to Save)*	125.485	115.891	9.594	4.144	5.450
General Fund Capital *(inc Spend to Save)*	10.263	9.800	0.463	1.538	(1.075)
Housing Revenue Account Revenue & Capital	0.694	(0.156)	0.850	0.964	(0.114)
Harbour Account Revenue & Capital	(11.207)	(14.664)	3.457	0.000	3.457
Total	125.235	110.871	14.364	6.646	7.718

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 2020/21 totalled £115.9m (£115.5m 2019/20) against an approved budget of £125.5m. The resultant underspend of £9.6m is mainly attributed to:

- additional Crown Estate income received but yet to be disbursed £1.4m;
- staffing vacancies across services amounting to £2.0m
- additional income from social care charges £0.4m;
- reduced fuel use across inter-island ferry fleet £0.5m
- underspend on Early Learning and Childcare and Pupil Equity Funding ring-fenced grants £0.6m;
- a reduction in the provision required to meet pension liabilities arising from the College Merger project (£2.6m)

Further detail about individual variances within each service is provided in the draft financial outturn report.

In 2020/21 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	**2020/21 £m**	**2020/21 %**
General Revenue Grant	73,776	63.7%
Non-Domestic Rates	17,182	14.8%
Council Tax	10,106	8.7%
Draw on Reserves*	14,827	12.8%

**Includes General Fund and Revenue Spend to Save*

Council Tax represents 8.7% of the Council's overall annual external revenue funding. During 2020/21, the Council collected 96.8% (96.9% 2019/20) of the total billable Council Tax.

The remainder of funding comes from Council's own reserves. The Council holds a range of long-term investments, in line with an investment strategy that is designed to ensure the reserves increase in value over the long term. The Council is able to draw down some of the returns generated from these investments to support service delivery, while maintaining a robust asset base that continues to grow 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 in around 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 recovered strongly and now exceed the peak in values experienced in late 2019. The Council considers the investment strategy to be robust, and is confident it can continue to supplement its 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 surplus of £11.2m in 2020/21 (£12.6m in 2019/20), to be returned to the Harbour Reserve Fund.

The actual surplus generated was £14.7m (£18.3m 2019/20) due to additional tanker income and reduced capital expenditure.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate ring-fenced account within the Council. The HRA budget for 2020/21 anticipated a requirement to utilise £0.7m from its reserves to achieve financial balance (£1.1m 2019/20). Delays to planned capital and maintenance projects meant the HRA generated a modest revenue surplus of £0.2m, which will be returned to the HRA reserve (compared to a £1.5m draw from reserves in 2019/20).

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

A five-year business plan for the HRA was approved in 2016/17, underpinned by a 30-year financial model to ensure affordability and sustainability over the long term.

The business plan will be updated during 2021/22 in order to determine the likely resources required to maintain existing housing stock, invest in new housing and to set a rent strategy over the next five-year period.

At 31 March 2021, the HRA was responsible for 1,657 properties, a decrease of 1 since 31 March 2020. 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 2020/21 Shetland Islands Council incurred total capital expenditure (across General Fund, Housing Revenue Account and Harbour Account) of £15.7m (£34.9m 2019/20) against a budget of £16.9m (£39.1m 2019/20) representing an underspend of £1.2m (£4.2m 2019/20). £2.5m will be carried forward into 2021/22 to enable delayed works to be completed

The primary reason for the capital underspend relates to the delays encountered because of COVID-19 restrictions which temporarily closed construction sites during Shetland's narrower-than-normal weather window. The availability of external contractors also impacted on the ability to progress capital projects during the year.

Further detail about capital expenditure incurred under the General Fund, Housing Revenue Account and Harbour Account can be found in the draft financial outturn report.

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

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the position as at 31 March 2021. When comparing this to the position as at 31 March 2020, there has been an overall increase in the net worth of the Council of £37.3m. This figure matches the total figure in the Comprehensive Income and Expenditure Statement, which captures all transactions during the financial year that led to the movement in the Council's net worth.

Material Transactions

Long-Term Investments

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 a Treasury Management and Annual Investment Strategy report, which includes more detail on capital and treasury activities, including key treasury indicators.

As at 31 March 2021 the Council had £423m invested with three external Fund Managers (£314m at 31 March 2020), which represents a net increase of £109m. The Council withdrew £10m (£8m 2019/20) to meet its cash flow requirements with investments generating a return of £119m attributable to a stronger-than-anticipated recovery in market conditions despite volatility encountered due to US elections and prolonged negotiations between the UK and EU on their future trading relationship. Market confidence was also buoyed by the successful development, and subsequent roll out of COVID-19 vaccines. Other long term investments include the £17m (£17m 2019/20) shareholding in SLAP.

The Fund Management Annual Investment Report 2020/21 was presented to the full Council on 16 June 2021 and this summarised the performance of the Council's investments during the year. The report states that the overall Council investment return in 2020/21 was exceptional at 40.3% (-6.2% 2019/20) which is significantly higher than the Council's assumed average rate of return of 7.3% over the long term. The strong performance experienced in 2020/21 is not expected to be sustained beyond the short-term and therefore Council is not planning to review or deviate from its long-term investment strategy.

External Borrowing

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

The Council's Capital Financing Requirement (CFR) is £96.5m as at 31 March 2021 (£98.7m at 31 March 2020), of which £49.1m (£49.1m in 2019/20) 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 2021, external borrowing was £49.1m (£49.1m at 31 March 2020) and this is reflected on the Council's Balance Sheet.

Debt financing costs currently represent 3.0% of the Council's net revenue stream (3.0% 2019/20) 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 2021/22 is 3.2% 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 2020/21 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 (LGPS) 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 £243.8m as at 31 March 2021 (£171.9m at 31 March 2020). This figure represents the estimated amount of pension benefits the Council will have to pay out in the future, as estimated by the Fund's Actuary. This estimate includes all pension entitlements earned by current and previous staff up to and including 31 March 2021.

During the year, the net pension liability has increased by £71.9m 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 £78.9m. The assumptions interact in complex ways, however, and are established for particular reasons. Further information can be found in Note 28: Defined Benefit Pension Schemes.

The Pension Fund has been subject to a formal statutory valuation during 2020. The valuation process was delayed as a result of the COVID-19 pandemic, but was completed by the statutory deadline of 31 March 2021. The valuation revealed that the Fund had £461m of assets and £498m of liabilities at 31 March 2020, leaving an overall pension deficit of £37m. The reported funding level of the Fund is 92%. Although at face value, this compares positively to the previous valuation undertaken in 2017 (when the Fund had a deficit of £51m and reported funding level of 90%), the Pension Fund's investments have underperformed against expectations since 2017. This has necessitated an increase in employer contributions, from 1 April 2022, to ensure the Council will have sufficient assets that can be realised to fund the payment of future pension benefits when they are required.

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

Further detail about the 2020 valuation can be found in the Pension Fund 2020/21 accounts: http://www.shetland.gov.uk/about_finances/.

Health and Social Care Partnership

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

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

There is a statutory obligation under section 44 of Public Bodies (Joint Working) (Scotland) Act 2014, to review the integration scheme for the IJB within five years of its initial inception. The review was not completed before the deadline date of 30 June 2020 as the Council, NHS and IJB were focused on responding to the COVID-19 pandemic. The review has been concluded during the year and a revised scheme of integration was approved by the IJB on 25 March 2021 and by the full Council on 14 April 2021. The revised Scheme of Integration was subsequently submitted to the Scottish Ministers and feedback is expected shortly.

In 2020/21, the Council contributed £23.2m (£21.7m 2019/20) to the IJB and received income of £25.4m (£23.0m 2019/20) from the IJB, a result of some social care funding being channelled through the NHS Shetland financial settlement.

The annual accounts of the IJB can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	As at 31 March 2020 £m	As at 31 March 2021 £m
General Fund	137.124	224.139
Housing Revenue	18.237	20.405
Harbour Reserve Funds	69.934	88.795
Capital Funds	63.269	66.096
Other Usable Funds	40.170	44.859
Total Usable Reserves	**328.734**	**444.294**

The overall level of usable reserves was £444.3m at 31 March 2021, an increase of £115.6m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve balance has reduced by £12.7m to £19.3m as at 31 March 2021 from the previous year (see Note 7: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 15.2% (28.1% 2019/20) of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

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

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is attributable to the recovery of market conditions from the start of the year and includes a cash withdrawal to meet the cash flow requirements of the Council. More information is outlined in the 'Long-Term Investments' section on page 14.

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

Group Accounts

The Code 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 Shetland Leasing and Property Development Ltd (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 not deemed to be material and are therefore not consolidated in group accounts. The results of the remaining two bodies have a net neutral 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, ZetTrans and the IJB can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The accounts of the O&SVJB can be found at: http://www.orkney.gov.uk

Looking Ahead

COVID-19

The COVID-19 pandemic continues to cast a shadow over a phased return to 'normal' which creates uncertainty in both the short-term and long-term. Mutant variants of COVID-19 are driving an increase in infection rates across Scotland and the UK, although Shetland continues to experience low levels of transmission and is currently in level 0 of the COVID-19 protection level system. In addition, Shetland's population has a higher proportion of fully vaccinated adults than most areas of Scotland.

The Council is well placed to respond promptly to any changes in the regulatory environment in relation to COVID-19. Throughout the past year, the Council has demonstrated it is able to respond quickly to rapid changes in circumstances while maintaining a wide range of services. The Council will work effectively with its stakeholders to monitor developments as the pandemic continues to evolve, and will continue to adapt to changes in guidance issued by the Scottish Government.

Additional resource has been allocated by the Scottish Government to help meet the additional COVID-19-related costs expected in 2021/22, and the Council has also set aside additional contingency to meet any unforeseen pressures that may arise in the next year. The financial impact will be monitored regularly and the Council will seek to update its Medium-Term Financial Plan with any new information or assumptions relating to how COVID-19 may impact the Council in the medium-term.

Climate Change

The Council approved its Strategic Climate Change Programme in January 2020. Shortly after, the Council's focus shifted towards responding to the COVID-19 pandemic which has delayed progress on various work streams within the Strategic Climate Change Programme, however a new Climate Change team has been established within the Infrastructure directorate.

Further information about the progress the Council has made during the year can be found in the comprehensive update reports that have been presented to Committee:

- Climate Change - Strategic Outline Programme - November 2020 Update.
- Climate Change - Strategic Outline Programme - June 2021 Update.

2021/22 Budget

The Council's budget for 2021/22 has been developed in line with the principles and financial planning assumptions set out in *Our Medium-Term Financial Plan*, presented in December 2020. The Council's financial planning assumptions were revised following the publication of the Scottish Government's budget on 28 January 2021 and after receiving the Local Government Finance Settlement (the Settlement) on 1 February 2021.

The Settlement indicates the Scottish Government will provide total revenue funding of £97.0m, including £14.3m of ring-fenced revenue funding for specific purposes, during 2021/22. Ring-fenced funding of £10.8m is included to support the operational costs of inter-island ferry services, which means the lifeline ferry services are fully funded for the first time.

Council Tax has been frozen following approval by the Council on 17 February 2021, in return for an additional £0.3m of financial support offered as part of the Settlement. This means Council Tax rates will remain at 2020/21 levels for the next year, which are amongst the lowest across Scotland. The Council expects to raise £10.3m in Council Tax (net of any discounts or exemptions) during the year, which is similar to last year.

In line with *Our Medium-Term Financial Plan*, the Council plans to supplement the income received from the Scottish Government, Council Tax and fees and charges, by using £21.1m from its reserves to meet total planned revenue expenditure in 2021/22. This amount includes £14.1m of anticipated returns from the Council's long-term investments, which can be drawn down on a sustainable basis. The Council expects total income of £114.6m in 2021/22.

The Council expects to spend £126.3m delivering services funded by the General Fund in 2021/22. Total net revenue expenditure, after allowing for financing costs, recharges and an appropriate contingency is anticipated to be £122.7m.
In order to set a balanced General Fund budget, further support of £8.1m will be required from the reserves, which means the budget set is balanced and affordable, but is not sustainable in the longer term.

Total planned capital investment for the year amounts to £21.2m and largely relates to the maintenance of existing assets. Some £4.8m capital expenditure relates to new and potential capital expenditure, subject to business cases being approved. The Settlement provides a core capital grant of £5.3m, which means the remainder of planned capital expenditure needs to be financed by a combination of capital receipts, from revenue, borrowing and the reserves. The financial planning assumptions did not anticipate a need to utilise the reserves to support capital expenditure in 2021/22. The additional draw from reserves is considered unsustainable. This means the combined revenue and capital budgets for 2021/22 require £12.3m more than we had planned to draw from the reserves in order to set a balanced budget.

The Council has developed the overall budget for 2021/22 amidst the uncertainty of the ongoing pandemic, which has influenced most services across the Council in at least some way, shape or form. The Council has taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, with an expectation that Council services will be operating within the confines of some form of restrictions for at least the first half of the financial year. Meanwhile, the Council remains focused on delivering services that meet the needs of the community. The budgets outlined in the Budget Book are balanced and affordable but cannot be considered sustainable in the longer-term.

For more detail about the 2021/22 budget can be found on the Council's website at: https://www.shetland.gov.uk/budget-finance/council-budget.

Medium-Term Financial Outlook

Our Medium-Term Financial Plan (MTFP) is a key document within a wider suite of plans and strategy documents that collectively seek to define the Council's ambition, strategic priorities and operational plans over the next five years. An updated MTFP was presented to members in December 2020 and can be found here: https://www.shetland.gov.uk/downloads/download/208/budget-book-and-financial-plans

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

The MTFP summarises the key financial planning assumptions and translates those assumptions and financial modelling into three different scenarios:

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

The scenario planning and financial modelling indicates that the Council faces a significant challenge in being able to set balanced budgets in the future. The central scenario indicates a potential cumulative budgetary deficit of £103.6m by 2025/26 should the Council not take action to address or resolve the financial pressures it expects to face. The more optimistic scenario indicated a likely deficit of £57.8m while the pessimistic scenario indicated a likely deficit of £143.6m over the same time period.

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

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

Conclusion

In summary, the Council has experienced a year like no other as it responded to the COVID-19 pandemic. In the short term, the Council will still need to manage pressures created by COVID-19 as well as making progress on a range of other Council priorities as Shetland navigates its way out of the COVID-19 pandemic with the rest of Scotland. As always, the Council strives to balance competing demands, maintain the delivery of public services while taking a lead role in the recovery and renewal effort. The Council has an ambitious Change Programme which will be ever more important as the Council 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.

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S Coutts
Leader of the Council
29 September 2021

DocuSigned by:

Maggie Sandison

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M Sandison
Chief Executive
29 September 2021

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

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

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. Since January 2021, Audit Glasgow staff have conducted all internal audits and assurance reviews following the secondment of locally based internal audit staff to other priorities.

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 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

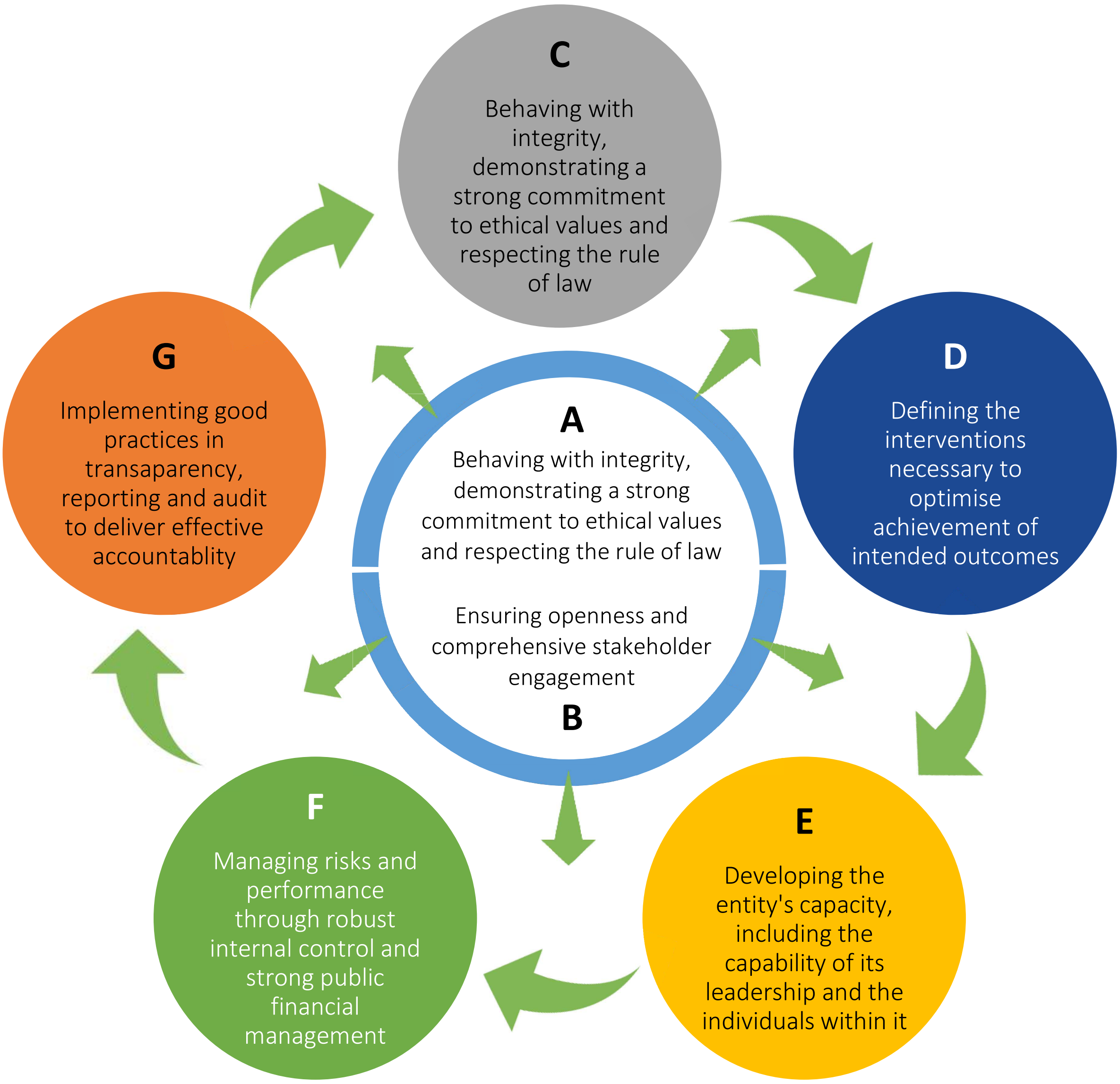
The governance framework has been in place for the year ended 31 March 2021 and up to the date of approval of the annual accounts.

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 Administration and Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's website at: http://www.shetland.gov.uk/about_how_we_work/constitutionandgovernance.asp

The Seven Principles of Good Governance:
CIPFA/SOLACE Delivering Good Governance in Local Government



The Council was due to conduct a review of its governance arrangements during 2020. Due to the COVID-19 pandemic, the annual review of the Local Code of Corporate Governance did not take place during the year as had been planned. Elected Members approved the introduction of temporary governance arrangements in April 2020 to ensure key Council and Pension Fund business was transacted despite the restrictions governing public meetings. A further report presented to Elected Members provided a comprehensive summary of decisions taken by officers using delegated authority. The temporary governance arrangements came to an end in September 2020 when Elected Members approved the reinstatement of regular committee cycles, as the Council moved from an emergency response to focus on the recovery and renewal effort.

In addition, Boundaries Scotland recently finalised its 2019 Review of Electoral Arrangements for the Na h-Eileanan an Iar, Orkney Islands and Shetland Islands Council areas and submitted proposals to the Scottish Ministers. Should the proposals be accepted by the Scottish Ministers and enacted, the Council will need to reflect any changes in ward membership in its own governance arrangements in 2022/23. The outcome of the Boundaries Scotland review should be known in advance of the 2022 local government elections.

The Council's review of governance arrangements will therefore seek to incorporate any changes brought about by changes in electoral boundaries plus any lessons learned from the impact of COVID-19 that may help the Council's plans for recovery and renewal.

Impact of COVID-19

COVID-19 dominated much of 2020 and continues to have a significant impact on the Council's activities and ability to deliver services.

The impact of the COVID-19 pandemic on the Council can be summarised under 4 areas:

- Operations and service delivery,
- Governance arrangements,
- Financial Statements, and
- Longer-term consequences.

Impact on Operations and Service Delivery:

The Council activated business continuity arrangements and put a range of measures in place to facilitate the continuity of service and to protect the wellbeing of staff and customers. The Council identified business-critical services which enabled the Council to continue to deliver essential services despite widespread remote working with reduced numbers of staff physically present in workplaces and settings across the Council. These arrangements have continued beyond 31 March 2021, in line with the restrictions in force.

The restrictions imposed by the UK and Scottish Government have had a direct impact on the demand for Council services, as well as influencing both the Council's ability and capacity to provide some services. The initial 'stay at home' instruction and subsequent iterations of guidance has led to a reduction in the amount of fees and charges collected from the majority of Council services. The loss of income has been offset by additional grant funding from the Scottish Government to help local authorities meet additional financial pressures arising from the COVID-19 pandemic. Additional grant funding has been received throughout the year, however the majority of COVID-19 support funding was allocated through the redetermination of the 2020/21 Local Government Finance Settlement in late March 2020. The late allocation has contributed to an overall underspend by the Council in 2020/21.

Impact on Governance Arrangements:

As set out in the earlier commentary, the Council introduced temporary measures to help staff and members adhere to national guidance on social and physical distancing, while enabling core business to be conducted safely. The Corporate Management Team, chaired by the Chief Executive, initially met daily to facilitate and monitor the Council's strategic response, with a particular focus on:

- Workforce planning and the safety and well-being of Council employees and contractors
- Maintaining delivery of business-critical services
- Implementing the Caring for People strategy
- Delivering national financial support schemes on behalf of the Scottish Government
- 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, Corporate Management Team have met twice a week, as the Council's approach began to focus on planning and implementing renewal and recovery efforts.

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 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 from the pandemic.

On 22 April 2020, 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
- measures to allow remote attendance at Council and Community Council meetings.

Council meetings took place virtually between April and July. Since July, the Council adopted a hybrid arrangement with limited numbers of Elected Members being able to attend Council and committee meetings in person at the Town Hall, with other Elected Members, officers and external advisors attending via remote means. These arrangements enabled routine business to be conducted through the year without any adverse impact on governance of the Council's activities.

A further update was provided on 9 September 2020, at which the Council acknowledged the transition from emergency response to the recovery phase, in line with the scaling down of activity at both a national and local level. The update provided a comprehensive summary of decisions taken by officers under delegated authority since the beginning of the outbreak.
The Council's regular cycle of Council and committee meetings was reinstated, although attendance has continued in line with the protocol established by the Council that facilitated hybrid meetings. There has been no adverse impact on the ability of the Council to carry out essential business during the year as a result of COVID-19.

Impact on the Financial Statements:

The impact of COVID-19 on the Council's operations has subsequently impacted the Council's financial statements because of the combined impact of additional expenditure and the loss of income experienced in the financial year.

As described above, the Council generated less income during the year as a direct impact of the COVID-19 pandemic and the various social and economic restrictions in force through the majority of the year. The Scottish Government provided additional financial support to local authorities to help meet the financial pressures experienced. Overall Council expenditure during the year has been less than planned, although not all of the underspend realised on the General Fund, Housing Revenue Account and Harbour Account can be attributed to the impact of COVID-19. In addition, the Council administered and disbursed a variety of grants to individuals, households and businesses on behalf of the Scottish Government. The Scottish Government provided funding of £11.7m to facilitate those grant payments, which the Council has treated as agency payments within these financial statements.

The impact of COVID-19 on the Council's financial statements is therefore considered to be material in 2020/21.

Longer-term Consequences:

It is becoming clearer that the world will be living with COVID-19 for the foreseeable future. The consequences arising from the pandemic, from both a health and an economic perspective will be felt for years.

Long-term health and social implications arising from COVID-19 are not yet fully known, which may have consequences on the wider global economy and temper any efforts for societies across the world to resume 'normal' life. A variety of factors have the potential to impact society in both positive and negative ways (for example, working remotely/at home may become a more common feature of life compared to pre-pandemic times, which may mean less office space is required, but also reduced income from public transport services). It is too early to definitively determine what the long term implications are on the Council at this point.

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, prepared by the Chief Internal Auditor, and also by comments made by external auditors and other review agencies and inspectorates.

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 2020/21, 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).
- Corporate Management Team regularly considers Learning Reports that look back on the implementation of projects to highlight any positive and negative lessons to be learned.
- 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 and subsequent by-elections in November 2019.
- A professional, independent and objective internal audit service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their Audit Plan during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's external auditor is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the financial statements audit and wider scope requirements set out within the Code of Audit Practice.

The Chief Executive met with the Local Area Network (LAN) in February 2021. The LAN comprises the Council's regulatory bodies who collectively agree the focus for planned scrutiny activities that should result in continuous improvement and assurance to other stakeholders, including the public. The Chief Executive's meeting with the LAN encompassed the following:

- the response to the COVID-19 pandemic and subsequent plans for recovery and renewal,
- the Council's short and medium-term financial position,
- changes to the Council's governance arrangements and,
- the preparation for the forthcoming Best Value Assurance Review which is expected to take place in early 2022.

The LAN has changed its approach to scrutiny, and no longer produces Local Scrutiny Plans for each local authority area. The LAN feeds into a National Scrutiny Plan instead, which includes scrutiny activities undertaken in all 32 Scottish Local Authorities. The National Scrutiny Plan was not updated in 2020/21 due to the COVID-19 pandemic. However, feedback received from the LAN indicated there were no areas of concern about the Council's progress on matters that were previously highlighted in the Council's most recent Local Scrutiny Plan, from 2019/20.

The Council's next Best Value Assurance Review is expected to take place in early January 2022. A Best Value Project team has been established to co-ordinate preparatory activity in advance of the assurance review. This includes identifying areas of best practice, and collating evidence that demonstrates how the Council follows best practice.

The Council's Corporate Management Team and Audit Committee consider 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 are highlighted specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Island Growth Deal – Governance Arrangements	*Corporate Management Team*	*Failure to implement good governance arrangements with respect to the Islands Growth Deal may result in the failure to achieve the intended objectives as set out in the Heads of Terms. The formal signing of the Islands Growth Deal is dependent on satisfactory governance arrangements being put in place by the constituent authorities. External funding may be at risk if satisfactory governance arrangements are not implemented.*	*A local Shetland Islands Programme Board, chaired by the Chief Executive has been co-ordinating activity relating to the Shetland-specific aspects of the islands Growth Deal.*	*The three island authorities are currently discussing proposals for governance arrangements that will be implemented in advance of the formal signing of the Islands Growth Deal.* *It is intended to establish a joint committee, comprised of elected members from the three islands authorities, which will oversee the strategic delivery of the Islands Growth Deal over its lifetime.*	*31 March 2022*

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues reported in the 2019/20 Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Current status and further action required
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Executive Manager – Human Resources	Additional resource has been recruited into the health and safety team, which will enable a rolling programme of health and safety inspections to be carried out in line with the Council's existing policies. In addition, a revised fire safety management policy was approved on 7 June 2021 and the procurement of a new health and safety management system has commenced which will act as an enabler for Council Services to meet their obligations.	**Ongoing** This issue was picked up in the latest review of health and safety arrangements and the implementation of the recommendation will be monitored by Internal Audit with regular updates to the Audit Committee.
Business Continuity - Some services also identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Executive Manager – Governance & Law	Although options have been identified for BCP's these have not yet been taken forward due to COVID-19 pandemic. Management are also in the process of reviewing the resourcing of this area in the context of the COVID-19 pandemic.	**Ongoing** A further follow up will be provided to Audit Committee in 2021/22.
There is no formal framework to specifically mitigate the risks associated with EU Funding compliance.	Corporate Management Team	Internal Audit will undertake further work in this area in the forthcoming financial year.	**Ongoing** A further follow up will be provided to Audit Committee in 2021/22.
Business Continuity – absence of an up to date corporate business continuity policy.	Executive Manager – Governance and Law	Business Continuity Policy has been finalised and approved.	**Complete** No further action required
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	A reconciliation of information between Integra and the system used for housing repairs has been undertaken. Further reconciliations have been incorporated into regular batch processing procedures to ensure both systems remain consistent.	**Complete** No further action required (beyond regular monitoring)

Internal Audit Opinion

Internal Audit prepared an annual plan for 2020/21, and the majority of fieldwork has been undertaken as planned. Some changes to the audit plan were made during the year, due to the continuing impact of the COVID-19 pandemic and the various restrictions in place.

COVID-19 necessitated some changes to business processes and key controls, which gave rise to new or changed risks to the Council's business. New assurance reviews were added to the 2020/21 audit plan in response to some of these changes. Other changes will continue to be monitored by management and internal audit as part of the annual audit plan.

The Audit Committee continued to receive full reports for audits and assurance reviews completed during the year. During the year, internal audit made 51 recommendations which have been accepted by management. Internal Audit will monitor the implementation of recommended actions through future follow up audits.

Where an 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 2020/21 fieldwork completed to date, there are no areas that fall into this category. A small number of reviews have resulted in a limited audit opinion, including controls relating to Health and Safety compliance, and Procurement.

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

Based on the audit work undertaken, the assurances provided by Service Directors, and excluding the 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 2020/21 in the Council.

External Audit – Wider Scope actions

As part of the annual audit process, the Audit Committee receives an interim external audit report 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 on Audit Dimensions and Best Value was presented to the audit committee on 23 June 2021.

During the year, the Council has made progress in addressing a number of recommendations made by external audit as part of the 2018/19 and 2019/20 audit. There are 6 outstanding recommendations that have not yet been fully implemented by 30 June 2021.

The Council is committed to taking steps to address any new or outstanding matters to further enhance our governance arrangements. Since September 2020, Corporate Management Team have received regular updates on the implementation of audit recommendations, collating evidence and revising target dates if required.

The Council will continue to monitor effectiveness of the governance arrangements and will take any new recommendations into account as part of the next annual review.

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 2020/21. 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 risk.

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S Coutts
Leader of the Council
29 September 2021

DocuSigned by:

Maggie Sandison

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M Sandison
Chief Executive
29 September 2021

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.

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 2020/21 the level of remuneration (including expenses) for the Leader, S Coutts, was £29.8k (£40.3k in 2019/20), and £22.4k for the Convener, M Bell (£38.6k in 2019/20).

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 £181k in 2020/21 (£177k in 2019/20).

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 2020/21 was £179k (£175k in 2019/20).

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/downloads/file/3106/members-remuneration-and-expenses-2020-2021

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 2020/21.

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 2020/21 and 2019/20.

Total at 31 March 2020	Remuneration Bands	Children's Services	Infra-structure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2021
		Number of Employees					
80	£50,000 - £54,999	33	21	4	7	3	68
52	£55,000 - £59,999	25	37		1	3	66
35	£60,000 - £64,999	11	11	2	1	2	27
19	£65,000 - £69,999	11	10	1	3	2	27
9	£70,000 - £74,999	2	8				10
6	£75,000 - £79,999	1	8	1	1		11
6	£80,000 - £84,999	1	1	1		2	5
3	£85,000 - £89,999	1	2		1		4
3	£90,000 - £94,999	1	3		1	1	6
	£95,000 - £99,999		1				1
	£100,000 - £104,999		3				3
2	£105,000 - £109,999		1				1
	£110,000 - £114,999		1			1	2
1	£115,000 - £119,999						0
3	£120,000 - £124,999						0
1	£125,000 - £129,999						0
1	£130,000 - £134,999						0
0	£135,000 - £139,999						0
0	£140,000 - £144,999						0
0	£145,000 - £149,999						0
221	**Total**	**86**	**107**	**9**	**15**	**14**	**231**

Of the 86 staff (88 in 2019/20) in Children's Services noted above, 26 were head teachers or senior teaching staff (27 in 2019/20).

Of the 107 staff (101 in 2019/20) in Infrastructure Services noted above, 100 worked in Ports and Harbours Operations or Ferry Operations (93 in 2019/20).

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:

	2019/20 £000	2020/21 £000
Salaries	379	393
Expenses	59	3
Allowances	34	34
Total	**472**	**430**

The annual return of Councillors' salaries and expenses for 2020/21 is available for any member of the public to view on the Council's website here.

Summary of Remuneration paid to Employees

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

	2019/20 £000	2020/21 £000
Salaries	76,417	80,722
Overtime	3,438	3,273
Expenses	1,387	491
Allowances	943	1,093
Total	**82,185**	**85,579**

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 2020/21 of £85k (£112k in 2019/20) in the table includes £49k (£52k in 2019/20) 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 £36k (£60k in 2019/20) for the capitalised cost of compensatory added years, agreed in 2020/21, 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £000	2020/21 £000
£0 - £19,999	0	0	0	1	**0**	**1**	**0**	**2**
£20,000 - £39,999	0	0	1	0	**1**	**0**	**34**	**0**
£40,000 - £59,999	0	0	0	0	**0**	**0**	**0**	**0**
£60,000 - £79,999	0	0	1	0	**1**	**0**	**78**	**0**
£80,000 - £99,999	0	0	0	1	**0**	**1**	**0**	**83**
£100,000 - £149,999	0	0	0	0	**0**	**0**	**0**	**0**
£150,000 - £199,999	0	0	0	0	**0**	**0**	**0**	**0**
Total	**0**	**0**	**2**	**2**	**2**	**2**	**112**	**85**

The table above details the number and cost of exit packages awarded in 2020/21 and 2019/20. 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 2021.

Disclosure of Remuneration for Senior Councillors

2019/20			2020/21		
Total Remuneration £	Name of Councillor	Designation	Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
21,978	M Bell	Convener	22,320	79	**22,399**
29,239	S Coutts	Leader of the Council	29,760	79	**29,839**
20,300	A Duncan	Chair - Audit Committee	19,611	84	**19,695**
20,388	A Cooper	Chair - Development Committee	20,682	101	**20,783**
20,357	G Smith	Chair - Education & Families Committee	20,682	79	**20,761**
20,357	R Thomson	Chair - Environment & Transport Committee	20,682	79	**20,761**
19,189	A Manson	Chair - Harbour Board	19,611	0	**19,611**
19,309	I Scott (c)	Chair - Licensing Committee	18,673	80	**18,753**
0	C Smith (d)	Chair - Licensing Committee	18,465	31	**18,496**
17,863	T Smith (e)	Chair - Planning Committee	0	0	**0**
19,119	E Macdonald	Chair - Planning Committee	20,682	73	**20,755**
19,309	P Campbell	Chair - Shetland College Board	19,611	91	**19,702**

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) I Scott - pro rata remuneration for the period 1 April 2020 to 17 July 2020 £18,673 (full year remuneration for holding the position of Chair of Licensing Committee £19,611)

(d) C Smith - pro rata remuneration for the period 25 November 2020 to 31 March 2021 £18,497 (full year remuneration for holding the position of Chair of Licensing Committee £19,611)

(e) T Smith held the position of Chair – Planning Committee until 11 June 2019

Remuneration of Senior Employees of the Council

2019/20			2020/21		
Total Remuneration £	Name of Senior Employee	Designation	Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
109,475	M Sandison	Chief Executive	112,747	0	**112,747**
91,533	H Budge	Director - Children's Services	94,267	0	**94,267**
71,360	J Robinson (c)	Director - Community Health & Social Care	78,541	0	**78,541**
91,813	C Ferguson	Director - Corporate Services	94,267	105	**94,372**
91,533	N Grant	Director - Development Services	94,267	0	**94,267**
89,156	J Smith	Director - Infrastructure Services	94,053	0	**94,053**
41,910	M Nicolson (d)	Executive Manager - Children & Families (Chief Social Work Officer)	0	0	**0**
80,431	D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	83,750	390	**84,140**
78,485	J Manson	Executive Manager - Finance (Section 95 Officer)	82,826	0	**82,826**
81,361	J Riise	Executive Manager - Governance & Law (Monitoring Officer)	83,790	0	**83,790**

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) J Robinson left the Directorate of IJB on 31 December 2020 and returned to her Executive Manager post from 1 January 2021. She was appointed Interim Deputy Director of Community Health & Social Care from 13 July 2020;

d) 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;

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 2021		Difference from 31 March 2020	
		31 March 2020 £000	31 March 2021 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	5	5	4	0	1	0
S Coutts	Leader of the Council	6	6	3	0	0	0
A Duncan	Chair - Audit Committee	4	4	2	0	0	0
A Cooper	Chair - Development Committee	4	4	2	0	1	0
G Smith	Chair - Education & Families Committee	4	4	4	0	1	0
R Thomson	Chair - Environment & Transport Committee	4	4	1	0	0	0
A Manson	Chair - Harbour Board	4	4	3	0	0	0
I Scott (a)	Chair - Licensing Committee to 17 July 2020	4	4	2	0	1	0
C Smith (b)	Chair - Licensing Committee from 25 November 2020	4	4	2	0	0	0
E Macdonald	Chair - Planning Committee	4	4	2	0	1	0
P Campbell	Chair - Shetland College Board	4	4	5	0	1	0

Notes:

a) I Scott held the position of Chair of Licensing Committee until 17 July 2020; and

b) C Smith was appointed Chair of Licensing Committee from 25 November 2020.

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2021		Difference from 31 March 2020	
		31 March 2020 £000	31 March 2021 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Sandison	Chief Executive	23	23	43	58	3	2
H Budge	Director - Children's Services	19	22	34	101	2	6
J Robinson (a)	Executive Manager	16	16	27	33	2	0
C Ferguson	Director - Corporate Services	19	20	56	104	4	3
N Grant	Director - Development Services	19	20	28	22	2	0
J Smith	Director - Infrastructure Services	19	20	37	53	3	2
J Manson	Executive Manager - Finance	16	17	4	0	2	0
M Nicolson (b)	Executive Manager - Children & Families	5	0	0	0	(26)	(38)
D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	17	17	39	65	4	4
J Riise (c)	Executive Manager - Governance & Law	17	17	44	74	3	2

Notes:

a) J Robinson left the Directorate of IJB on 31 December 2020 and returned to her substantive post of Executive Manager – Allied Health Professionals post from 1 January 2021. She continues to provide the services of Deputy Chief Officer of the IJB;

b) M Nicolson figures for 2019/20 are reported up to the leaving date of 17 July 2019; and

c) 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 2021. In 2019/20, 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:	2019/20 %	Tiered contribution rates on whole time pay are as follows:	2020/21 %
On earnings up to and including £21,800	5.50	On earnings up to and including £22,200	5.50
On earnings above £21,801 and up to £26,700	7.25	On earnings above £22,201 and up to £27,100	7.25
On earnings above £26,701 and up to £36,600	8.50	On earnings above £27,101 and up to £37,200	8.50
On earnings above £36,601 and up to £48,800	9.50	On earnings above £37,201 and up to £49,600	9.50
On earnings above £48,801	12.00	On earnings above £49,601	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 2020/21

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

Facility Time Publication Requirements 2020/21	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	16	9
Full-time equivalent employee number	13.98	8.5
Table 2 - How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?		
Percentage of time	**Number of employees**	**Number of employees**
0%	13	5
1-50%	3	4
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)	14	35
Total pay bill (B)	89,809	23,623
Percentage of the total pay bill spent on facility time (A ÷ B)	0.02%	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	36.1%	0.41%

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S Coutts
Leader of the Council
29 September 2021

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Maggie Sandison
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M Sandison
Chief Executive
29 September 2021

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.

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 2021.

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....
S Coutts
Leader of the Council
29 September 2021

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J Manson CPFA
Executive Manager - Finance
29 September 2021

Independent Auditor's Report to the Members of Shetland Islands Council and the Accounts Commission

Reporting on the Audit of the Financial Statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Shetland Islands Council for the year ended 31 March 2021 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, and the Non-Domestic Rate Income Account, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council as at 31 March 2021 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 2020/21 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 5 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.

Conclusions relating to going concern basis of accounting

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

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

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 judgements 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.

The 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.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

- considering the nature of the council's control environment and reviewing the council's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired with management, internal audit and those charged with governance about their own identification and assessment of the risks of irregularities;
- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the body operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and the Public Bodes (Joint Working) Scotland Act 2014.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the body's ability to operate or to avoid a material penalty. These included the Data Protection Act 2018 and relevant employment legislation.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud was in relation to the recognition of COVID-19 related income. The risks are that the COVID-19 related income is incorrected recorded where grant conditions exist and has not been correctly assessed and disclosed as either a principal or agency relationship. In response to this risk, we tested a sample of COVID-19 funding to confirm that it has been recognised in accordance with any conditions applicable. In addition, we have tested the agency arrangement disclosures to confirm that they have been correctly assessed and disclosed.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

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

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

Reporting on Other Requirements

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

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

Statutory other information

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

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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 - delete if not applicable.

We have nothing to report in respect of these matters.

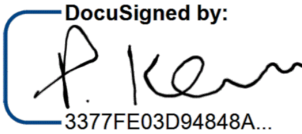
Conclusions on wider scope responsibilities

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.

DocuSigned by:



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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)

110 Queen Street

Glasgow

G1 3BX

United Kingdom

29 September 2021

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2021

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.

2019/20 Gross Expenditure £000	2019/20 Gross Income £000	2019/20 Net Expenditure £000		Notes	2020/21 Gross Expenditure £000	2020/21 Gross Income £000	2020/21 Net Expenditure £000
932	(110)	822	Chief Executive and Cost of Democracy		2,064	(20)	2,044
54,624	(7,670)	46,954	Children's Services		60,162	(8,323)	51,839
55,480	(30,538)	24,942	Community Care Services		58,878	(33,421)	25,457
15,988	(5,704)	10,284	Corporate Services		16,340	(5,826)	10,514
24,911	(6,619)	18,292	Development Services		20,303	(6,398)	13,905
42,236	(12,768)	29,468	Infrastructure Services		45,377	(11,312)	34,065
5,925	(7,116)	(1,191)	Housing Revenue Account		5,811	(7,250)	(1,439)
21,478	(35,328)	(13,850)	Harbour Account		19,297	(31,167)	(11,870)
221,574	**(105,853)**	**115,721**	**Net Cost of Services**		**227,424**	**(102,909)**	**124,515**
2,201	0	2,201	Other operating income and expenditure	8	2,953	(380)	2,573
59,723	(33,339)	26,384	Financing and investment income and expenditure	9	(82,308)	(28,205)	(110,513)
0	(101,110)	(101,110)	Taxation and non-specific grant income	11	0	(109,427)	(109,427)
283,498	**(240,302)**	**43,196**	**Gain on Provision of Services**		**148,069**	**(240,921)**	**(92,852)**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services			Notes	
		(20,423)	Surplus on revaluation of property, plant and equipment assets			13	(4,315)
		(54,599)	Remeasurement of the net defined benefit liability			28	59,859
		(75,022)	**Other Comprehensive Income and Expenditure**				**55,544**
		(31,826)	**Total Comprehensive Income and Expenditure**				**(37,308)**

Movement in Reserves Statement for the year ended 31 March 2021

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.

2020/21	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 2020	**(137,124)**	**(18,237)**	**(63,269)**	**(110,104)**	**(328,734)**	**(236,390)**	**(565,124)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	(90,610)	(2,242)	0	0	(92,852)	55,544	(37,308)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(26,397)	74	3,550	0	(22,773)	22,773	0
Net (Increase)/Decrease before transfers	**(117,007)**	**(2,168)**	**3,550**	**0**	**(115,625)**	**78,317**	**(37,308)**
Net Transfers to/(from) Other Statutory Reserves	29,992	0	(6,377)	(23,550)	65	(65)	0
(Increase)/Decrease in year	**(87,015)**	**(2,168)**	**(2,827)**	**(23,550)**	**(115,559)**	**78,252**	**(37,308)**
Balance at 31 March 2021	**(224,139)**	**(20,405)**	**(66,096)**	**(133,654)**	**(444,294)**	**(158,140)**	**(602,434)**

Comparative movements in 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	(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)**

Balance Sheet as at 31 March 2021

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 2020 £000		Notes	As at 31 March 2021 £000
471,404	Property, Plant and Equipment	12	461,854
2,135	Investment Property	14	1,724
4,825	Heritage Assets	15	4,587
30,887	Intangible Assets	16	33,732
331,347	Long-term Investments (including investment in Subsidiary)	18	437,580
1,405	Long-term Debtors	22	1,293
842,003	**Long-Term Assets**		**940,770**
260	Assets held for Sale	21	329
5,116	Inventories	25	5,113
16,696	Short-term Debtors	23	22,154
5,430	Cash and Cash equivalents	20	8,973
27,502	**Current Assets**		**36,569**
(19,128)	Short-term Creditors	24	(21,494)
(15,412)	Intercompany Loan	24	(15,413)
(469)	Short-term Provisions	26	(2,912)
(35,009)	**Current Liabilities**		**(39,819)**
(49,130)	Long-term Borrowing	18	(49,100)
(171,912)	Pension Liability	28	(243,841)
(5,370)	Long-term Provisions	26	(502)
(41,811)	PFI and Similar Contracts	17	(40,551)
(1,149)	Other Long-term Liabilities	18	(1,092)
(269,372)	**Long-Term Liabilities**		**(335,086)**
565,124	**Net Assets**		**602,434**
328,734	Usable Reserves	7	444,294
236,390	Unusable Reserves	12	158,140
565,124	**Total Reserves**		**602,434**

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J Manson
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J Manson CPFA
Executive Manager - Finance
29 September 2021

Cash Flow Statement for the year ended 31 March 2021

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.

2019/20 £000		2020/21 £000
	Operating activities	
43,196	Net deficit (surplus) on the provision of services	(92,852)
(34,662)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	(33,815)
10,664	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	9,011
19,198	**Net cash flows from Operating Activities**	**(117,656)**
(18,195)	Investing activities	112,685
1,320	Financing activities	1,428
2,323	**Net increase in cash and cash equivalents**	**(3,543)**
7,753	Opening Cash and Cash Equivalents	5,430
(2,323)	Net (increase)/decrease in cash and cash equivalents	3,543
5,430	**Closing Cash & Cash Equivalents**	**8,973**

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

2019/20 £000		2020/21 £000
(1,823)	Interest received	(1,086)
5,223	Interest paid	5,760
(4,201)	Dividends received	(2,912)
(801)	**Total**	**1,762**

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

2019/20 £000		2020/21 £000
(15,197)	Depreciation, impairment and revaluations	(22,869)
(1,767)	Amortisation	(1,648)
(166)	Increase in impairment for bad debts	(439)
1,417	Decrease in creditors	(2,278)
432	Increase in debtors	5,694
118	Decrease in inventories	(3)
(16,605)	Movement in pension liability	(12,071)
(2,735)	Carrying amount of non-current assets sold or de-recognised	(2,943)
(159)	Other non-cash items charged to the net surplus or deficit on the provision of services	2,742
(34,662)	**Total**	**(33,815)**

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

2019/20 £000		2020/21 £000
534	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	370
10,130	Any other items for which the cash effects are investing or financing cash flows	8,641
10,664	**Total**	**9,011**

Investing Activities

2019/20 £000		2020/21 £000
19,666	Purchase of property, plant and equipment, investment property and intangible assets	23,568
(26,438)	Purchase of short-term and long-term investments	98,280
(534)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(370)
(759)	Proceeds from short-term and long-term investments	(152)
(10,130)	Other receipts from investing activities	(8,641)
(18,195)	**Total**	**112,685**

Financing Activities

2019/20 £000		2020/21 £000
0	Cash receipts of short and long-term borrowing	0
1,282	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,394
38	Repayments of short and long-term borrowing	34
1,320	**Total**	**1,428**

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

2019/20 £000		2020/21 £000
	Expenditure	
2,976	Repairs and maintenance	2,767
951	Supervision and management	849
1,722	Depreciation and impairment of non-current assets	1,837
39	Movement in the allowance for bad debts	74
235	Other expenditure	284
5,923	**Total expenditure**	**5,811**
	Income	
(6,865)	Dwelling rents	(7,010)
(222)	Non-Dwelling rents	(229)
(27)	Other Income	(11)
(7,114)	**Total income**	**(7,250)**
(1,191)	**Net income of HRA services as included in the CIES**	**(1,439)**
9	HRA services' share of Corporate and Democratic Core	0
(1,182)	**Net Income of HRA Services**	**(1,439)**
	HRA share of operating income and expenditure included in the CIES	
0	Taxation and non-specific grant income	0
975	(Gain) or Loss on sale of HRA non-current assets	666
476	Interest payable and similar charges	480
(2,328)	Interest and investment income	(2,015)
87	Pension interest cost and expected return on pension assets	66
(790)	**Net HRA share of operating expenditure**	**(803)**
(1,972)	**(Surplus) / Deficit for the year on HRA services**	**(2,242)**

Movement on the Housing Revenue Account Statement

2019/20 £000		2020/21 £000
(17,425)	**Opening balance on the HRA**	**(18,237)**
(1,972)	(Surplus) / Deficit on the HRA Income and Expenditure Statement	(2,242)
1,160	Adjustment between accounting basis and funding basis under statute	74
(812)	**Increase in year on the HRA**	**(2,168)**
0	Transfers to reserves	0
(18,237)	**Closing balance on the HRA**	**(20,405)**

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:

2019/20 Number	Housing Stock	2020/21 Number
75	1 Apartment	75
412	2 Apartment	412
523	3 Apartment	523
612	4 Apartment	611
33	5 Apartment	33
1	6 Apartment	1
2	8 Apartment	2
1,658	**Total**	**1,657**

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. An additional 32 properties are in arrears as at 31 March 2021. The total value of rent arrears has increased by £84k in 2020/21, to £404k. This compares to a total value of arrears of £320k in 2019/20 (which increased by £85k from the year before).

2019/20 £000		2020/21 £000
320	Total value of rent arrears	404

2019/20		2020/21
514	Number of properties in arrears	546
31.0%	Properties in arrears as share of total stock	33.0%
£623	Average amount per property in arrears	£740

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 2020/21 was £44k (£48k 2019/20). The bad and doubtful debt provision included within the Council's accounts at 31 March 2021 is £77k (£45k 2019/20).

Void Rents

The following table summarises the income lost due to voids in 2020/21. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2019/20 £000		2020/21 £000
96	General needs void rents and charges	129
34	Sheltered housing void rents and charges	41
130	**Total**	**170**

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

2019/20 £000		2020/21 £000
(11,898)	Gross Council Tax levied and contributions in lieu	(12,547)
676	Council Tax Reduction Scheme	764
1,469	Other discounts and reductions	1,578
49	Write-offs of uncollectable debts	62
61	Adjustment to previous years' Community Charge and Council Tax	37
(9,643)	**Transfer to General Fund**	**(10,106)**

Council Tax Base

The table below shows the Council Tax base used to set the 2020/21 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.

2020/21	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2020/21 Band D equivalents	2019/20 Band D equivalents
Band A*			9	(1)	(2)	6	0.50	3	4
Band A	2,955	(135)	6	(479)	(285)	2,062	0.67	1,375	1,399
Band B	1,828	(69)	9	(246)	(163)	1,359	0.78	1,057	1,065
Band C	2,816	(89)	11	(329)	(225)	2,184	0.89	1,941	1,949
Band D	1,855	(36)	6	(145)	(59)	1,621	1.00	1,621	1,606
Band E	1,442	(17)	1	(76)	(13)	1,337	1.31	1,757	1,708
Band F	297	(3)	1	(10)	(1)	284	1.63	461	437
Band G	67	(5)	0	(3)	0	59	1.95	115	108
Band H	2	(1)	0	0	0	1	1	1	0
Sub-total								**8,331**	**8,276**
Less Bad Debt provision								(58)	(58)
Council Tax Base								**8,273**	**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

2019/20 £000		2020/21 £000
31,247	Gross rates levied and contributions in lieu	31,019
(4,752)	Reliefs and other deductions	(7,066)
(77)	Write-offs of uncollectable debts	(58)
26,418	**Net non-domestic rate income**	**23,895**
(385)	Adjustment to previous years' national non-domestic rates	(1,330)
26,033	**Contribution to non-domestic rate pool**	**22,565**
(25,925)	Distribution from non-domestic rate pool	(17,182)
(25,925)	**Transfer to Comprehensive Income & Expenditure Statement**	**(17,182)**

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 2020/21 is 49.8p (49.8p in 2019/20).

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 as at 1 April 2020	Number of Subjects	Rateable Value £000
Commercial	577	8,645
Industrial	482	37,368
Other	1,322	15,189
Total	**2,381**	**61,202**

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

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

2020/21	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,804	240	0	2,044
Children's Services	47,507	6,621	(2,289)	51,839
Community Care Services	21,858	3,606	(7)	25,457
Corporate Services	9,245	2,387	(1,118)	10,514
Development Services	11,303	2,645	(43)	13,905
Infrastructure Services	23,952	10,189	(76)	34,065
Housing Revenue Account	(155)	(73)	(1,211)	(1,439)
Harbour Account	(14,664)	4,264	(1,470)	(11,870)
Net Cost of Services	**100,850**	**29,879**	**(6,214)**	**124,515**
Other income and expenditure	(100,843)	(3,556)	(112,968)	(217,367)
(Surplus) or Deficit	**7**	**26,323**	**(119,182)**	**(92,852)**
Opening General Fund and HRA balance*		**155,361**		
Add (Surplus) / Deficit in the year		7		
Add other items not charged to the (Surplus) / Deficit		89,041		
Closing General Fund and HRA balance		**244,409**		

2019/20	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,885	(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**		

**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:

2020/21	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	69	171	0	240
Children's Services	4,779	1,556	286	6,621
Community Care Services	781	2,605	220	3,606
Corporate Services	1,477	682	228	2,387
Development Services	1,843	615	187	2,645
Infrastructure Services	8,374	1,605	210	10,189
Housing Revenue Account	(256)	157	26	(73)
Harbour Account	3,553	637	74	4,264
Net Cost of Services	**20,620**	**8,028**	**1,231**	**29,879**
Other income and expenditure	(7,599)	4,043	0	(3,556)
Total adjustments between accounting basis and funding basis	**13,021**	**12,071**	**1,231**	**26,323**

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**

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 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Amendments to IAS 8: Accounting Policies, Changing in Accounting Estimates and Errors: Definition of Material;
- Amendment to IAS 1: Preparation of Financial Statements;
- 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; and
- Amendments to references in the Conceptual Framework in International Financial Reporting Standards.

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 2022;
- Amendment to IFRS 3 (Definition of a Business) – applicable for periods beginning on or after 1 April 2021;
- Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) – applicable for periods beginning on or after 1 April 2021

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

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by the Code from 1 April 2022. 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 2022 and beyond, a quantification of the expected impact of applying the standard in 2022/23 is currently impracticable. However, the Council does expect the implementation of this standard to have a material impact on the Balance Sheet.

Note 4: Judgements and Major Sources of Estimation Uncertainty

The financial statements 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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties - Estimates	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets (see Note 28: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £78.9m; 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.

Item	Uncertainties - Estimates	Effect if actual results differ from assumptions
Fishing Quota	Fishing quota held by the Council was valued at £32.9m by an independent broker at 31 March 2021. 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.	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 2021, the Council had external investments with Fund Managers amounting to £423m. 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 £14.7m 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 £2.2m.

Note 5: 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.

2020/21	Usable Reserves: General Fund £000	Usable Reserves: Housing Revenue Account £000	Usable Reserves: Capital Usable Reserves £000	Usable Reserves: 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	(18,241)	(1,741)	0	**(19,982)**	19,982
Charges for impairment of non-current assets	(2,407)	(69)	0	**(2,476)**	2,476
Movement in the fair value of Investment Properties	(411)	0	0	**(411)**	411
Amortisation of intangible assets	(1,622)	(26)	0	**(1,648)**	1,648
Capital grants and contributions applied	8,292	71	(207)	**8,156**	(8,156)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal	(2,276)	(667)	0	**(2,943)**	2,943
Capital repayment in respect of finance leases	56	0	0	**56**	(56)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,892	808	0	**3,700**	(3,700)
Capital expenditure charged against the General Fund and HRA balances	0	1,950	0	**1,950**	(1,950)
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	1,702	**1,702**	(1,702)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	369	1	0	**370**	(370)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,055	**2,055**	(2,055)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(26,496)	(445)	0	**(26,941)**	26,941
Employer's pensions contributions and direct payments to pensioners payable in the year	14,652	218	0	**14,870**	(14,870)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,205)	(26)	0	**(1,231)**	1,231
Total Adjustments	**(26,397)**	**74**	**3,550**	**(22,773)**	**22,773**

2019/20	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	(16,878)	(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**

Note 6: 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 2020/21.

	Balance at 31 March 2020 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2021 £000
General Fund Balance (unearmarked)	(31,982)	124,278	(111,587)	**(19,291)**
Unrealised Investment Gains (earmarked)	(61,904)	0	(92,459)	**(154,363)**
Equalisation Fund (unearmarked)	(21,107)	0	(2,332)	**(23,439)**
Revenue Spend to Save Fund	(1,977)	265	(219)	**(1,931)**
Council Tax Second Homes Receipts	(1,639)	65	(389)	**(1,963)**
Welfare Reform Fund	(273)	0	(30)	**(303)**
Hansel Funds	(210)	213	(220)	**(217)**
School Funds	(293)	293	(338)	**(338)**
Central Energy Efficiency Fund	(20)	0	(48)	**(68)**
Crown Estate	0	0	(3,367)	**(3,367)**
Early Learning and Childcare (ELC)	0	0	(882)	**(882)**
Pupil Equity Funding (PEF)	0	0	(121)	**(121)**
Community Care Fund	0	0	0	**0**
Local Investment Fund	(17,719)	0	(137)	**(17,856)**
Total General Fund	**(137,124)**	**125,114**	**(212,129)**	**(224,139)**
Capital Fund	(63,269)	3,768	(6,595)	**(66,096)**
Repairs & Renewals Fund	(37,268)	0	(4,118)	**(41,386)**
Housing Revenue Account	(18,237)	0	(2,168)	**(20,405)**
Harbour Reserve Fund	(69,934)	0	(18,861)	**(88,795)**
Insurance Fund	(2,902)	0	(571)	**(3,473)**
Total Statutory Reserves	**(191,610)**	**3,768**	**(32,313)**	**(220,155)**
Total Usable Reserves	**(328,734)**	**128,882**	**(244,442)**	**(444,294)**

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 2021 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 2021. 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 7: Other Operating Income and Expenditure

2019/20 £000		2020/21 £000
2,201	Losses on the disposal of non-current assets	2,573
2,201	**Total**	**2,573**

Note 8: Financing and Investment Income and Expenditure

2019/20 £000		2020/21 £000
5,380	Interest payable and similar charges	5,612
(244)	Income and expenditure in relation to Investment properties	(262)
(135)	Changes in fair value of Investment Properties	411
5,190	Pensions interest cost and expected return on pensions assets	4,043
(1,823)	Interest receivable and similar income	(1,086)
(4,099)	Other investment income	(2,908)
(26,867)	Realised gains in relation to available for sale financial assets	(23,859)
49,084	Unrealised (gains)/losses in relation to available for sale	(92,460)
(102)	Income from transferred SDT financial instruments	(4)
26,384		**(110,513)**

Note 9: Revenue from Contracts with Service Recipients

The Council has recognised £45.9m in 2020/21 (£52.2m in 2019/20) 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, 71% (44% 2019/20) on average was within the standard 30 day payment terms.

Timing of Payment	Average % 2019/20	Average % 2020/21
Paid at point of use	1.87%	0.36%
Paid in advance	13.24%	13.57%
Paid in arrears	84.89%	86.07%

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.

2020/21	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	(27)	(22)	(713)	(848)	(1,610)
Care home fees	0	0	0	0	(645)	(645)
Course Fees	0	0	0	0	(418)	(418)
Other Income	(20)	(196)	(68)	(16)	(3,522)	(3,822)
Sale of materials / equipment	0	0	0	0	(737)	(737)
Sale of Meals	0	0	0	0	(467)	(467)
Transport Income	(167)	(10)	(8)	(13)	(1,074)	(1,272)
Waste disposal	(142)	(413)	(3)	(187)	(1,293)	(2,038)
General Fund	**(329)**	**(646)**	**(101)**	**(929)**	**(9,004)**	**(11,009)**
Dues	0	0	0	0	(1,430)	(1,430)
Jetty and Spur Booms Income	0	0	0	0	(1,923)	(1,923)
Other Income	0	0	0	0	(515)	(515)
Tanker Income	0	0	0	0	(23,768)	(23,768)
Harbour Account	**0**	**0**	**0**	**0**	**(27,636)**	**(27,636)**
Rental Income	0	0	0	0	(7,239)	(7,239)
Other Income	0	0	0	0	(11)	(11)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(7,250)**	**(7,250)**
Total	**(329)**	**(646)**	**(101)**	**(929)**	**(43,890)**	**(45,895)**

2019/20	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	(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)**

Note 10: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2020/21:

2019/20 £000		2020/21 £000
	Credited to Taxation and Non-Specific Grant Income	
(55,412)	Revenue Support Grant	(73,776)
(25,925)	Non-domestic Rates	(17,182)
(9,643)	Council Tax	(10,106)
(10,130)	Capital Grants and Contributions	(8,363)
(101,110)	**Total**	**(109,427)**
	Credited to Services	
(5,200)	Support for Ferries	(5,223)
(3,301)	Scottish Government PFI Support	(3,304)
(3,186)	Housing Benefit funding	(3,227)
(1,627)	Expansion of early learning and childcare	(2,858)
(2,490)	FE and HE funding	(2,674)
(1,986)	Rural Care Model	(1,986)
0	Resource Transfer *	(1,562)
0	COVID-19	(1,443)
(1,009)	Crown Estate	(1,360)
(1,347)	Energy grants	(667)
(772)	EU grants	(564)
(319)	Employability funding	(524)
(278)	Support for Lecturer's National Pay Bargaining	(358)
(328)	Criminal Justice grant	(329)
(373)	Skills Development Scotland	(310)
(437)	NHS grants	(294)
(243)	Educational attainment / Pupil equity funding	(229)
(2)	Grants for Economic Development	(187)
(180)	Active Schools funding	(186)
(108)	Education Maintenance Allowance funding	(118)
0	Community Food Fund	(15)
(75)	Youth Music funding	(76)
(74)	Empowering Communities	(73)
(71)	Other grants and contributions	(64)
(170)	Town Centre Improvements	(61)
(60)	Department of Work and Pensions funding	(54)
(81)	Electric Vehicle funding	(52)
0	Apprentice Grants	(41)
(38)	Housing grants	(38)
0	Regional Recovery Projects	(30)
(26)	Sports Development and Facilities funding	(29)
0	SCSP Local Authority Fund	(27)
(43)	Languages funding	(11)
(11)	Transport grants	(11)
(85)	Training grants	(5)
(98)	Northern Alliance	0
(63)	Counselling in Schools	0
(60)	Home and Belonging	0
(24,141)	**Total**	**(27,990)**
0	**Value of grants received in advance not recognised**	**0**

** Resource transfer was not previously treated as a grant.*

Note 11: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2019/20 £000		2020/21 £000
(133,045)	Revaluation Reserve	(133,054)
171,912	Pensions Reserve	243,842
(277,780)	Capital Adjustment Account	(272,682)
2,523	Employee Statutory Adjustment Account	3,754
(236,390)	**Total Unusable Reserves**	**(158,140)**

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.

2019/20 £000		2020/21 £000
(116,953)	**Opening balance**	**(133,045)**
(20,638)	(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(4,480)
	Amounts written off to the Capital Adjustment Account:	
3,533	Difference between fair value depreciation and historical cost depreciation	4,192
798	Assets sold or scrapped	114
215	Decommissioning Obligation provision	165
(133,045)	**Closing balance**	**(133,054)**

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.

2019/20 £000		2020/21 £000
209,906	**Opening balance**	**171,912**
(54,599)	Actuarial (gains) and losses on pensions assets and liabilities	59,859
30,606	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	26,941
(14,001)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,870)
171,912	**Closing balance**	**243,842**

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.

2019/20 £000		2020/21 £000
(259,781)	**Opening balance**	**(277,780)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
18,573	Charges for depreciation of non-current assets	19,982
(3,241)	Charges for revaluation gains/losses of non-current assets	2,476
(135)	Movement in the fair value of Investment Properties	411
1,767	Amortisation of intangible assets	1,648
(811)	Repayment of capital on finance leases	(56)
(1,223)	Repayment of capital on PFI contract	(1,288)
2,735	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	2,943
(4,331)	Adjustment amounts written out of the Revaluation Reserve	(4,307)
	Capital financing applied in the year:	
(1,497)	Use of the Capital Receipts Reserve to finance new capital expenditure	(2,425)
(10,046)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(8,156)
(164)	Application of grants to capital financing from the Capital Grants Unapplied Account	0
(2,402)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,412)
(3,393)	Capital expenditure charged against the General Fund and HRA balances	(1,950)
(13,831)	Capital Fund Reserve	(1,768)
(277,780)	**Closing balance**	**(272,682)**

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.

2019/20 £000		2020/21 £000
2,697	**Opening balance**	**2,523**
(2,697)	Settlement or cancellation of accrual made at the end of the preceding year	(2,523)
2,523	Amounts accrued at the end of the current year	3,754
2,523	**Closing balance**	**3,754**

Note 12: Property, Plant and Equipment

Movements in 2020/21	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 2020	**69,138**	**242,724**	**70,557**	**172,493**	**7,475**	**6,282**	**3,325**	**571,994**	**46,023**
Additions	1,952	1,445	3,074	635	0	5	8,340	15,451	0
Revaluation increases recognised in the Revaluation Reserve	36	1,084	(1,912)	0	0	(1,271)	0	(2,063)	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(69)	(140)	(5,154)	0	0	(1,075)	0	(6,438)	0
Derecognition – disposals	0	(482)	(3,128)	0	(5)	(21)	0	(3,636)	0
Derecognition – other	(666)	(340)	(182)	(561)	0	0	(360)	(2,109)	0
Assets reclassified (to) / from Assets Held for Sale	(72)	0	0	0	0	(227)	0	(299)	0
Other movements in cost or valuation	0	466	665	935	0	(1,491)	(575)	0	0
Closing Balance at 31 March 2021	**70,319**	**244,757**	**63,920**	**173,502**	**7,470**	**2,202**	**10,730**	**572,900**	**46,023**
Depreciation and Impairment									
Opening Balance at 1 April 2020	**(1,028)**	**(7,991)**	**(29,821)**	**(61,730)**	**0**	**(20)**	**0**	**(100,590)**	**(3,199)**
Depreciation charge	(1,640)	(8,126)	(5,624)	(4,441)	0	(136)	0	(19,967)	(1,285)
Depreciation written out to the Revaluation Reserve	2	469	1,537	0	0	512	0	2,520	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	84	3,875	0	0	3	0	3,962	0
Derecognition – disposals	0	60	2,968	0	0	3	0	3,031	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	394	8	0	0	(402)	0	0	0
Closing Balance at 31 March 2021	**(2,666)**	**(15,110)**	**(27,057)**	**(66,171)**	**0**	**(40)**	**0**	**(111,044)**	**(4,484)**
Net Book Value as at 31 March 2021	**67,653**	**229,646**	**36,863**	**107,331**	**7,470**	**2,161**	**10,730**	**461,854**	**41,539**
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**

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	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**

Capital Commitments

At 31 March 2021 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 £8.1m. Similar commitments at 31 March 2020 were £8.8m. Major projects are detailed in the table below.

Major Commitments as at 31 March 2021	£m
Terminal Life Extension	2.738
ERP Furnace Upgrade	1.793
Housing Quality Standard	1.644

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 2021
Infrastructure Assets	5-60 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	1-40 years	21 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 13: 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:

2019/20 £000		2020/21 £000
(313)	Rental income from investment property	(348)
69	Direct operating expenses arising from investment property	86
(244)	**Net gain/(loss)**	**(262)**

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 fair value of the Council's investment property is measured annually as at 31 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. The following table summarises the movement in fair value of investment properties over the year:

2019/20 £000		2020/21 £000
0	**Opening balance as at 1 April**	**2,135**
2,000	Additions	0
135	Net gains/(losses) from fair value adjustments	(411)
2,135	**Closing balance as at 31 March**	**1,724**

The decline in value during 2020/21 relates to the reduction in the head lease term and also an operational property was included in error in the rental incomes calculation for the 2019/20 financial statements, which influenced the holding values.

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.

Fair Value Hierarchy

Detail of the Council's investment properties and information about the fair value hierarchy as at 31 March 2021 are as follows:

Recurring fair value measurements using:	Other Significant observable inputs (Level 3) 2019/20 £000	2020/21 £000
Commercial Units	2,135	1,724
Total	**2,135**	**1,724**

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 31 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 14: Heritage Assets

Net Value	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2020	**1,543**	**3,282**	**4,825**
Revaluation Increases / (Decreases)	0	(224)	**(224)**
Depreciation	(14)	0	**(14)**
Closing Balance at 31 March 2021	**1,529**	**3,058**	**4,587**

2019/20	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**

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 15: 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 2021 is £32.9m (£30.2m in 2019/20). 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 £14.0m (£14.7m 2019/20).

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 2020/21 (£0m in 2019/20). The market value as at 31 March 2021 was £0.1m (£0.1m in 2019/20). 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 £0.1m was charged directly to the Net Cost of Services in the CIES for 2020/21 (£1.8m in 2019/20).

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 2020 £000		As at 31 March 2021 £000
	Cost or Valuation	
35,571	**Opening Balance**	**32,914**
0	Additions	244
(2,555)	Revaluation increases recognised in the Revaluation Reserve	2,683
(252)	Derecognition - disposals	(224)
150	Other movements in cost or valuation	0
32,914	**Closing Balance**	**35,617**
	Depreciation and Impairment	
(2,063)	**Opening Balance**	**(2,027)**
(1,767)	Amortisation charge	(1,648)
1,637	Amortisation written out to the Revaluation Reserve	1,566
252	Derecognition - disposals	224
(86)	Other movements in depreciation or impairment	0
(2,027)	**Closing Balance**	**(1,885)**
30,887	**Net Book Value**	**33,732**

Note 16: 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 2021 (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 2021/22	383	1,258	2,106	56	**3,803**
Payable within 2 to 5 years	1,700	5,689	7,725	350	**15,464**
Payable within 6 to 10 years	3,376	8,110	7,953	391	**19,830**
Payable within 11 to 15 years	3,940	10,426	5,570	486	**20,422**
Payable within 16 to 20 years	6,663	11,960	2,806	(305)	**21,124**
Payable within 21 to 25 years	1,495	4,367	174	171	**6,207**
Total	**17,557**	**41,810**	**26,334**	**1,149**	**86,850**

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:

	2019/20 £000	2020/21 £000
Opening balance	**44,321**	**43,098**
Capital payments incurred in the year	(1,223)	(1,288)
Closing balance	**43,098**	**41,810**

Note 17: 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 2021
	As at 31 March 2020		As at 31 March 2021		As at 31 March 2020		As at 31 March 2021		
	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	331,347	0	437,581	0	0	0	0	0	437,581
Amortised cost	0	0	0	0	1,405	123	1,293	159	1,452
Total Financial Assets	**331,347**	**0**	**437,581**	**0**	**1,405**	**123**	**1,293**	**159**	**439,033**

Financial Liabilities	Borrowings / Other Long Term Liabilities				Creditors				As at 31 March 2021
	As at 31 March 2020		As at 31 March 2021		As at 31 March 2020		As at 31 March 2021		
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000
Amortised cost	(90,941)	(1,322)	(89,651)	(1,291)	(1,149)	(56)	(1,092)	(57)	(92,091)
Total Financial Liabilities	**(90,941)**	**(1,322)**	**(89,651)**	**(1,291)**	**(1,149)**	**(56)**	**(1,092)**	**(57)**	**(92,091)**

Income, expense, gains and losses

	2019/20 Surplus or Deficit on the Provision of Services £000	2020/21 Surplus or Deficit on the Provision of Services £000
Net (gains)/losses on:		
Financial assets measured at fair value through profit or loss	22,217	(116,317)
Total net gains/losses	**22,217**	**(116,317)**
Interest revenue:		
Financial assets measured at amortised cost	(5,951)	(3,954)
Total interest revenue	**(5,951)**	**(3,954)**
Interest expense	4,034	3,938
Impairment Loss	157	352
Total interest expense	**4,191**	**4,290**
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(73)	(44)
Total fee income	**(73)**	**(44)**
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	1,059	1,202
Financial assets measured at amortised cost	130	120
Total fee expense	**1,189**	**1,322**

There were gains on available-for-sale financial assets on revaluation of £116.3m as at 31 March 2021 (losses of £22.2m at 31 March 2020).

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 2020			As at 31 March 2021	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,438	1,438	Loans and receivables	1,452	1,452
(93,468)	(115,730)	Financial liabilities at amortised cost	(92,091)	(108,455)

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 18: 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 Treasury Management and Annual Investment Strategy. The Council's credit risk management practices are set out on page 15 of this 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 2021, £1m of this balance was loaned to local businesses, leaving £14m available for future lending.

As at 31 March 2020 £000	Shetland Investment Fund	As at 31 March 2021 £000
123	Less than 1 year	158
610	2-5 years	639
307	6-10 years	200
1,040	**Total**	**997**

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default. In light of this, no impairment loss (£6k 2019/20) has been established using the probability of default approach as per IFRS 9.

Trade Receivables

A simplified approach as per IFRS 9 has been used to determine the impairment loss based on lifetime expected credit losses. A provision matrix has been used to calculate the impairment based on the number of days the receivable is past due, assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions.

Amounts Arising from Expected Credit Losses

The changes in the loss allowance for Trade Receivables during the year are as follows:

Lifetime expected credit losses - simplified approach	2019/20 £000	2020/21 £000
Balance at 1 April	**(216)**	**(300)**
Other Changes	(143)	(358)
Amounts written off	59	0
Financial assets that have been derecognised	0	0
Balance at 31 March	**(300)**	**(658)**

Liquidity Risk

The Council has external investments with Fund Managers amounting to £423m (£314m 2019/20) at 31 March 2021. 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 2021 the Council had fixed rate borrowings amounting to £49m (£49m 2019/20) from the Public Works Loan Board. The balance of £0.13m (£0.16m 2019/20) external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2020 £000	Borrowing	As at 31 March 2021 £000
14,164	Less than 10 years	14,130
23,000	10-20 years	23,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
49,164	**Total**	**49,130**

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 2021 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 £2.2m for 2020/21. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 18: Financial Instruments.

At 31 March 2021, the Council had external fixed rate borrowing amounting to £49.1m (£49.2m 2019/20) 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 £423m (£314m 2019/20) of investments as at 31 March 2021 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 £14.7m gain or loss being recognised in the CIES for 2020/21.

Foreign Exchange Risk

The Council has £248m (£171m 2019/20) 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 19: Cash and Cash Equivalents

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

As at 31 March 2020 £000		As at 31 March 2021 £000
41	Cash held by the Council	33
5,389	Bank current accounts	6,183
0	Cash equivalents	2,757
5,430	**Total**	**8,973**

Note 20: Assets Held for Sale

2019/20 £000		2020/21 £000
205	**Opening balance**	**260**
	Assets newly classified as held for sale:	
230	Property, plant and equipment	299
	Assets declassified as held for sale:	
(121)	Property, plant and equipment	0
(54)	**Assets sold**	(230)
260	**Closing balance**	**329**

Note 21: Long-term Debtors

As at 31 March 2020 £000		As at 31 March 2021 £000
399	Sub Debt Investment	396
916	Development loans	839
90	Other long-term debtors	58
1,405	**Total**	**1,293**

Note 22: Short-term Debtors

As at 31 March 2020 £000		As at 31 March 2021 £000
4,271	Central Government Bodies	8,472
593	Other Local Authorities	303
659	NHS Bodies	1,770
1,016	Public Corporations and Trading Funds	1,162
10,157	Other Entities and Individuals	10,447
16,696	**Total**	**22,154**

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 23: Short-term Creditors

As at 31 March 2020 £000		As at 31 March 2021 £000
(4,103)	Central Government Bodies	(3,516)
(1,315)	Other Local Authorities	(2,519)
(255)	NHS Bodies	(748)
(953)	Public Corporations and Trading Funds	(872)
(12,502)	Other Entities and Individuals	(13,839)
(19,128)	**Total**	**(21,494)**

As at 31 March 2020 £000		As at 31 March 2021 £000
(15,412)	Intercompany Loan	(15,413)
(15,412)	**Total**	**(15,413)**

Note 24: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Balance at 1 April	**3,124**	**3,227**	**1,614**	**1,676**	**260**	**213**	**4,998**	**5,116**
Purchases	753	598	2,685	2,152	199	158	3,637	2,908
Recognised as an expense in the year	(650)	(624)	(2,633)	(2,077)	(246)	(182)	(3,529)	(2,883)
Balances written off	0	0	10	(28)	0	0	10	(28)
Balance at 31 March	**3,227**	**3,201**	**1,676**	**1,723**	**213**	**189**	**5,116**	**5,113**

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

Note 25: 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 £2.9m, which represents the expected payment due in 2021/22. 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 reduced by £2.6m to reflect the performance of pension fund assets and the latest actuarial estimate of the liability at 31 March 2021.

Long-term Provisions	Decommissioning £000	Pension Cessation £000	Total £000
Balance at 1 April 2020	**(290)**	**(5,080)**	**(5,370)**
Additional provisions made in 2020/21	(232)	0	(232)
Unwinding of discounting in 2020/21	21	0	21
Transfer from Short-term Provisions	(1)	0	(1)
Transfer to Short-term Provisions	0	5,080	5,080
Balance at 31 March 2021	**(502)**	**0**	**(502)**

Short-term Provisions	Decommiss-ioning £000	Pension Cessation £000	Carbon Reduction Commitment £000	Other Provisions £000	Total £000
Balance at 1 April 2020	**(466)**	**0**	**0**	**(3)**	**(469)**
Amounts used in 2020/21	0	0	0	0	0
Unused amounts reversed in 2020/21	0	2,633	0	3	2,636
Transfer from Long-term Provisions	0	(5,080)	0	0	(5,080)
Transfer to Long-term Provisions	1	0	0	0	1
Balance at 31 March 2021	**(465)**	**(2,447)**	**0**	**0**	**(2,912)**

Note 26: 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 2020 £000		As at 31 March 2021 £000
786	Property, plant and equipment	740
786		**740**

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 2020 £000		As at 31 March 2021 £000
(46)	Current	(46)
(744)	Non-current	(698)
(217)	Finance costs payable in future years	(191)
(1,007)		**(935)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2020 £000	As at 31 March 2021 £000	As at 31 March 2020 £000	As at 31 March 2021 £000
Not later than one year	(72)	(70)	(46)	(46)
Later than one year and not later than five years	(269)	(262)	(183)	(183)
Later than five years	(666)	(603)	(561)	(515)
	(1,007)	**(935)**	**(790)**	**(744)**

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 £0.7m 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 2020 £000		As at 31 March 2021 £000
1,442	Not later than one year	1,143
4,235	Later than one year and not later than five years	3,390
4,436	Later than five years	3,883
10,113	**Total**	**8,416**

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

As at 31 March 2020 £000		As at 31 March 2021 £000
1,662	Minimum lease payments	1,457
(840)	Sub-lease payments receivable	(752)
822	**Total**	**705**

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 2020 £000		As at 31 March 2021 £000
(839)	Not later than one year	(748)
(3,241)	Later than one year and not later than five years	(2,519)
(475)	Later than five years	(177)
(4,555)	**Total**	**(3,444)**

The total value of rental income, excluding sub-leases, recognised in 2020/21 was £1.8m (£1.6m in 2019/20).

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

As at 31 March 2020 £000		As at 31 March 2021 £000
(1,502)	Not later than one year	(1,629)
(5,033)	Later than one year and not later than five years	(5,449)
(14,597)	Later than five years	(14,690)
(21,132)	**Total**	**(21,768)**

Note 27: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

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

Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Scheme is the responsibility of the Pension Fund Committee and Pension Board. The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administrating authority for the Shetland Islands Council Pension Fund.

The Pension Fund Committee is made up of the councillors who currently sit on the Policy & Resources Committee.

The Pension Board comprises elected members of Shetland Islands Council along with employee and employer representatives and a pension / deferred member representative.

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

Under the regulations, employers fall into three categories: scheme employers (also known as scheduled bodies), community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended; however, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

The principal risks to the Council of the Scheme are the longevity assumptions, statutory changes to the Scheme, structural changes or curtailments to the Scheme (i.e. large-scale withdrawals from the Scheme, including employers ceasing to participate in the Scheme), changes to inflation, bond yields, and the performance of the equity investments held by the Scheme.

These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the Note 39: Accounting Policies.

The McCloud Judgement

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018 relating to the Judges' and Firefighters' Pension Schemes. These two judgments are collectively referred to as the 'McCloud' judgement and have implications for the LGPS. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2015 in the case of the LGPS in Scotland) were unlawful on the grounds of age discrimination. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary has included an allowance in the Fund's liabilities in line with SPPA's instructions.

No further adjustments to the financial statements have been made in 2020/21.

The Goodwin Case

An employment tribunal case (Mrs. Goodwin v Department for Education) concluded on 30 June 2020 that a female member in an opposite sex marriage is treated less favourably than a female in a same-sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. Where schemes contain provisions deemed discriminatory, those provisions must be dis-applied as being contrary to the non-discrimination rule set out in section 61 of the Equality Act 2010.

The Chief Secretary to the Treasury issued a Statement on 20 July 2020 that in the light of the Goodwin case, amendments would be made to the Teachers' Pension Scheme and other public service pension schemes so that 'surviving male same-sex and female same-sex spouses and civil partners will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages'.

Same-sex survivors were originally entitled to survivor benefits taking into account the member's service from April 1988, however retrospective amendments remain to be made post Walker with effect from 5 December 2005 (the date when civil partnerships became possible), such that those survivor benefits now take into account the member's service from 6 April 1978.

Following the Goodwin Tribunal, regulatory amendments are now required to extend the same entitlement to male survivors of female members. There is insufficient data at present to estimate reliably the impact this will have on scheme liabilities as the amended regulations are still awaited.

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:

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

2019/20 £000		2020/21 £000
(585,936)	Present value of the defined benefit obligation	(763,018)
414,024	Fair value of assets in the Local Government Pension Scheme	519,177
(171,912)	**Net liability arising from Defined Benefit Obligation**	**(243,841)**
(144,308)	Local Government Pension Scheme	(213,247)
(13,111)	Unfunded liabilities for Pension Fund	(14,711)
(14,493)	Unfunded liabilities for Teachers	(15,883)
(171,912)	**Total**	**(243,841)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2019/20 £000	Local Government Pension Scheme	2020/21 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
26,651	Current service cost	22,805
(1,235)	Past service cost (including curtailments)	93
	Financing and Investment Income and Expenditure:	
5,190	Net interest expense	4,043
30,606	**Total pension benefit charged to the Surplus/Deficit on the Provision of Services**	**26,941**
	Other pension benefit charged to the CIES	
(42,898)	Return on plan assets (excluding the amount included in the net interest expense)	108,371
22,524	Actuarial (gains) and losses arising from changes in demographic assumptions	9,595
69,155	Actuarial (gains) and losses arising on changes in financial assumptions	(155,734)
5,818	Actuarial (gains) and losses arising from other experience	(22,091)
85,205	**Total pension benefit charged to the CIES**	**(32,918)**
	Movement in Reserves Statement	
(16,605)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(12,071)
14,001	Employer's contributions and direct payments to pensioners payable in the year	14,870

2019/20 £000		2020/21 £000
441,695	**Opening balance**	**414,024**
10,655	Interest income	9,545
	Re-measurement gains and (losses):	
(42,898)	Return on assets excluding amounts included in net interest	108,371
0	Other Experience	(15,273)
14,001	Employer contributions	14,870
3,678	Contributions by scheme participants	3,943
(13,107)	Benefits paid	(16,303)
414,024	**Closing balance**	**519,177**

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

2019/20 £000		2020/21 £000
651,601	**Opening balance**	**585,936**
26,651	Current service cost	22,805
15,845	Interest cost	13,588
3,678	Contributions by scheme participants	3,943
	Remeasurement (gains) and losses:	
(22,524)	Actuarial (gains) and losses from changes in demographic assumptions	(9,595)
(69,155)	Actuarial (gains) and losses from changes in financial assumptions	155,734
(5,818)	Actuarial (gains) and losses from other experience	6,818
(13,107)	Benefits paid	(16,303)
(1,235)	Past service costs including curtailments	93
585,936	**Closing balance**	**763,019**

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2021 comprised:

2019/20 £000	Quoted Prices not in Active Markets	2020/21 £000
3,406	**Cash and cash equivalents**	**4,271**
	Property:	
47,600	UK property	59,689
304	Overseas property	381
47,904	**Sub-total Property**	**60,070**
	Investment Funds and Unit Trusts:	
262,122	Equities	328,695
33,166	Bonds	41,590
67,426	Other	84,551
362,714	**Sub-total Investment Funds and Unit Trusts**	**454,836**
414,024	**Total Assets**	**519,177**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed both the Local Government Pension Scheme and Discretionary Benefits liabilities.

Estimates for the Shetland Islands Council's Pension Fund are based on the latest full valuation of the Scheme as at 31 March 2020, projected forward to 31 March 2021.

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

The principal assumptions used by the actuary have been:

2019/20		2020/21
	Long-term expected rate of return on assets in the Scheme:	
2.6%	Investment Funds and Unit Trusts	1.8%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
21.4	Men	20.8
23.2	Women	23.1
	Longevity at 65 for future pensioners (in years):	
22.7	Men	22.3
25.0	Women	25.3
2.8%	Rate of inflation	3.3%
2.4%	Rate of increase in salaries	2.9%
1.9%	Rate of increase in pensions	2.9%
2.3%	Rate for discounting scheme liabilities	2.0%
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	2020/21	
	%	£000
0.5% decrease in real discount rate	10%	78,873
0.5% increase in the salary increase rate	1%	8,725
0.5% increase in the pension increase rate	9%	68,549

Impact on the Council's Cash flows

The objectives of the Scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the Scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities.

The Pension Fund has been subject to a formal statutory valuation during 2020. The valuation process was delayed as a result of the COVID-19 pandemic, but was completed by the statutory deadline of 31 March 2021. The valuation revealed that the Fund had £461m of assets and £498m of liabilities at 31 March 2020, leaving an overall pension deficit of £38m. The reported funding level of the Fund is 92%. This compares positively to the previous valuation undertaken in 2017, when the Fund had a deficit of £51m and reported funding level of 90%.
The improved funding position is due to a combination of different factors. In summary, the Fund's assets have increased from £450m to £461m and liabilities have reduced from £501m to £498m since 2017. The valuation uses a variety of assumptions and different factors affect the Fund's assets and liabilities in different ways. Investment performance in the last 3 years has not met the Pension Fund's expectations, however this has been tempered by net inflows of cash from employer contributions and the impact of changes in the assumed rate of inflation in the future.

Each participating employer's contribution requirements have been determined following the valuation, with the aim of each employer achieving fully funded position within agreed parameters in terms of time horizon and probability. The methodology and assumptions used to derive employer contributions are set out in the Pension Fund's Funding Strategy Statement (FSS). Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 65-70% chance that the Fund will return to full funding over 20 years.

Employer contribution rates for all participating employers have been set following the formal valuation. The Council's contribution rate will remain at 20.8% for the remainder of 2021/22 and will increase to 22.0% from 1 April 2022. Further detail, including the employer contribution rates for other participating employers is contained in the Final Actuarial Valuation Report, which was approved by the Pension Fund Committee on 10 March 2021.

Further Information

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The Pension Fund's Audited Annual Report and Accounts for 2020/21was presented to the Pension Fund Committee and Pension Board on 29 September 2021.

Note 28: 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 financial statements 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 0.7% in 2020/21 (0.8% for 2019/20).
In 2020/21, the Council paid £4.1m to the SPPA in respect of teachers' pension costs, representing 23% of pensionable pay for 2020/21 (£3.5m and 17.2% for April to August 2019 and 23% for September 2019 to March 2020). There were no contributions remaining payable at the year-end.

The estimated contribution for 2021/22 is £4.0m.

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 2020/21 these amounted to £0.9m, representing 5.0% of teachers' pensionable pay (£0.9m and 5.1% for 2019/20). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 29: 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:

2019/20 £000		2020/21 £000
226	Fees payable with regard to external audit services carried out by the appointed auditor for the year	213
0	Non-audit services fee	0
226	**Total**	**213**

Note 30: Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2020/21 the Council collected £22.6m (£26.0m 2019/20) and received £17.2m (£25.9m 2019/20) 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 £3.25m (£3.18m 2019/20) 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 2019/20) for providing this service.

The Council received and disbursed £11.7m of COVID-19 related grants on behalf of the Scottish Government during 2020/21. No COVID-19-related grants paid out during 2019/20.

Note 31: Related Parties

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

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits). Details of all grants received from Central Government and other public bodies can be found in Note 11: Grant Income.

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, which is open to public inspection at the Office

Headquarters, 8 North Ness, Lerwick, during office hours. Each individual Member's Register of Interests is available online here.

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 2020/21 (£1.7m in 2019/20) to these bodies. There was no amount outstanding to be paid at 31 March 2021 (£15k at 31 March 2020).

Officers

There were no related party transactions in 2020/21.

For comparison, one related party was disclosed in 2019/20: the Principal of North Atlantic Fisheries College (NAFC) and Joint Interim Principal of Shetland College and Train Shetland was a member of 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.

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 £23.2m (£21.7m in 2019/20) 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 £3.7m (£3.5m in 2019/20) 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 2019/20) to the VJB.

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

Note 32: Capital Expenditure and Capital Financing

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

2019/20 £000		2020/21 £000
98,591	**Opening Capital Financing Requirement**	**98,684**
	Capital investment:	
33,078	Property, plant and equipment	15,615
0	Intangible assets	244
2,000	Investment Property	0
2,069	Correction in respect of Prior Years	0
	Sources of finance:	
(1,497)	Capital receipts	(2,425)
(10,210)	Government grants and other contributions	(8,156)
(13,831)	Funding from reserves	(1,768)
	Sums set aside from revenue:	
(3,393)	Direct revenue contributions	(1,950)
(2,402)	Loans fund principal	(2,412)
(812)	Lease principal	(56)
(3,686)	Removal of assets acquired under finance lease	0
(1,223)	PFI contract principal repayments	(1,288)
98,684	**Closing Capital Financing Requirement**	**96,488**
	Explanation of movements in year:	
3,530	Increase/(decrease) in underlying need to borrow	(1,017)
(4,498)	Assets acquired under finance leases	(56)
(1,223)	Assets acquired under PFI contracts	(1,288)
215	Assets acquired under Decommissioning Obligations	165
(1,976)	**Increase in Capital Financing Requirement**	**(2,196)**

Note 33: Contingent Liabilities

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

There are a number of current legal claims against the Council that are being contested. For cases where 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 34: 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 2021, 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 2020/21, the ZET received receipts of £0.023m (£0.025m 2019/20) and made payments of £0.007m (£0.018m 2019/20).

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 2020 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2021 £000
(582)	Bare Trust	0	0	(572)	(572)
(647)	Zetland Educational Trust	(42)	(689)	0	(731)
(3)	Others	(3)	0	0	(3)
(1,232)	**Total**	**(45)**	**(689)**	**(572)**	**(1,306)**

Note 35: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 29 September 2021. 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 2021, the figures in the financial statements and notes to the accounts have been adjusted in all material respects to reflect the impact of this information.

The Council completed the transfer of undertakings on 1 August 2021 in respect of the planned merger of tertiary education institutions in Shetland. The transfer included some plant and equipment (such as ICT and a workboat) but did not include any property, which remains under Council ownership. Shetland UHI has instead entered into a long-term lease arrangement. No adjustment has been made in the financial statements as the impact of the transfer on the balance sheet is not considered to be material.

Since the publication of the unaudited accounts on 30 June 2021, an adjustment of £7.954m has been made to reflect the updated position with regards to long-term investments and the level of cash held by the Council as at 31 March 2021. This adjustment was required following the late reporting from one external fund manager, which confirmed a series of investments had been made on 1 January 2021. The balance sheet, cash flow statement and notes 17 *Financial Instruments* and 19 *Cash and Cash Equivalents* have all been adjusted to reflect the increase in long-term investments and corresponding reduction in the balance of cash and cash equivalents held by the Council as at 31 March 2021.

Note 36: 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 (ZET); and
- Shetland Leasing and Property Developments Ltd (SLAP).

Zetland Educational Trust

The ZET comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland. The purpose of the Trust is the advancement of education of people belonging to Shetland. The following table details the financial results for the year and is considered not material for consolidation in group accounts:

2019/20 £000	Zetland Educational Trust	2020/21 £000
(25)	Gross Income	(23)
18	Gross Expenditure	7
(7)	**Total Comprehensive Expenditure**	**(16)**
26	Current Assets	42
621	Investments	689
647	**Net Assets**	**731**

Shetland Leasing and Property Development Ltd (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 2021/22. 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.

2019/20 £000	SLAP	2020/21 £000
(177)	Gross Income	(1)
74	Gross Expenditure	1
(103)	**Total Comprehensive Expenditure**	**0**
0	Non-current Assets	0
16,362	Current Assets	16,349
(13)	Current Liabilities	0
(16,349)	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.

Integration Joint Board

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

The Council contributed 46% of the Board's operating costs in 2020/21 (46% in 2019/20). It has three out of six voting members on the board.

The Council's share of the net surplus of the IJB was £1.1m as at 31 March 2021 (£37k at 31 March 2020), 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:

2019/20 £000	Integration Joint Board	2020/21 £000
(25,808)	Gross Income	(28,271)
25,771	Gross Expenditure	27,661
(37)	**Net (Surplus) / Deficit**	**(610)**
489	Current Assets	1,099
0	Current Liabilities	0
489	**Net Assets**	**1,099**

Associates

The Code defines an associate as an entity for which the Council is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity.

The Council has identified two entities that meet the definition of an associate. These are:

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

Orkney & Shetland Valuation Joint Board (O&SVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2020/21, the Council held five Board places out of ten and contributed 49.2% of the Board's operating costs (49.5% in 2019/20).

The Council's share of the year-end net liability is £1.2m as at 31 March 2021 (£1.0m at 31 March 2020), 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:

2019/20 £000	Orkney and Shetland Valuation Joint Board	2020/21 £000
(459)	Gross Income	(551)
401	Gross Expenditure	407
(58)	**Net (Surplus) / Deficit**	**(144)**
22	Current Assets	41
(27)	Current Liabilities	(55)
(969)	Non-current Liabilities	(1,218)
974	Capital and Reserves	1,218
0	**Net Assets**	**(14)**

Zetland Transport Partnership

Zetland Transport Partnership, known as ZetTrans, was formed in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005.

The Council contributed 96.6% of the Partnership's operating costs in 2020/21 (95.7% in 2019/20) and holds four out of six seats on the Partnership. The Council's share of the net liability is £0.03m at 31 March 2021 (nil at 31 March 2020) 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:

2019/20 £000	Zetland Transport Partnership	2020/21 £000
(2,889)	Gross Income	(2,949)
2,889	Gross Expenditure	2,923
0	**Net (Surplus) / Deficit**	**(26)**
88	Current Assets	27
(88)	Current Liabilities	0
0	Capital and Reserves	(27)
0	**Net Assets**	**0**

Note 37: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.
These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

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

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

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

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

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

C Accruals of Income and Expenditure

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

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- supplies are recorded as expenditure when they are consumed, but where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

D Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

E Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation or impairment losses, or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to the Statutory Repayment of Loans Fund Advances.

The General Fund is balanced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two sums.

F Employee Benefits

Benefits payable during employment

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

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

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the

Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement arises.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service line in the CIES, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits, and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Council may be members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government; or
- The Local Government Pension Scheme, administered by Shetland Islands Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) which are earned as employees work for the Council.

The arrangements for the teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Council. It is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the CIES is charged with the employer's contributions payable in respect of teachers' pensions in the year.

The Local Government Pension Scheme

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

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

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

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

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, which is debited to the Surplus or Deficit on the Provision of Services in the CIES;
- net interest cost on the defined benefit liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;
- return on scheme assets – excluding amounts included in net interest on the net defined benefit liability which are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the CIES; and
- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities which are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the CIES.

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

Discretionary benefits

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

G Events after the reporting period

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

Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the annual accounts.

H Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial guarantees are measured at fair value and are estimated by considering the probability of the guarantee being called.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measure at:

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

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

Amortised Cost

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

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

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

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

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

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

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

Fair Value through Profit or Loss (FVPL)

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

Fair Value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price; and
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

The Council invests through three Fund Managers, Baillie Gifford, Blackrock and Insight. These Fund Managers all invest on behalf of the Council into unitised products. They record income and account for transactions relating to these units as follows:

- Both Insight and Baillie Gifford receive and record income during the year. The income is re-invested into their units.
- No income is generated by Blackrock outwith their units.

I Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

J Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Council and credited to the CIES when there is reasonable assurance that the Council will comply with any conditions attached to payment of the grants and that the grants and contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

K Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical significance. Heritage assets include historical buildings and the museum collection.

Heritage assets are recognised on the Balance Sheet where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Balance Sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items will be accounted for in accordance with Council's provisions relating to the disposal of property, plant and equipment.

Historical buildings

These are held on the Balance Sheet at fair value, determined as the amount that would be paid for the asset in its existing use value but, where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value. They are depreciated on a straight-line basis over their remaining useful life.

Museum collection

The Council's museum collection is reported in the Balance Sheet at valuations based on specialist judgement. Assets are valued in the year of acquisition and reviewed periodically.

L Intangible Assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.
Intangible assets are measured initially at cost. Amounts are revalued where the fair value of the assets

held by the Council can be determined by reference to an active market. Fishing quota and fishing licences meets this criterion. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines in the CIES.

An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service lines in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the statutory Capital Fund or the Capital Grants and Receipts Unapplied Account.

M Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula, except for fuel which is calculated on a first in first out (FIFO) basis.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

In 2020/21, the Council received supplies of personal protective equipment (PPE) and lateral flow testing kits that were donated from NHS National Services Scotland (NHS NSS), at nil cost. Although not material, the Council has accounted for the receipt and use of the PPE and testing kits using the estimated fair value of the stock provided by the NHS. The overall impact on the Comprehensive Income and Expenditure Statement and the Balance Sheet is neutral.

N Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the statutory Capital Fund or Capital Grants and Receipts Unapplied Account.

O Leases

Operating leases

The Council as lessee

Rentals paid under operating leases are charged to the CIES as an expense to the services benefitting from use of the leased property, plant or equipment.

The Council as lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the CIES. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

The Council as lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as an expense in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council as lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property which is applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

P Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the

Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to, an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure assets are held at depreciated historical cost;
- community assets and assets under construction are held at historical cost;
- surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective;
- council dwellings are held at current value, determined using the basis of existing use value for social housing; and
- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

- council dwellings: 30 years
- other land and buildings: 1 - 120 years
- vehicles, plant, furniture and equipment: 1 - 32 years
- infrastructure: 2 - 47 years

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

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.

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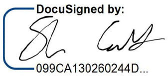

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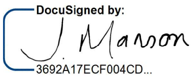

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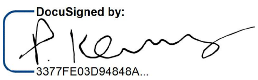

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Intermediary Delivery Events	Status	Timestamp

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Carbon Copy Events	Status	Timestamp

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Notary Events	Signature	Timestamp

Envelope Summary Events	Status	Timestamps
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