Annual Accounts

2018/19

Shetland Islands Council

Contents

Management Commentary

Introduction

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

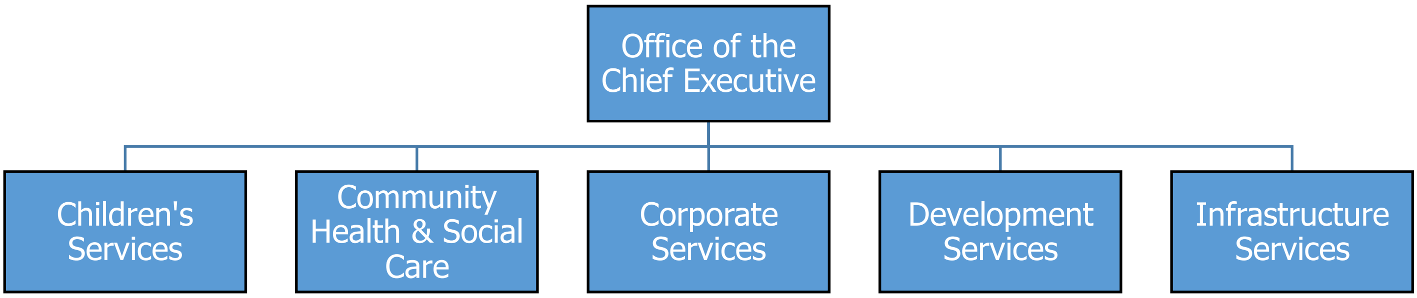
The purpose of the Management Commentary is to present an overview of the Council's financial performance during the year 2018/19 and to help readers understand its financial position as at 31 March 2019. In addition, it outlines the main risks and uncertainties facing the Council for the financial year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

Background

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

It is governed by 22 elected members (21 independent and 1 SNP) serving a population of approximately 23,000 people. Subsequent to the year-end, two independent members resigned as elected members. The Council is currently organising a by-election to fill the vacant seats.

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



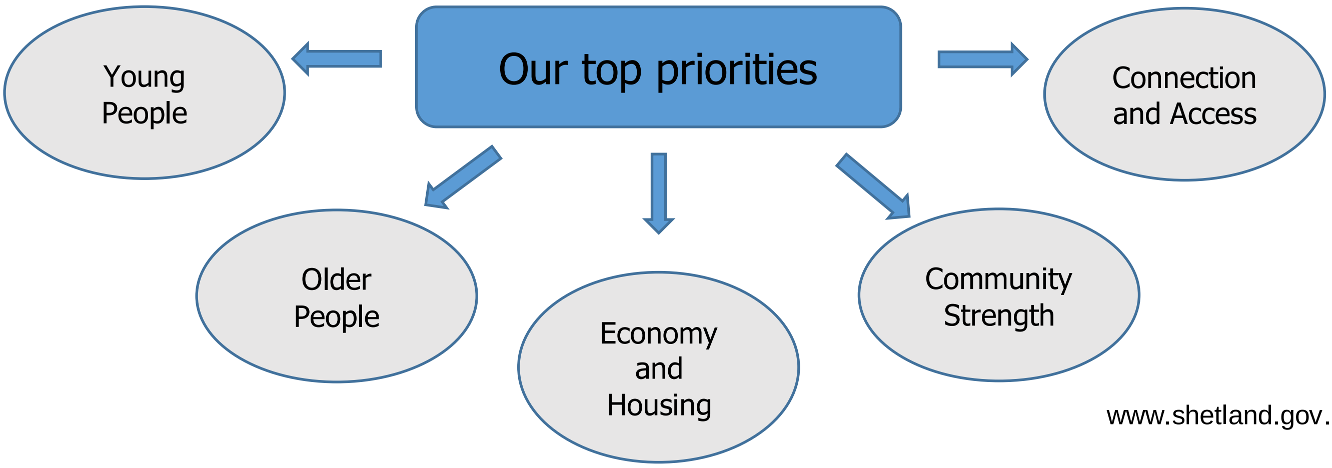
Full details on the services provided can be found on the Council's website: www.shetland.gov.uk

Strategy and Performance Management

Corporate Plan

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

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



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

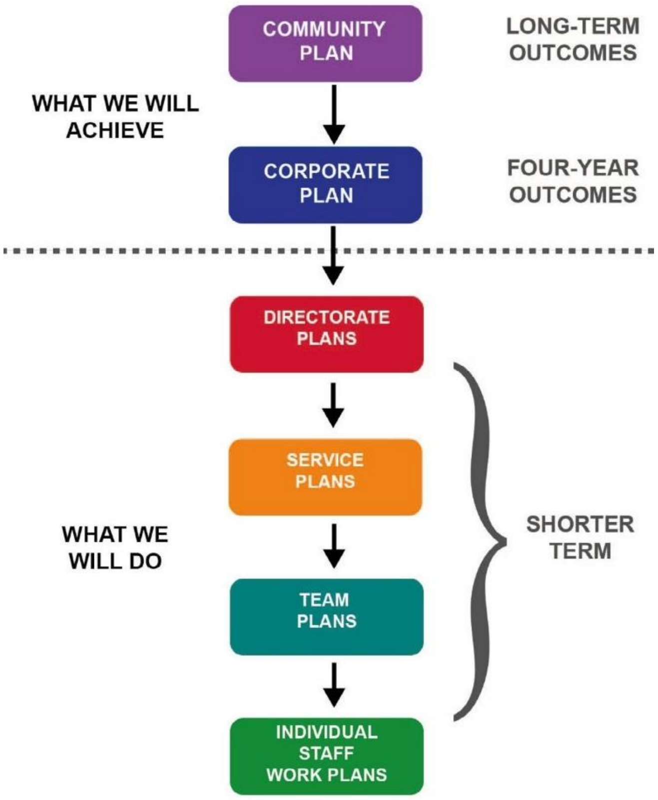
Political Priority Area	Progress to 2018/19	Progress in 2018/19	Planned Action 2019/20 onwards
Complete and move into the new Anderson High School and Halls of Residence.	The new Anderson High School and Halls of Residence welcomed pupils in October 2017. The new campus is providing an exciting and stimulating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

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

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

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

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



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

Community Planning

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

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

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

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

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

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

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

People
Individuals and families can thrive and reach their full potential

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

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

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

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

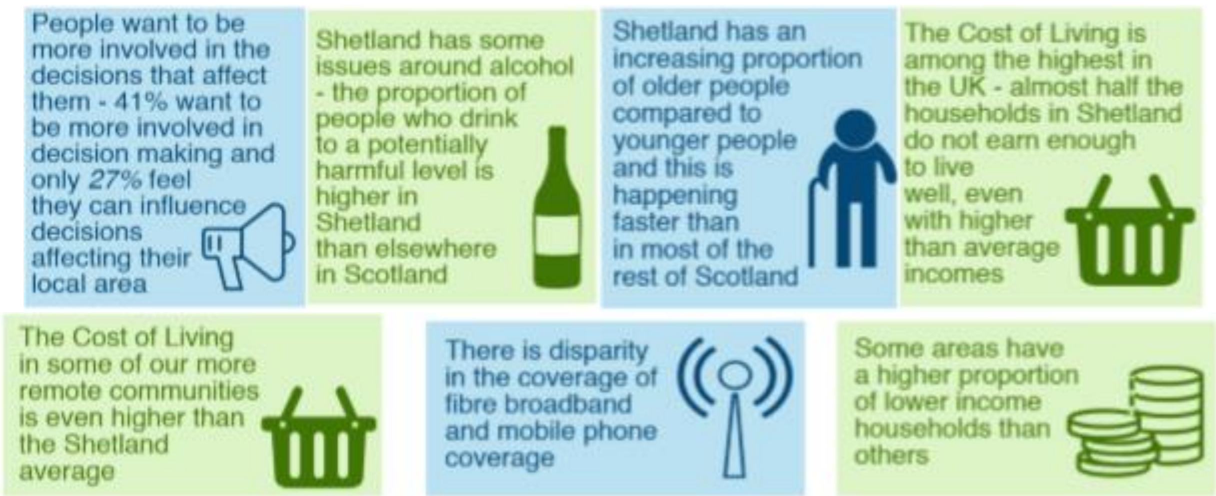
The Shetland Partnership has fulfilled its duty of reviewing and reporting on progress with community planning as detailed in the Annual Report 2017/18, which can be found at: https://www.shetland.gov.uk/communityplanning/documents/ShetlandPartnershipAnnualReport2017-18.pdf

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

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

Positives

Challenges



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

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

National Performance Framework

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

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

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

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

Council Performance

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

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

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

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

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

Key Risks and Uncertainties

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

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

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

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

Council Highlights 2018/19

Shetland Leasing and Property Developments Limited (SLAP)

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

Year of Young People (YoYP)

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

New Eric Gray Resource Centre

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

The Islands (Scotland) Bill

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

Customer First Strategy and Charter

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

Knab Masterplan

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

Extension to fibre network

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

Kerbside Recycling

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

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2019 and its cash flows for the year then ended. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

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

Financial Performance in 2018/19

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

The reasons for this difference are two-fold:

(i) the application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts, as these costs require to be met from local taxation; and

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

The final reporting position reflects only those costs that are required to be met from local taxation. Therefore, the difference between the CIES and the actual outturn position is as a result of necessary accounting adjustments. The Gain on Provision of Services of £94.4m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £12.1m in the Expenditure and Funding Analysis.

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

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

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

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

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

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

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

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

General Fund

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

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

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

In 2018/19 the Council's General Fund received the majority of its funding from the Scottish Government, which is made up of General Revenue Grant and National Non-Domestic Rates (NDR).

The funding breakdown is shown below:

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

**Includes General Fund and Revenue Spend to Save*

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

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

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

Harbour Account

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Harbour Reserve Fund. The Harbour Account budgeted for a £8.9m contribution to the Harbour Reserve Fund in 2018/19 (£9.4m in 2017/18).

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

Housing Revenue Account

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

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

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

At 31 March 2019 the HRA was responsible for 1,659 properties, a decrease of 3 since 31 March 2018. Historically there has been a consistent reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme, however the right to request a council house purchase under the scheme ended on 31 July 2016.

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

Asset Investment Plan

In 2018/19 Shetland Islands Council incurred capital expenditure of £23.2m (£27.8m 2017/18) against a budget of £38.0m (£35.0m 2017/18) representing an underspend of £14.8m (£7.2m 2017/18) in the year.

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

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

More information about capital expenditure and funding can be found in Note 33: Capital Expenditure and Capital Financing.

The Balance Sheet

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

Material Transactions

Long-Term Investments

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

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

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

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

External Borrowing

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

The Council's Capital Financing Requirement (CFR) is £98.6m as at 31 March 2019 (£93.0m at 31 March 2018), of which £49.1m (£41.2m in 2017/18) relates to external borrowing. It represents the capital expenditure to be funded from borrowing. Whilst the CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need). More information is provided in Note 33: Capital Expenditure and Capital Financing.

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

Debt financing costs currently represent 2.8% of the Council's net revenue stream (2.1% 2017/18) from General Revenue Grant (including NDR), Council Tax, housing rents and harbour income. This provides an indication on the affordability of the Council's debt in terms of how much income can be directed to provide front-line service delivery rather than funding capital expenditure costs. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels and the estimated cost of debt for 2019/20 is 3.5% of the net revenue stream.

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The 2018/19 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/.

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

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

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

Health and Social Care Integration

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

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

In 2018/19, the Council contributed £21.2m (£20.6m 2017/18) to the IJB and received income from it of £22.5m (£21.7m 2017/18), a result of some social care funding being channelled through the NHS Shetland financial settlement.

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

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	As at 31 March 2018 £m	As at 31 March 2019 £m
General Fund	60.318	175.261
Housing Revenue Account	17.335	17.425
Harbour Reserve Funds	63.221	65.969
Capital Funds	66.330	69.711
Other Usable Funds	42.593	40.801
Total Usable Reserves	**249.797**	**369.167**

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

The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve has increased by £2.0m to £24.8m as at 31 March 2019 from the previous year (see Note 8: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 22.8% of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

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

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is measured in terms of income generated by those investments and a change in their value reflected by unrealised gains, plus any injection of new money by the Council during the year. More information is outlined in the 'Long-Term Investments' section on page 14.

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

Group Accounts

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

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

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

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

2019/20 Budget and Medium-Term Financial Outlook

2019/20 Budget

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

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

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

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

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

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

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

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

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

Medium-Term Financial Outlook

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

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

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

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

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

Outlook - Projects and Initiatives

Service Redesign Programme (SRP)

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

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

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

Review of tertiary education in Shetland

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

Review of bus contracts

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

Review of internal air service contracts

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

Fair Funding for Ferries

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

Early learning and child care

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

Learning Disability Service

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

Community Care Resources

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

Community Area Structures

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

Business Transformation Programme (BTP)

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

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

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

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

Conclusion

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

………………………………..
Steven Coutts
Leader of the Council
25 September 2019

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Maggie Sandison
Chief Executive
25 September 2019

…………………………………..
Jamie Manson CPFA
Section 95 Officer
25 September 2019

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure continuous improvement in the way it operates.

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

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

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

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

The Governance Framework

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

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

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

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

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

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

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

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

Review of Effectiveness

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

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

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2018/19, no areas of weakness or concern were raised.
- The Council's **financial management** arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The Council's **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The Council's **Constitution** promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services.
- The Executive Manager – Assets, Commissioning and Procurement and Executive Manager – Finance were appointed as directors of SLAP in October 2018. These appointments allowed the Council to exercise management control over the newly acquired company, including the application of the Council's internal controls and financial management standards.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.
- A significant **induction and training programme** for new and returning councillors is delivered after each local election, including the May 2017 election.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their **Audit Plan** during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's **external auditor** is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice. Deloitte LLP were also appointed as external auditor to SLAP following the Council's acquisition of the company in October 2018.

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

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

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

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

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

Update on Significant Governance Issues previously reported

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

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

Significant Governance Issues

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

The following issues and related action plans were highlighted in the Internal Audit Annual Report as specific areas of concern:

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

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

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

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

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

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

Conclusion

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

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Steven Coutts
Leader of the Council
25 September 2019

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Maggie Sandison
Chief Executive
25 September 2019

Remuneration Report

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

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

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

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

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

Remuneration Arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 and the (Remuneration) Regulations 2007 (as amended). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the convener of a council, senior councillors or councillors. A senior councillor is a councillor who holds a significant position of responsibility in a council's political management structure, usually referred to as the chair or vice-chair of a committee, sub-committee or board.

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

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415, which came into effect on 10 February 2009 (later amended by the 2013 and 2015 Regulations). For 2018/19 the level of remuneration (including expenses) for the Leader S Coutts was £38.8k (£38.7k in 2017/18 for the Former Leaders, G Robinson and C Smith), and £34.9k for the Convener (£36.4k in 2017/18).

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors a council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the leader of a council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £172k in 2018/19 (£171k in 2017/18).

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

The senior councillor positions are:

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

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

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

All reports are available from the Council's website at:
http://www.shetland.gov.uk/about_your_councillors/Expenses.asp

Remuneration of Conveners and Vice-Conveners for Joint Boards

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

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

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

The Convener of the Orkney and Shetland Valuation Joint Board from May 2017 has been a senior councillor of Orkney Islands Council, who are reimbursed by the Joint Board for additional remuneration paid in respect of this role.

Remuneration of Senior Employees

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

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2018/19.

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

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

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

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

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

Allowances

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

General Disclosure by Pay Band

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

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

Bands that do not appear in the table had nil employees in both 2018/19 and 2017/18.

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

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

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

Summary of Remuneration paid to Councillors

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

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

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

Summary of Remuneration paid to Employees

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

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

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

Exit Packages

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

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

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

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

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

The table above details the number and cost of exit packages awarded in 2018/19 and 2017/18. Included in the cost of the exit packages are:

- Any termination payment, such as a redundancy payment;
- Strain on the fund cost (the amount payable by the Council to the pension fund because the employee has retired before the assumed retirement age);
- Any enhanced payments, such as compensatory added years; and
- A capitalised value of the recurring compensatory added years payment. This is paid annually by the Council once an employee has left and is therefore a notional cost at 31 March 2019.

Disclosure of Remuneration for Senior Councillors

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

Notes:

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

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

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

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

Remuneration of Senior Employees of the Council

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

Notes:

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

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

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

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

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

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

Pension Benefits – Senior Councillors

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

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

Notes:

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

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

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

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

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

Pension Benefits - Senior Employees

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

Notes:

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

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

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

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

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

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

Pension Benefits

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

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

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

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

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

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

Tiered contribution rates on whole time pay are as follows:	2018/19 %	2017/18 %
On earnings up to and including £21,300	5.50	5.50
On earnings above £21,300 and up to £26,100	7.25	7.25
On earnings above £26,100 and up to £35,700	8.50	8.50
On earnings above £35,700 and up to £47,600	9.50	9.50
On earnings above £47,600	12.00	12.00

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) up to 25% of their pension for lump sum, per the Finance Act 2004. From April 2015 pensions are built up at a rate of 1/49th of annual pensionable pay for that year. Prior to April 2015, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

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

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

Trade Union Facility Time Report 2018/19

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

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

Facility Time Publication Requirements 2018/19	Central Function Employees	Education Function Employees
Table 1 - What was the total number of your employees who were relevant union officials during the relevant period?		
Number of employees	18	6
Full-time equivalent employee number	16.6	5.5
Table 2 - How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?		
Percentage of time	**Number of employees**	**Number of employees**
0%	13	4
1-50%	5	2
51-99%	0	0
100%	0	0
Table 3 - Percentage of pay bill spent on facility time: Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.		
	£000	**£000**
Total cost of facility time (A)	9	26
Total pay bill (B)	96,200	20,371
Percentage of the total pay bill spent on facility time (A ÷ B)	0.01%	0.13%
Table 4 - Paid trade union activities: As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?		
	%	**%**
Total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ Total paid facility time hours x 100	56.8%	2.41%

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Steven Coutts
Leader of the Council
25 September 2019

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Maggie Sandison
Chief Executive
25 September 2019

Statement of Responsibilities for the Annual Accounts

The Council's Responsibilities

The Council is required to:

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

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

Signed on behalf of Shetland Islands Council.

The Executive Manager - Finance's Responsibilities

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

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

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

The Executive Manager - Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

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

Steven Coutts

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Steven Coutts
Leader of the Council
25 September 2019

J. Manson

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Jamie Manson CPFA
Executive Manager - Finance
25 September 2019

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

Report on the audit of the financial statements

Opinion on financial statements

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

In our opinion the accompanying financial statements:

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

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual accounts

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

P. Kenny

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

25 September 2019

Comprehensive Income and Expenditure Statement for year ended 31 March 2019

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

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

Movement in Reserves Statement

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

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

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

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

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

Balance Sheet as at 31 March 2019

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

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

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

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

J. Manson

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Jamie Manson CPFA
Executive Manager - Finance
25 September 2019

Cash Flow Statement for year ended 31 March 2019

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

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

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

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

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

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

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

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

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

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

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

Investing Activities

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

Financing Activities

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

Housing Revenue Account

Introduction and Statutory Background

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

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

- Section 203(1) – housing authorities have a duty to keep an HRA;
- Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions;
- Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA;
- Schedule 15 – housing authorities have a duty to avoid a deficit in the HRA but if there is a deficit, a General Fund contribution must be made equal to the deficit;
- Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA;
- Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA; and
- Schedule 15 – the Scottish Government may direct rectification of the account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

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

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

- the HRA Income and Expenditure Statement;
- the Movement on the HRA Statement.

The HRA Income and Expenditure Statement

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

Housing Revenue Account Income and Expenditure Statement

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

Movement on the Housing Revenue Account Statement

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

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

Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

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

Amount of Rent Arrears

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

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

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

Provision for Bad Debts

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

Void Rents

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

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

Council Tax Income Account

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

Council Tax Income Account

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

Council Tax Base

The table below shows the Council Tax base used to set the 2018/19 charges. The amount of Council Tax payable depends on the valuation band of the dwelling. The following analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

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

** Relates to Band A properties subject to disabled relief*

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

Council Tax Reduction Scheme:

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

Exemptions:

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

Discounts:

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

Reliefs:

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

Non-Domestic Rate Income Account

Statutory Background

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

Non-Domestic Rate Income Account

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

Analysis of Rateable Value

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

The national non-domestic rate poundage set for 2018/19 is 48.0p (46.6p in 2017/18) with a large business supplement of 2.6p (2.6p in 2017/18) for all subjects with a rateable value above £51,000 (£51,000 in 2017/18).

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

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

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

Note 1: Expenditure and Funding Analysis

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

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

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

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

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

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

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

Capital Adjustments

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

Pensions Adjustments

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

Other Adjustments

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

Presentational Adjustments

Further adjusting differences between amounts charged to the CIES and amounts reported internally to management include year-end internal recharges. These are removed from

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

Note 2: Change in Accounting Policy and Prior Period Adjustments

IFRS 15 Revenue from Contracts with Service Recipients

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

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

IFRS 9 Financial Instruments

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

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

Internal Recharges

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

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

Note 3: Accounting Standards Issued and Adopted in Year

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

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

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

Note 4: Accounting Standards Issued not Adopted

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

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

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

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

Note 5: Material Items of Income and Expenditure

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

Note 6: Judgements and Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties - Estimates	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets (see Note 29: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £70.1m; however, the assumptions interact in complex ways.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. The Council holds Financial Assets (Equity Investments and Financial Guarantees) at fair value.	This will be different in each case, but changes in any assumptions used in all asset valuation could affect the values disclosed in the accounts.
Fishing Quota	Fishing quota held by the Council was valued at £32.7m by an independent broker at 31 March 2019. In line with the Code and IFRS 13, the valuer determined the market valuation of the Council's holding with reference to the number of Fixed Quota Allocation (FQA) units held, offers made in the year in the active market, then adjusted for Council specific considerations. It is highly probably that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations, however the transitional period to 31 December 2020 provides some short-term assurance.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.
Financial Instruments	At 31 March 2019, the Council had external investments with Fund Managers amounting to £341m. The value of the Council's investments can increase or decrease, from movements in the price of these investments. The Council is exposed to risk in terms of a loss arising if investments were sold at a point in time when the decrease in value of the investment showed the sale price to be lower than the original purchase price.	It is estimated that a general shift of 5% in the general price of shares (positive or negative) would result in a £11.2m gain or loss in value being recognised in the CIES. The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/- 1% in Global Equities would result in an estimated gain or loss of £1.4m.
Item	**Uncertainties - Judgements**	**Effect if actual results differ from assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in anticipated spending on repairs and maintenance may reduce the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation accelerates and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives were reduced.

Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund

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

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

Housing Revenue Account

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

Capital Usable Reserves

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

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

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

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

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

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

Note 8: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2018/19.

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

General Fund Reserves

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

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: The adoption of IFRS 9 changed the measurement basis of 'Available for Sale' financial instruments to Fair Value through Profit and Loss. This resulted in the transfer of reserves from the Unusable Available for Sale Financial Instruments Reserve to the Usable General Fund Unrealised Investment Gains. This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2019 compared with their original cost. The net gain (increases less decreases) is 'unrealised' because the underlying investments have not been sold as at 31 March. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the Council does not consider it prudent to use to fund services. The following table shows the movement of 'Available for Sale' Financial Instruments.

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

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

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

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

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

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

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

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

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

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

Other Statutory Reserves

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

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

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

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

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

Note 9: Other Operating Income and Expenditure

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

Note 10: Financing and Investment Income and Expenditure

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

Note 11: Revenue from Contracts with Service Recipients

The Council has recognised £46m in 2018/19 (£43m in 2017/18) from contracts with service recipients.

The Council exercises judgement in recognising income from service recipients. Income is recognised as performance obligations are satisfied. The Council typically satisfies its performance obligations as services are rendered, or on delivery of goods. Revenue is recognised as (or when) the performance obligation is met.

The below table details how the timing of satisfaction of performance obligations relates to the typical timing of payment. Income received in advance is mainly from rental income and course fees. Income received at the point of use is mainly from ferry fare income and canteen sales. Of the income received in arrears, 70% on average was within the standard 30 day payment terms.

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

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

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

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

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

Note 12: Grant Income

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

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

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

Note 13: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

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

Revaluation Reserve

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

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

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

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

Available for Sale Financial Instruments Reserve

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

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

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits, and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions, and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the resources set aside by the Council to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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

Employee Statutory Adjustment Account

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

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

Capital Adjustment Account

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

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

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

Note 14: Property, Plant and Equipment

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

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

Capital Commitments

At 31 March 2019 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £8.2m. Similar commitments at 31 March 2018 were £3.3m. Major projects are detailed in the table below.

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

Revaluations

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

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

The significant assumptions applied in estimating the fair values are:

- the properties are all freehold with the exception of the Waste to Energy Plant which is held on a ground lease;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that the inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs; and
- that there are no outstanding statutory notices affecting any of the properties.

The following table shows useful lives have been used in the calculation of depreciation and also details of revaluation programmes. The basis of valuation is set out in Note 40: Accounting Policies.

Category of Asset	Useful Life	Average Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2019
Other Land and Buildings (including PFI Assets)	1-120 years	32 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Valued on 5-year rolling programme
Vehicles, Furniture, Plant & Equipment	1-32 years	7 years	Operational Manager	Existing Use Value	31 March 2016
Infrastructure Assets	2-47 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	2-20 years	17 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 15: Investment Properties

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

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

Note 16: Heritage Assets

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

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

Historic Buildings

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

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

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

Museum Collection

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

Note 17: Intangible Assets

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

A fishing quota is the right to fish species over a defined period, usually one year. Quota are held by Government and distributed to the fishing industry through Producer Organisations. The Fishing Quota was originally purchased by the Shetland Development Trust to enable long-term access to a strategically important resource. The quota was transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. The market value at 31 March 2019 is £32.7m. This is amortised on a straight-line basis over a 20 year period. The carrying amount that would have been recognised had the fishing quota been measured after recognition using the cost model would be £15.5m.

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £1.5m was charged directly to the Net Cost of Services in the CIES for 2018/19 (£1.4m in 2017/18).

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

Note 18: Private Finance Initiatives and similar contracts

Anderson High School contract

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

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

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

Property, Plant and Equipment

The assets used to provide services at the school are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in Note 14: Property, Plant and Equipment.

Payments

The Council makes an agreed payment each year, which is adjusted each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contract at 31 March 2019 (excluding any estimation of inflation and availability / performance deductions) are as follows:

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

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

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

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

Note 19: Financial Instruments

Categories of Financial Instruments

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

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

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

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

Fair Values of Assets and Liabilities

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

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

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

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

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

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

Income, Expense, Gains and Losses

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

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

Note 20: Nature and Extent of Risks arising from Financial Instruments

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment and Treasury Strategy, which is available on the Council's website at http://www.shetland.gov.uk/about_finances/. The Council's credit risk management practices are set out on page 8 of the Annual Investment and Treasury Strategy.

Credit Risk Management Practices

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

As at 31 March 2019, £1.6m of this balance was loaned to local businesses, leaving £13.4m available for future lending.

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

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

Trade Receivables

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

Amounts Arising from Expected Credit Losses

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

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

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

Liquidity Risk

The Council has external investments with Fund Managers amounting to £341m at 31 March 2019. The Council has ready access to these funds to ensure that cash is available as needed, so there is no significant risk that it will be unable to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to sell external investments at a time of unfavourable market conditions.

The Council has ready access to borrowings from the money markets and the Public Works Loan Board. At 31 March 2019 the Council had fixed rate borrowings amounting to £49m from the Public Works Loan Board. The balance of £0.2m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

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

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

The Council's investment strategy aims to manage interest rate risk within the Council's investments by having various investment portfolios managed by external Fund Managers.

The investment portfolios are also separated into different asset classes to minimise the overall exposure to interest rate movements. The entire investment portfolio is held in unitised funds which increases diversification.

As at 31 March 2019 the composition of these funds was diversified between the following asset classes:

- UK Equities
- Overseas Equities;
- Diversified Growth Fund;
- Emerging Market Equities;
- UK Index Linked Gilts;
- UK Corporate Bonds;
- Other Bonds; and
- Cash.

Not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would have resulted in a gain or loss in the region of £1.4m for 2018/19. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 19: Financial Instruments.

At 31 March 2019, the Council had external fixed rate borrowing amounting to £49.2m and no variable rate borrowing. Borrowings are not valued at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The Treasury Section actively assesses interest rate exposure to determine the impact on the Council's financial reserves strategy and medium to longer-term financial strategy, which in turn informs the annual budget setting process. The Council uses the services of Link Asset Services to advise on any borrowing requirements, including associated interest rate risks.

Price Risk

The Council had £341m of investments as at 31 March 2019 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external Fund Managers, asset classes, investment guidelines and benchmarks. The Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the CIES. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £11.2m gain or loss being recognised in the CIES for 2018/19.

Foreign Exchange Risk

The Council has £168m invested in overseas equities held within unitised products which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

Note 21: Cash and Cash Equivalents

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

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

Note 22: Assets Held for Sale

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

Note 23: Long-term Debtors

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

Note 24: Short-term Debtors

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

Movements in impairment allowance

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

Note 25: Short-term Creditors

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

Note 26: Inventories

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

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

Note 27: Provisions

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

There are two classes of provision – short and long term. The Council recognises one long-term provision for asset decommissioning costs:

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

Provisions for asset decommissioning costs reflect the Council's liability for restoration and ongoing maintenance in respect of the landfill site operated by the Council. These have been provided for based on the net present value of estimated future costs, which is expected to be incurred between 2019 and 2025.

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

The Council's short-term provisions are:

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

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

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

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

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

Note 28: Leases

The Council and Group as a Lessee

Finance Leases

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

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

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

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

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

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

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

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

Operating Leases

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe Oil Terminal where the Council leases land from Shetland Charitable Trust for £0.9m per year and sub-leases it to Enquest for the same amount. This lease arrangement is due to run until 2025.

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

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

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

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

The Council and Group as a Lessor

Operating Leases

The Council rents out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as culture and arts, sports facilities, tourism services and community centres; and
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The average length of operating leases is 5 years. Extension and break options are included in some of the leases.

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

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

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

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

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

Note 29: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

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

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

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

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

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

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

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

These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the Note 40: Accounting Policies.

Impact of McCloud Judgement

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

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

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

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

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

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

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The charge required to be made in the CIES, however, is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

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

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

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

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

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

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

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

Analysis of Pension Fund Assets

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

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

Basis for Estimating Assets and Liabilities

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

Estimates for the Shetland Islands Council's Pension Fund are based on the latest full valuation of the Scheme as at 31 March 2018, projected forward to 31 March 2019.

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

The principal assumptions used by the actuary have been:

2017/18		2018/19
	Long-term expected rate of return on assets in the Scheme:	
2.6%	Investment Funds and Unit Trusts	2.5%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.1	Men	22.1
24.0	Women	24.0
	Longevity at 65 for future pensioners (in years):	
23.9	Men	23.9
26.1	Women	26.1
3.4%	Rate of inflation	3.5%
3.0%	Rate of increase in salaries	3.1%
2.4%	Rate of increase in pensions	2.5%
2.7%	Rate for discounting scheme liabilities	2.4%
50.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.0%
75.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the financial year and assumes for each change that the assumption analysed changes, while all the other assumptions remain constant. The principal demographic assumption is the longevity assumption (i.e. member life expectancy).

For sensitivity purposes, it is estimated that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). Please note the figures in the table below have been derived based on the membership profile of the employer as at the date of the most recent actuarial valuation. The estimations in the sensitivity analysis have followed the accounting policies for the Scheme, i.e. on an actuarial basis using the projected unit credit method.

Impact of changes in assumptions	2018/19	
	%	£000
0.5% decrease in real discount rate	11%	70,187
0.5% increase in the salary increase rate	2%	12,257
0.5% increase in the pension increase rate	9%	56,568

Impact on the Council's Cash flows

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

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

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability as per the Funding Strategy Statement (FSS). Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 14 years.

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

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

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

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

Further Information

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The 2018/19 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/

Note 30: Pension Schemes Accounted for as Defined Contribution Schemes

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

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

The Scheme is a multi-employer defined benefit scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme. The SPPA uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities.

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

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

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

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2018/19 these amounted to £0.9m, representing 5.8% of teachers' pensionable pay (£0.9m and 5.7% for 2017/18). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 31: External Audit Costs

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

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

Note 32: Related Parties

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

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits). Details of all grants received from Central Government and other public bodies can be found in Note 12: Grant Income.

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, which is open to public inspection at the Office Headquarters, 8 North Ness, Lerwick, during office hours. It is also available to view on the Council's website by inspecting each individual Member at https://www.shetland.gov.uk/coins/allMembers.asp?sort=0. The Register details the bodies where Members are represented or for which they have declared an interest. The Council made payments totalling £1.4m in 2018/19 (£6.0m in 2017/18) to these bodies. The amount outstanding to be paid at 31 March 2019 was £4k (£482k at 31 March 2018).

Officers

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

Local Government Pension Scheme

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

Group Entities

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

The Integration Joint Board (IJB) is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board; it is a Joint Venture between the two bodies. The Council made payments totalling £21.2m (£20.6m in 2017/18) to the IJB.

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

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

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

Note 33: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

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

Note 34: Contingent Liabilities

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

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

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

Note 35: Contingent Assets

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

Note 36: Trust Funds administered by the Council

The Council administers, as sole trustee, five trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over many years. Funds are held in deposit accounts with local banks and in bond and equity investments. The bond and equity investments are valued at market value. The funds do not represent assets of the Council and are not included in the Balance Sheet.

The Bare Trust was set up following the cessation of the Shetland Development Trust to hold a number of loans and equity investments, which were not considered cost effective to transfer to the Council. All assets and income arising from the Bare Trust are paid or delivered to the Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees. As at 31 March 2019, the remaining assets held by the Brae Trust are equity investments.

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

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

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

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

Note 37: Events after the Balance Sheet Date

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

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

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

Note 38: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 40, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note, however a summary of those with the most significant effect is detailed below:

- There are a number of legal claims currently outstanding against the Council. Where a reliable estimate can be made, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate, the claims have been accounted for as contingent liabilities.
- There is a high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that its assets may be impaired as a result of (for example) reduced maintenance.

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

Note 39: Group Interests

Introduction

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

Disclosure of Interest and Non-Material Interest in Other Entities

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

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

Subsidiaries

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

- Zetland Educational Trust; and
- SLAP.

Zetland Educational Trust (ZET)

The ZET comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland. The purpose of the Trust is the advancement of education of people belonging to Shetland. On the grounds of materiality, the ZET has not been consolidated in the Group Accounts.

SLAP

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

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

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The Shetland Health and Social Care Partnership (IJB) meets the definition of a joint venture. On the grounds of materiality, the (IJB) has not been consolidated into the Group Accounts.

Integration Joint Board (IJB)

The Integration Joint Board (IJB) was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board. It represents a Joint Venture between these two bodies.
The Council contributed 45.5% of the Board's operating costs in 2018/19 (46.1% in 2017/18). It has three out of six voting members on the board. The Council's share of the net surplus of the Integration Joint Board was £0.27m as at 31 March 2019 (£0.12m at 31 March 2018), which is considered not material for consolidation in group accounts.

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

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

Associates

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

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

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

Orkney and Shetland Valuation Joint Board (OSVJB)

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

The Council's share of the year-end net liability is £1.1m as at 31 March 2019 (£1.0m at 31 March 2018), which is considered not material for consolidation in group accounts.

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

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

Zetland Transport Partnership (ZetTrans)

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

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

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

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

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

Nature of combination

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

Group Accounting Policies

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

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

Financial impact of Consolidation

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

Note 40: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

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

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

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

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

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

C Accruals of Income and Expenditure

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

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

D Cash and Cash Equivalents

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

E Charges to Revenue for Non-Current Assets

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

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

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

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

F Employee Benefits

Benefits payable during employment

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

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

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement arises.

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked;
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, which is debited to the Surplus or Deficit on the Provision of Services in the CIES;
- **net interest cost on the defined benefit liability** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;
- **return on scheme assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the CIES; and
- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension

fund in settlement of liabilities which are not accounted for as an expense.

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

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

Discretionary benefits

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

G Events after the Balance Sheet date

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

Two types of events can be identified:

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

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

H Financial Instruments

Financial liabilities

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

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

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

Financial assets

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

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

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

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment

Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

Fair Value through Profit or Loss (FVPL)

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

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

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

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

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

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

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

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

I Foreign Currency Translation

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

J Government Grants and Contributions

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

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

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

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

K Heritage Assets

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

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

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

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

Historical buildings

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

Museum collection

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

L Intangible Assets

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

Intangible assets are measured initially at cost. Amounts are revalued where the fair value of the assets held by the Council can be determined by reference to an active market. Fishing quota and fishing licences meets this criterion. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines in the CIES.

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

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

M Inventories and Long-term Contracts

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

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

N Investment Property

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

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

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

O Leases

Operating leases

The Council as lessee

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

The Council as lessor

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

Finance leases

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

The Council as lessee

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

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

Lease payments are apportioned between:

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

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

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

The Council as lessor

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

Lease rentals receivable are apportioned between:

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

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

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

P Overheads and Support Services

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

Q Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure assets are held at depreciated historical cost;

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

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

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

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

R Fair Value Measurement

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

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

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

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

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

S Private Finance Initiatives (PFI) and Similar Contracts

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

Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

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

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

T Provisions, Contingent Assets and Contingent Liabilities

Provisions

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

Provisions are charged as an expense to the appropriate service lines in the CIES when the obligation arises and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Assets

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

Contingent Liabilities

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

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

U Reserves

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

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

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

V Revenue Expenditure funded from Capital under Statute

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

W Value Added Tax

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