

Shetland Islands Council



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Date: 10 August 2022

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Islands Council
Council Chamber, Lower Hillhead, Lerwick
Wednesday 17 August 2022 at 10am**

Apologies for absence should be notified to Louise Adamson, Committee Officer, on 01595 744555 or by email to the above address.

(Please note that this meeting will be recorded and published online for public access after the meeting).

Yours faithfully

Executive Manager – Governance and Law

Convener: Councillor Andrea Manson
Vice Convener: Councillor Bryan Peterson

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any declaration of interest should be sufficient for those at the meeting to understand why you consider you have a clear and substantial interest. If you are in any doubt about whether you have a declarable interest that would prevent you from participating in discussion or a decision, you should seek the advice of the Monitoring Officer, or the Council's legal officers on his behalf, in advance of the meeting.
- (d) Confirmation of Member Elected to Serve on the Shetland Islands Council
GL-24
 - 1. Shetland Islands Council 2021/22 Unaudited Accounts and Zetland Educational Trust 2021/22 Unaudited Annual Report and Financial Statements
F-030
 - 2. Appointments to Committee Vacancies
GL-25
 - 3. Appointment of Religious Representative to the Education and Families Committee
GL-23
 - 4. Appointments to External Organisations – CoSLA Boards and SJC
GL-26
 - 5. Scord Quarry Charges
RD-03



Shetland Islands Council

Agenda
Item

(d)

Meeting(s):	Shetland Islands Council	17 August 2022
Report Title:	Confirmation of Member Elected to Serve on the Shetland Islands Council	
Reference Number:	GL-24-22	
Author / Job Title:	Jan-Robert Riise, Executive Manager – Governance and Law	

1.0 Decisions / Action required:	
1.1	No decision is required.
2.0 High Level Summary:	
2.1	This report is presented as confirmation from the Returning Officer as to the name of the person elected to serve on the Shetland Islands Council following the by-election on 4 August 2022. This report also provides confirmation from the Proper Officer that the Councillor has duly accepted office.
3.0 Corporate Priorities and Joint Working:	
3.1	This report has no impact on the Council's corporate priorities or on joint working.
4.0 Key Issues:	
4.1	Following the by-election held on 4 August 2022, and at the e-count on Friday 5 August 2022, Mr Robert William Thomson was duly elected as a Councillor for the North Isles Ward. A report requiring appointments to Committees and other vacancies following the statutory meeting on 23 May 2022, is a separate item on today's agenda.
5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications	
6.1 Service Users, Patients and Communities:	By signing their declaration of office, Councillors are entitled to fulfil their corporate, community leader and Ward representative roles. This includes their right to attend today's meeting.
6.2 Human Resources and Organisational Development:	No implications.

6.3 Equality, Diversity and Human Rights:	No implications.
6.4 Legal:	In accordance with Section 56(b) of the Scottish Local Government Elections Order 2011 the Returning Officer is required to notify the Proper Officer of the Council of the names of candidates elected.
6.5 Finance:	Councillor's remuneration is set in accordance with the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2017. The current basic allowance for a Councillor is £19,571 and is provided for within the existing Members' Allowances budget.
6.6 Assets and Property:	No implications.
6.7 ICT and new technologies:	No implications.
6.8 Environmental:	No implications.
6.9 Risk Management:	No strategic risks to consider. The reporting of the names of those candidates elected, and their acceptance of office, is a procedural requirement only.
6.10 Policy and Delegated Authority:	The reporting of this information to the first available meeting of the Council does not fulfil any legal requirement, but is necessary for the Council to be satisfied as to the required notification and receipt of information concerning the election of Councillors.
6.11 Previously considered by:	None

Contact Details:

Anne Cogle, Team Leader – Administration anne.cogle@shetland.gov.uk
5 August 2022

Appendices:

None.

Background Documents:

Declaration of Results

<https://www.shetland.gov.uk/downloads/download/1457/local-council-election-2022>

END

	Shetland Islands Council	Agenda Item 1
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Meeting(s):	Shetland Islands Council	17 August 2022
Report Title:	Shetland Islands Council 2021/22 Unaudited Accounts and Zetland Educational Trust 2021/22 Unaudited Annual Report and Financial Statements	
Reference Number:	F-030-22-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Shetland Islands Council:

- 1.1.1 **CONSIDERS** the Unaudited Accounts for Shetland Islands Council for 2021/22 (Appendix 1);
- 1.1.2 **CONSIDERS** the Annual Report and Unaudited Financial Statements for Zetland Educational Trust for 2021/22 (Appendix 2);
- 1.1.3 **NOTES** the submission of the Unaudited Accounts for 2021/22 to the external auditor by the statutory deadline; and,
- 1.1.4 **NOTES** the intention to present the Council's Audited Accounts for 2021/22 for approval by the revised statutory deadline of 30 November 2022.

2.0 High Level Summary:

Shetland Islands Council:

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a draft set of accounts, including an annual governance statement, by 30 June each year.
- 2.2 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to submit its Unaudited Accounts to the external auditor for examination by 30 June each year, and for the Unaudited Accounts to be considered by the Council before 31 August each year.
- 2.3 The Council's Unaudited Accounts are usually presented to the full Council before they are submitted to the external auditor in line with best practice, however this was not possible due to delays encountered during the preparation of the financial statements. The Unaudited Accounts were submitted to the external auditor by the statutory deadline of 30 June 2022 and today's meeting allows the Council to meet its obligations under the Local Authority Accounts (Scotland) Regulations 2014.
- 2.4 Due to resourcing pressures across the audit profession, the statutory deadline for the approval of Local Authorities Audited Accounts for 2021/22 has been deferred from 30 September to 30 November 2022. Audit Scotland has set a date of 31 October 2022 for the completion of audits of Local Authority accounts.

- 2.5 Audit fieldwork and testing of the accounts is currently delayed because of resourcing issues faced by the external auditor. Audit fieldwork is expected to commence in late August and continue into September. The audit of the financial statements is expected to conclude by mid-October, which would enable the external auditor's report to be considered, and for the Council's audited accounts to be signed during the November cycle of committee meetings. These revisions to the audit plan enable the Council to meet the amended statutory deadlines noted above.

Zetland Educational Trust:

- 2.6 Separately, the Zetland Educational Trust (ZET) is required to prepare a Trustees' Annual Report and financial statements, which must be submitted to the Office of the Scottish Charity Regulator (OSCR) by 31 December each year. The Trustees' Annual Report and unaudited financial statements for 2021/22 can be found in Appendix 2.
- 2.7 The ZET's Annual Report, including the financial statements, is subject to external audit and that work is being undertaken in parallel with the audit of the Council's financial statements. The intention is to bring ZET's audited Annual Report and financial statements to the full Council in November for approval and signature.

3.0 Corporate Priorities and Joint Working:

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

4.0 Key Issues:

Shetland Islands Council:

- 4.1 The Council has a statutory obligation to prepare and publish a draft set of accounts by 30 June each year. The Council's Unaudited Accounts for 2021/22 have been prepared in accordance with proper accounting practices and the Code of Practice on Local Authority Accounting (the Code), which includes specific directions in terms of the format, presentation and contents of all local authority accounts.
- 4.2 The contents of the Unaudited Accounts are summarised as follows:
- 4.3 The **Management Commentary** (pages 1-16, Appendix 1) provides an overview of the Council's activities and financial performance during 2021/22, including an overall underspend of £5.8m on the General Fund. The commentary also summarises the Council's highlights, key risks and opportunities it will likely face in the near future.
- 4.4 The **Annual Governance Statement** (pages 17-24, Appendix 1) summarises the Council's internal controls and governance arrangements in place throughout 2021/22, including the Chief Internal Auditor's audit opinion on the adequacy and effectiveness of the Council's governance and internal control environment. The Council considers that reasonable assurance can be placed upon the adequacy and effectiveness of the internal control systems and governance arrangements, notwithstanding the specific issues identified following internal audit reviews which were considered by the Audit Committee on 22 June 2022 (min ref: 08/22).

- 4.5 The **Remuneration Report** (pages 25-34) provides detail of the Council's remuneration policies and the remuneration and pension benefits of senior councillors and senior officers. This section also includes information on employee exit packages.
- 4.6 The **Statement of Responsibilities for the annual accounts** (page 35) outlines the Council's responsibilities and the responsibilities of the Council's Section 95 Officer.
- 4.7 The primary financial statements are set out on pages 36-39 of Appendix 1, and comprise:
- The **Comprehensive Income and Expenditure Statement** (CIES) shows the accounting cost of providing services, rather than the amount to be funded from taxation. In accordance with the Code, the Council is required to make various statutory accounting adjustments to the net cost of services as reported in *Our Draft Revenue and Capital Outturn 2021/22* (min ref: 42/22). These accounting adjustments include items such as depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2022.
 - The **Balance Sheet** shows the value of the Council's assets and liabilities as at 31 March 2022. The Council's net worth has increased by £80.0m, to £682.4m as at 31 March 2022 from £602.4m as at 31 March 2021. This increase is primarily due to a reduction pension liability of £81.9m, which has the effect of increasing the balance of the Council's unusable reserves. The Council's usable reserves are detailed on page 53 of Appendix 1 and amount to £429.5m as at 31 March 2022. The majority of usable reserves are earmarked for specific purposes; however, the General Fund Reserve remains unearmarked and holds a balance of £24.5m as at 31 March 2022.
 - The **Movement in Reserves Statement** (MIRS) shows the movement of the different reserves held by the Council during 2021/22. The MIRS shows the classification between usable reserves (i.e. those that are backed by resources and can be used to fund expenditure or reduce taxation) and unusable reserves (i.e. those that are required purely for accounting purposes and are not backed by resources).
 - The **Cash Flow Statement** (CFS) shows the changes in the Council's cash and cash equivalents during the financial year. This statement shows how the Council has generated and used cash and cash equivalents through the year by classifying the changes under the headings of operating, investing and financing activities. The Council's cash and cash equivalent balance increased by £11.5m, to £20.4m as at 31 March 2022 from £9.0m as at 31 March 2021. The increase in cash held at 31 March 2022 was primarily due to the receipt of Scottish Government funding during the last week of the financial year.
- 4.8 The **Housing Revenue Account Income and Expenditure Statement** (page 42, Appendix 1) shows the accounting cost of providing housing services rather than the costs funded from rents and government grants.
- 4.9 The **Council Tax Income Account** (page 44, Appendix 1) shows the gross income raised from the Council Tax levied and the deductions made under the Local Government Finance Act 1992. The resultant net income of £10.3m is included within the *Taxation and non-specific grant income* line shown in the CIES. This section also contains further detail about Council Tax bands, the number of properties within each Council Tax band and information about Council Tax exemptions, discounts and reliefs.

- 4.10 The **Non-Domestic Rates Income Account** (page 45, Appendix 1) shows the gross income raised from non-domestic properties and the deductions made under Non-Domestic Rates legislation. The Council acts as the billing authority but also acts as an agent of the Scottish Government in relation to the collection of Non-Domestic Rates income. Total net Non-Domestic Rates income raised during 2021/22 amounted to £16.5m, which was remitted to the Scottish Government and pooled with contributions from other LAs. In return, the Council received £26.7m from the national pool, and this is recognised within the *Taxation and non-specific grant income line* in the CIES.
- 4.11 The **Notes to the Accounts** (pages 46-98, Appendix 1) contain supporting information and detail behind the key figures contained in the primary financial statements along with any disclosures the Council is required to make. The notes have been prepared in accordance with the Code.
- 4.12 The first note to the accounts, the **Expenditure and Funding Analysis** (EFA) shows how the Council's financial performance, as reported through its quarterly financial monitoring reports and end-of-year outturn report, reconciles with the figures reported in the CIES. The EFA therefore shows the true, economic cost of providing services by including all of the accounting adjustments required under proper accounting practices and the Code.
- 4.13 The Unaudited Accounts for 2021/22 were submitted to the external auditor on 30 June 2022, by the statutory deadline. The Scottish Government has relaxed the statutory deadline for approval of audited accounts, from 30 September to 30 November 2022. This amendment has been made in response to resourcing pressures faced by Audit Scotland and the audit profession more widely across the UK.
- 4.14 Audit fieldwork is currently delayed and is expected to commence in late August, continuing throughout September. The majority of audit work is expected to be complete by mid-October, and the external auditor expects to present the findings of their audit and the audit opinion to the Audit Committee in November. Signing the Council's audited accounts is likely to take place on 23 November, as part of the Council's current schedule of committee meetings. Although later than planned, approval of the accounts at this time will enable the Council to meet its statutory obligations.

Zetland Educational Trust:

- 4.15 Zetland Educational Trust (ZET) is a charitable body that administers a range of bursaries and grants in line with its charitable objectives and trust deed. Elected Members of Shetland Islands Council are appointed as Trustees of ZET by virtue of their election to the Council. ZET is registered with the Office of the Scottish Charity Regulator (OSCR).
- 4.16 ZET is required to produce a Trustees' Annual Report and financial statements each year that summarise its activities and financial position. Appendix 2 contains the Trustees' Annual Report and Unaudited Financial Statements for 2021/22.
- 4.17 OSCR require the Trustees' Annual Report and financial statements to be independently audited and filed with OSCR by 31 December each year. The Council's appointed auditor, Deloitte LLP, undertake this work in parallel with the audit of the Council's financial statements. As noted above, audit fieldwork is currently delayed due to resourcing constraints. Approval of ZET's audited Annual Report and financial statements for signature is therefore also expected in November, alongside the Council's audited financial accounts.

5.0 Exempt and/or confidential information:	
5.1 None.	
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	<p>None arising directly from this report, however it is worth noting that the finance team has had to reorganise its workload and reconsider annual leave plans to mitigate the impact of a delayed audit process.</p> <p>The delays to the audit process are unfortunate and mean the team will be fielding audit queries and potentially making accounting adjustments at the same time as managing an annual peak in workload in early autumn, as the preparation of revenue estimates begin in earnest and Local Finance Returns are due to be submitted to the Scottish Government by mid-October. Where possible, work has been brought forward to help avoid an unmanageable peak in late September/early October.</p>
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	<p>Section 12 of the Local Government (Scotland) Act 2003 requires the Council to observe proper accounting practice, including compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by CIPFA / LASAAC. The Code is based on International Financing Reporting Standards (IFRSs).</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare its annual accounts, including an annual governance statement, and submit them to the external auditor by 30 June each year. The Council must publish a copy of the accounts submitted to the auditor, clearly marked as unaudited accounts, on the Council's website. The Council must meet to consider the unaudited annual accounts, as submitted to the external auditor, by no later than 31 August immediately following the financial year to which the accounts relate.</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 ordinarily require the Council to consider and aim to approve the audited accounts for signature no later than 30 September each year. However, for the 2021/22 accounting period only, this deadline has been deferred to 30 November by virtue of an amendment to the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations</p>

	2022 (the 2022 Regulations). This amendment is time-limited and specific to publication of audited accounts for 2021/22 only. The statutory deadline will revert to 30 September for next year's accounts for 2022/23.	
6.5 Finance:	None arising from this report.	
6.6 Assets and Property:	None arising from this report.	
6.7 ICT and new technologies:	None arising from this report.	
6.8 Environmental:	None arising from this report.	
6.9 Risk Management:	<p>The timely completion of the audit provides important feedback on the Council's financial management arrangements and ensures the Council is reporting accurate and reliable financial information, thereby mitigating against the risk of material misstatements or omissions. Completion of the audit also provides assurance to stakeholders that the Council's financial arrangements are transparent to stakeholders and taxpayers, and facilitates assurance for the public sector more broadly through the audit of the Whole of Government Accounts.</p> <p>As noted in 6.4, Audit Scotland have, for 2021/22 audits only, set a deadline for the completion of audit Local Authority work by 31 October 2022. Local Authorities must aim to consider and approve their audited accounts by 30 November 2022.</p> <p>The Council and external auditor are monitoring progress against the approved external audit plan to ensure key audit milestones and deadlines are met and achieved. The Council is aware that the external auditor is experiencing resourcing pressures which has delayed the commencement of audit fieldwork. The delay is not expected to reduce the scope of the audit of the financial statements, and the external auditor is committed to deliver the audit plan previously approved by the Audit Committee, albeit on a revised timetable. Officers are liaising with the external auditor with regard to the scheduling of committee meetings.</p>	
6.10 Policy and Delegated Authority:	The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audit accounts of the Council and related certificates is a matter reserved by the Council.	
6.11 Previously considered by:	n/a	n/a

Contact Details:

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25 July 2022

Appendices:

Appendix 1 – Shetland Islands Council Unaudited Annual Accounts 2021/22

Appendix 2 – Zetland Educational Trust Trustees' Annual Report and Unaudited Financial Statements for 2021/22

Background Documents:

The Local Authority Accounts (Scotland) Regulations 2014

Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (the 2022 Regulations)

END

Unaudited Annual Accounts **2021/22**



Contents

Our Council Area.....	1
Management Commentary.....	2
Annual Governance Statement.....	17
Remuneration Report	25
Statement of Responsibilities	35
Primary Financial Statements	36
Comprehensive Income and Expenditure Statement for year ended 31 March 2022	36
Movement in Reserves Statement	37
Balance Sheet as at 31 March 2022.....	38
Cash Flow Statement	39
Notes to the Cash Flow Statement	40
Housing Revenue Account	41
Notes to the Housing Revenue Account	43
Council Tax Income Account.....	44
Non-Domestic Rate Income Account.....	45
Notes to the Financial Statements.....	46
Note 1: Expenditure and Funding Analysis	46
Note 2: Accounting Standards Issued and Adopted in Year	48
Note 3: Accounting Standards Issued not Adopted..	48
Note 4: Judgements and Major Sources of Estimation Uncertainty	49
Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations	50
Note 6: Transfers to / (from) Earmarked Reserves...	53
Note 7: Other Operating Income and Expenditure ..	54
Note 8: Financing and Investment Income and Expenditure.....	54
Note 9: Revenue from Contracts with Service Recipients.....	54
Note 10: Grant Income	57
Note 11: Unusable Reserves	58
Note 12: Property, Plant and Equipment.....	61
Note 13: Investment Properties.....	65
Note 14: Heritage Assets.....	66
Note 15: Intangible Assets	66

Note 16: Private Finance Initiatives and similar contracts	67
Note 17: Financial Instruments.....	68
Note 18 Nature and Extent of Risks arising from Financial Instruments	70
Note 19: Cash and Cash Equivalents.....	72
Note 20: Assets Held for Sale.....	72
Note 21: Long-term Debtors.....	72
Note 22: Short-term Debtors.....	72
Note 23: Short-term Creditors.....	72
Note 24: Inventories	73
Note 25: Provisions	73
Note 26: Leases.....	74
Note 27: Defined Benefit Pension Schemes	76
Note 28: Pension Schemes Accounted for as Defined Contribution Schemes	81
Note 29: External Audit Costs	82
Note 30: Agency Services.....	82
Note 31: Related Parties	82
Note 32: Capital Expenditure and Capital Financing.....	83
Note 33: Contingent Liabilities	84
Note 34: Contingent Assets.....	84
Note 35: Trust Funds administered by the Council .	84
Note 36: Events after the Balance Sheet Date	85
Note 37: Critical Judgements in Applying Accounting Policies	85
Note 38: Group Interests	85
Note 39: Accounting Policies	87

Our Council Area

Councillors:



23 Elected Members:

- 19 Independent
- 1 Green Party
- 1 Labour
- 1 SNP
- 1 vacancy

Population:

22,870

(mid-2020 population estimate NRS)



Ages 0-15: 18%
Ages 16-66: 63%
Ages 67+: 18%

Economy:

£584m

Gross Value Added
(Economic Accounts 2017)



Original 2021/22 Budget:



£122.7m

net revenue

£21.2m

capital

Council Workforce:



3,666



72% 28%

female male



Infrastructure & Assets:

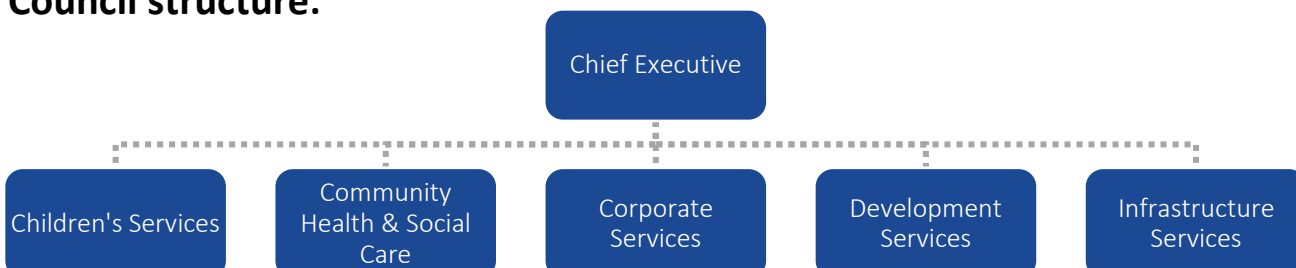


- 249 Council buildings
- 1,056 km road network
- 1,658 Council houses

Land area: **1,466 km²**

Coastline: **2,731 km**

Council structure:



Management Commentary

The purpose of the Management Commentary is to help readers understand our priorities and objectives, to provide an overview of our financial and non-financial performance during the year and to help readers understand our financial position as at 31 March 2022. It also sets out the main risks and uncertainties we are likely to face in the future.

Our Priorities

[Our Ambition](#) sets out our strategic political objectives and provides direction to help us focus on the things that can make the most difference in achieving long-term sustainability for Shetland. It sets out the priorities that we will work towards over a five-year period, up to 2026.

Our Local Outcomes Improvement Plan is known as the [Shetland Partnership Plan](#), which identifies a vision and four priorities shared by all of our community planning partners, as we work towards reducing inequalities of outcomes in our community. The overarching focus of the Partnership's work is to improve the lives of everyone in Shetland, under four priority areas:

- Participation
- People
- Place
- Money

The Impact of COVID-19

The pandemic continued to disrupt some of our services and activity through the year, which has hampered our ability to deliver services at times. Throughout the year, we have acted in accordance with the restrictions in force at the time

We have continued to administer financial support to local businesses on behalf of the Scottish Government, which amounted to £4.3m in 2021/22. We also received an additional £2.0m, from the Scottish Government, as part of the Local Government Finance Settlement for 2021/22 to help meet the financial pressures caused by COVID-19. Further funding was received during the year which has been sufficient to meet total costs that can be

attributed to the ongoing pandemic, amounting to £3.5m in 2021/22. No additional resource in respect of COVID-19 pressures has been provided in 2022/23 however, following the UK Government's decision to discontinue COVID-19 related funding streams. We will need to manage any further pressures carefully and meet any potential costs from our own resources.

As restrictions have eased, we have encouraged staff that have largely worked at home for the past two years to return to offices, as we embrace hybrid working and seek to capitalise on some of the positive benefits that remote working allows.

Further information about the impact of COVID-19 on our governance arrangements is contained in the Annual Governance Statement.

Our Change Programme

During the year, we have developed an overarching Change Programme to co-ordinate activity intended to facilitate the delivery of *Our Ambition*. A [Change Programme Framework](#) was approved on 13 April 2021, which identifies the key policies and strategic plans that collectively set out the context and drivers for change. The Change Programme builds on the work streams contained in our Recovery and Renewal Framework which was approved in July 2020 in response to the COVID-19 pandemic, specifically to ensure that we took a coordinated approach as we moved into the recovery and renewal phases of the pandemic.

The Change Programme is intended to supersede both the Service Redesign and Business Transformation Programmes, which were wound down during 2020/21. We acknowledge the scale of change that lies ahead and we are mindful that we cannot deliver everything at the same time within the confines of limited resources, both from a financial and workforce perspective. Detailed delivery plans, including timescales for each project, are currently being developed for each strand of the Change Programme. This work has been delayed due to other workload pressures, but we anticipate this will help us prioritise the use of our resources in the short and medium-term to deliver tangible progress

in achieving *Our Ambition*. A 'Programme Management Office' has been established within the Corporate Services Directorate in 2021 to facilitate change activity in the coming years. This function is led by an Executive Manager and will draw experience from across the Council using a range of secondments and graduate placements to help facilitate and co-ordinate change and transformational activity.

The alignment of all 'change' activity under one framework, including change activity associated with the recovery from COVID-19, the Islands Growth Deal and *Our Ambition*, will enable more regular reporting of progress against our stated objectives and priorities and create clear linkages to the refreshed Medium-Term Financial Plan (MTFP), which sits alongside the refreshed change programme framework.

A Workforce Strategy has also been approved, which describes the way we plan to develop our current and future workforce to ensure our staff have the right skills, environment and values to deliver the priorities in *Our Ambition* over the next five years. The Workforce Strategy sits alongside the Change Programme Framework, Medium-Term Financial Plan and *Our Ambition*. Collectively, these documents describe the aspiration we have for the long-term sustainability of our Community, and how we will go about delivering our objectives successfully.

Our Performance

Partnership performance

We regularly assess our progress in delivering the Shetland Partnership Plan and the latest [Annual Report](#) was published in September 2021, which documents what has been achieved in the past year and what activities we will focus on in the next year. The Annual Report also includes updated indicator information, which allows us to compare long-term outcome measures against the baseline indicators that were established in 2017.

Service Performance

We regularly report service performance to each of our functional committees: Education & Families, Development, Environment & Transport and Policy & Resources. Each committee receives a quarterly performance report, in which we summarise the performance of services during the previous quarter. Quarterly performance reports can be found on our [Council Committee Information](#) pages (COINS).

We are reviewing our performance management arrangements to ensure they are aligned with our needs and the needs of stakeholders who have an interest in how we perform as a Council. We have also recently adopted a set of indicators that will help us track our progress and performance in delivering *Our Ambition*.

How do we compare against other Councils?

Each year, our performance is compared against all other Scottish Councils through the Local Government Benchmarking Framework (LGBF). The data helps us compare our own performance against a suite of efficiency, output and outcome indicators that cover all areas of local government activity. LGBF data can act as a catalyst for improving services, targeting resources towards areas that make the greatest impact and enhancing public accountability.

The latest LGBF data relates to 2020/21 and was published in March 2022. From the latest data, 61% of our LGBF indicators were in the top two quartiles, up from 51% of LGBF indicators in 2016/17. The national dataset can be found [here](#), and our own results for 2020/21 can be found [here](#).

Financial Performance

We reported [our draft revenue and capital outturn report](#) to the Policy and Resources committee on 7 June 2022. This report summarises the end of year outturn for the Council for the year ended 31 March 2022. It sets out the overall level of revenue and capital expenditure incurred by services funded through the General Fund, Housing Revenue Account and Harbour Account.

At the start of the year, the Council had been focused on planning for the recovery of services, marking the end of the immediate emergency response that dominated activity in 2020/21. The road to recovery has not been straightforward and the Council has had to manage moving in and out of restrictions, often at short notice, as the pandemic continued to disrupt services through the year. The Council has continued to adapt, and deliver essential services in line with the restrictions and mitigation measures in force at various points in the year.

In addition to managing the ongoing response to the pandemic, the Council has also had to manage:

- increased demand for services,
- substantial backlogs from the prior year,
- disruption to services because groups of staff were required to self-isolate for up to 10 days,
- difficulties in recruitment due to a competitive local labour market, and
- the impact of availability, and rising costs, of goods and services.

Our financial performance has been affected as a result of these factors, and therefore the end of year outturn position is inevitably different to the budget set in March 2021.

Overall, the Council has spent less than it anticipated on service delivery and capital expenditure, with overall General Fund net revenue expenditure amounting to £118.1m for the year. The Harbour Account exceeded budgetary expectations and generated a surplus of £2.3m through a combination of increased income and reduced or delayed spending. Meanwhile, the Housing Revenue Account overspent against its budget by £0.2m. This was mainly due to:

- higher than anticipated expenditure on repairs and maintenance, driven by increased prices for raw materials, and,
- slippage on the HRA capital investment programme which will run into 2022/23.

The overspend on the HRA is manageable within the ring-fenced resources available.

Total capital expenditure across the General Fund, Harbour Account and HRA totals £17.5m against an approved budget of £19.8m, representing an

underspend of £2.3m. This is mainly as a result of slippage encountered during the year. Works will continue into 2022/23.

Further information about our financial performance during 2021/22, including details of variances between actual expenditure and approved budgets, can be found in [our draft revenue and capital outturn report](#).

Our Highlights



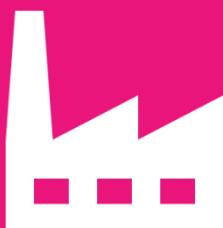
Tertiary Education

The long-planned merger of Shetland College, Train Shetland the NAFC Marine Centre UHI took place on 1 August 2021, resulting in the creation of a new college – Shetland UHI. The new college for Shetland brings together staff and resources to offer tertiary education, commercial training and research in Shetland and beyond. The Council expects to realise ~£1m in savings as a result of the merger, while ensuring the longer-term sustainability of the sector.



Tall Ships Races 2023

The Council, working in partnership with Shetland Tall Ships Limited and Lerwick Port Authority, led a successful bid to host the Tall Ships Races in 2023. The delivery of the event in July 2023 is expected to boost the local economy, particularly as Shetland recovers from the pandemic over the last 2 years. The event is expected to bring net economic benefits of circa £0.6m over the 4-day event as well as the opportunity to showcase the isles' culture, hospitality and weather (!).



Energy Recovery Plant Upgrade

The Council completed a £2.7m upgrade to its Energy Recovery Plant in the year. The upgrade involved the replacement of ageing furnace walls with a new water-fed heat exchanger. This has resulted in increased thermal output and efficiency while reducing maintenance requirements and carbon emissions. The Council expects the upgrade to deliver a reduction of 500 tonnes of CO₂/year, as well as prolonging the life of an important element of the Shetland's low-carbon district heating network.



Library Refurbishment

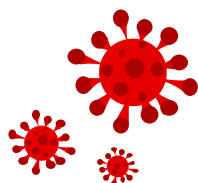
Shetland Library in Lerwick reopened its doors in November 2021 following extensive refurbishment of the old library building. A new air-source heating system, energy efficient windows and a new roof have been installed. The use of space has been reconfigured to meet the needs of service-users, with all library services now provided under one roof (including over 60,000 books). The reconfiguration represents a 50% increase in space compared to the Library service's previous location.

Key Risks and Uncertainties

The Council maintains a Corporate Risk register and provides update reports on a quarterly basis to the Policy & Resources Committee. The latest report was presented on 7 June 2022 and can be found here:

<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=27881>

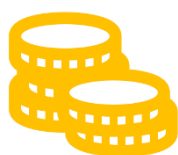
The Council's key risks and uncertainties, and associated mitigating actions can be summarised as follows:



COVID-19

The COVID-19 pandemic continued to necessitate changes to a range of services during 2021/22, even as legal restrictions were eased at various points during the year. The Council continued to prioritise the delivery of essential public services while complying with the legal restrictions and national guidance in force at the time.

Although legal restrictions were lifted towards the end of the financial year, COVID-19 continues to impact Council services, particularly as staff continue to follow Scottish Government guidance to isolate with the onset of COVID-19 symptoms. Sustained disruption will ultimately translate into a financial impact, either as a loss of income through reduced service delivery, or as additional expenditure, for example, as a result of relying on agency staff to maintain the safe delivery of services for the community. The Council received additional grant funding to help offset financial pressures encountered in 2020/21 and 2021/22 but the likelihood of additional funding in 2022/23 and beyond is very low. This is because the UK Government discontinued specific COVID-19 funding in the Autumn Budget and Spending Review published in October 2021. The Council has set aside some contingency to help mitigate financial pressure in 2022/23 and will continue to monitor the financial impact through the year as the longer-term consequences of the pandemic become clearer.



Revenue and Capital Budgeting

The Council is not yet in a financially sustainable position over the medium term and faces an anticipated cumulative budget deficit of £102.8m by 2026/27. Meanwhile the level of core revenue funding from the Scottish Government is expected to remain flat in cash terms between 2022/23 and 2025/26, which effectively translates into reduced funding, in real terms, over the next 3 years. Demand for services, particularly for health and social care, continue to increase while the costs of delivering services also continues to increase. Rising inflation, availability of raw materials, goods and labour are resulting in higher costs to deliver services. Likewise, the Council has substantial property, plant and equipment assets that require significant capital investment each year to maintain while core capital funding is expected to reduce year-on-year.

The Council has a range of change projects underway, or planned, that vary in scale and scope. The aim of these projects is to transform the way services are delivered and to ensure services are delivered as cost effectively as possible. A Programme Management Office function within Corporate Services is intended to coordinate the Council's change programme activities and help facilitate the delivery of *Our Ambition*.

A revised MTFP was presented in January 2022 and will be updated again in the autumn of 2022 which will estimate the likely resources the Council has available over the next 5 years, aligned to the estimated costs of delivering services over the same period. The plan will also estimate the likely budget deficit and attempt to incorporate the likely impact the Change Programme and other the actions the Council will need to take to bring its spending in line with its available resources on a sustainable basis within 5 years.



Increased Demand for Services

Demographic and societal changes in Shetland's population are driving increased demand for Council services, particularly for health and social care services. The Council already faces a likely cumulative budget deficit of £102.8m by 2026/27 and will need to adapt its service provision if it is to continue delivering positive outcomes for service-users in the future without exacerbating the existing cumulative budget deficit.



Establishment of a National Care Service

An Independent Review of Adult Social Care was published in February 2021 which recommended reform of the health and social care sector. The Scottish Government undertook a consultation exercise during 2021 and subsequently published the National Care Service Bill in June 2022. This Bill, if passed by the Scottish Parliament, will establish a National Care Service that will be responsible for the delivery of social care across Scotland. The proposed legislation, if implemented, will have a wide-ranging impact on the services delivered locally by the Council and NHS which could ultimately be transferred to the National Care Service.

Implementation of the National Care Service Bill has the potential for significant changes in the way social work and social care services are delivered in Shetland, with a risk of reduced levels of service and quality, reduced investment and poorer outcomes than are currently delivered by the Council and NHS Shetland. The current proposals lack specific detail on the impact on local government, but have the potential to affect up to approximately one third of the Council's workforce and annual budget. The work required to engage on a change of this magnitude will be extensive affecting all areas of the Council in addition to the direct impact on the delivery of social care and social work services.



Withdrawal from the European Union

The Council still considers the UK's withdrawal from the European Union as a key risk to its operations. The UK/EU Trade and Co-operation Agreement was signed on 30 December 2020 and came into force from 1 January 2021. The Council is beginning to experience challenges in sourcing the raw materials it requires and has also seen higher prices for commodities due to supply chain issues following the UK's withdrawal from the EU. In addition, businesses report difficulties in recruiting staff, particularly in areas of retail, hospitality and health and social care, which could limit the extent to which services can be delivered. These issues are exacerbating global supply chain issues caused by reduced economic output because of the COVID-19 pandemic.

The Council continues to review the latest planning assumptions and assess the potential impact from a Shetland perspective, including the financial and economic impacts on the local economy and labour market. The Council has set aside additional contingency as part of its 2022/23 budget to help alleviate financial pressure associated with this uncertainty.

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

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2022 and its cash flows for the year then ended. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

A description of the purpose of the primary statements has been included immediately prior to the four primary statements which are:

- the Comprehensive Income and Expenditure Statement
- the Movement in Reserves Statement,
- the Balance Sheet, and
- the 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.

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2021/22. This differs from [our draft revenue and capital outturn report](#) which was reported to the Policy & Resources Committee on 7 June 2022.

The reasons for this difference are two-fold:

- the application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts, as these costs are required to be met from local taxation; and
- 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 £45.4m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £8.5m 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 an overall budget underspend of £9.4m. To meet existing obligations, £9.7m is required to be carried forward into 2022/23 which exceeds the £9.4m underspend. This effectively means the Council incurred an overspend of £0.3m in 2021/22.

Budget v Actual Expenditure 2021/22	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund Revenue (inc Spend to Save)	123.859	118.092	5.767	7.266	(1.499)
General Fund Capital (inc Spend to Save)	13.057	11.695	1.362	2.257	(0.895)
Housing Revenue Account (Revenue & Capital)	2.132	2.156	(0.024)	0.149	(0.173)
Harbour Account (Revenue & Capital)	(10.644)	(12.969)	2.325	0.070	2.255
Total	128.404	118.974	9.430	9.742	(0.312)

General Fund

The General Fund is the statutory fund into which all receipts are paid in and from which all liabilities are paid out, except to the extent that legislation may provide otherwise (for example, the Housing Revenue Account). The General Fund is financed by government grants, Council Tax receipts, National Non-Domestic Rates income and fees and charges. It is also supplemented by transfers from reserves. The Council is permitted to carry forward balances on the General Fund.

General Fund net revenue expenditure for 2021/22 totalled £118.1m (£115.9m 2020/21) against an approved budget of £123.9m. There are a variety of reasons behind the differences in actual and budgeted expenditure which are summarised in [our draft revenue and capital outturn report, however, the net revenue underspend of £5.8m is primarily attributed to:](#)

- the unwinding of a provision made in respect of pension cessation charges following the conclusion of the college merger project, and
- various vacancies across all services that we have been unable to fill during the year.

In 2021/22 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	2021/22	
	£m	%
General Revenue Grant	61,795	54.4%
Non-Domestic Rates	26,690	23.5%
Council Tax	10,286	9.1%
Draw on Reserves*	14,827	13.0%

**Includes General Fund and Revenue Spend to Save*

Council Tax represents 9.1% of the Council's overall annual external revenue funding. During 2021/22, the Council collected 99.3% (96.8% 2020/21) of the total billable Council Tax.

The remainder of funding comes from Council's own reserves. The Council holds a range of long-term investments, in line with an investment strategy that is designed to ensure the reserves increase in value over the long term. The Council is able to draw down some of the returns generated from these investments to support service delivery, while maintaining a robust asset base that continues to grow. This enables the Council to supplement government funding over the long term.

Harbour Account

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Harbour Reserve Fund. The Harbour Account budgeted for a surplus of £10.6m in 2021/22 (£11.2m in 2020/21), to be returned to the Harbour Reserve Fund.

The actual surplus generated was £13.0m (£14.7m 2020/21) due to additional tanker income and reduced capital expenditure.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate ring-fenced account within the Council. The HRA budget for 2021/22 anticipated a requirement to utilise £2.1m from its reserves to achieve financial balance (£0.7m 2020/21). An additional £0.1m is required from reserves to balance the account.

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

A [five-year business plan](#) for the HRA was approved in 2016/17, underpinned by a 30-year financial model to ensure affordability and sustainability over the long term. Work to update the Business Plan for the next five-year period has been delayed as we have prioritised other work during the year. Work has now started and we expect the updated Business Plan to be presented in late 2022.

At 31 March 2022, the HRA was responsible for 1,658 properties, an increase of 1 since 31 March 2021. 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 2021/22 Shetland Islands Council incurred total capital expenditure (across General Fund, Housing Revenue Account and Harbour Account) of £17.5m (£15.7m 2020/21) against a budget of £19.8m (£16.9m 2020/21) representing an underspend of £2.3m (£1.2m 2020/21), however, £2.5m will be carried forward into 2022/23 to enable delayed works to be completed

The primary reason for the capital underspend relates to the delays encountered partly because of COVID-19 but also because we have experienced supply chain issues which have affected the availability of raw materials, goods and contracted labour. These factors have ultimately hampered our ability to make progress on capital projects during the year.

Further detail about capital expenditure incurred under the General Fund, Housing Revenue Account and Harbour Account can be found in [our draft revenue and capital outturn report](#).

More information about how capital expenditure has been funded can be found in Note 32 Capital Expenditure and Capital Financing.

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the position as at 31 March 2022. When comparing this to the position as at 31 March 2021, there has been an overall increase in the net worth of the Council of £80.0m. This figure matches the total figure in the Comprehensive Income and Expenditure Statement, which captures all transactions during the financial year that led to the movement in the Council's net worth.

Material Transactions

Long-Term Investments

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

The Investment Strategy is supported by a [Treasury Management and Annual Investment Strategy](#) report, which includes more detail on capital and treasury activities, including key treasury indicators.

As at 31 March 2022 the Council had £415.2m invested with three external Fund Managers, including any cash held by Fund Managers (£423.0m at 31 March 2021, including £2.8m of cash held by Fund Managers). The movement represents a net reduction of £7.8m. The Council withdrew £7.4m (£10.0m 2020/21) to meet its cash flow requirements with investments contracting in value by 0.6% attributable to market volatility and uncertainties driven by increasing energy prices, fears of a wave of Omicron infections and latterly the impact of the conflict in Ukraine.

[The Fund Management Annual Investment Report 2021/22](#) was presented to the full Council on 8 June 2022 which summarised the performance of the Council's investments during the year.

External Borrowing

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

The Council's Capital Financing Requirement (CFR) is £92.5m as at 31 March 2022 (£96.5m at 31 March 2021), of which £49.1m (£49.1m in 2020/21) relates to external borrowing. It represents the capital expenditure to be funded from borrowing. Whilst the

CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need). More information is provided in Note 32: Capital Expenditure and Capital Financing.

Debt financing costs currently represent 2.9% of the Council's net revenue stream (3.0% 2020/21) 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 2022/23 is 2.9% 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 [Pension Fund's Annual Report and Accounts for 2021/22](#) was presented to the Pension Fund Committee on 22 June 2022.

The impact of the Local Government Pension Scheme (LGPS) and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 27 and 28 to the accounts.

The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £161.9m as at 31 March 2022 (£243.8m at 31 March 2021). This figure represents the estimated amount of pension benefits the Council will have to pay out in the future, as estimated by the Fund's Actuary. This estimate includes all pension entitlements earned by current and previous staff up to and including 31 March 2022.

During the year, the net pension liability has reduced by £81.9m as a result of updated assumptions. The

effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £15.0m. The assumptions interact in complex ways, however, and are established for particular reasons. Further information can be found in Note 27: Defined Benefit Pension Schemes.

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

Further detail about the latest formal valuation can be found in the Pension Fund 2020/21 accounts:
<http://www.shetland.gov.uk/about/finances/>.

Health and Social Care Partnership

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

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

In 2021/22, the Council contributed £25.1m (£23.2m 2020/21) to the IJB and received income of £28.2m (£25.4m 2020/21) from the IJB, a result of some social care funding being channelled through the NHS Shetland financial settlement.

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

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	As at 31 March 2021	As at 31 March 2022
	£m	£m
General Fund	224.139	212.553
Housing Revenue	20.405	19.443
Harbour Reserve Funds	88.795	91.659
Capital Funds	66.096	65.269
Other Usable Funds	44.859	40.605
Total Usable Reserves	444.294	429.529

The overall level of usable reserves was £429.5m at 31 March 2022, a reduction of £14.8m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve balance has increased by £5.2m to £24.5m as at 31 March 2022 from the previous year (see Note 6: Transfers to/(from) Earmarked Reserves). The uncommitted balance represents 19.4% (15.2% 2020/21) of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

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

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is attributable to the recovery of market conditions from the start of the year and includes a cash withdrawal to meet the cash flow requirements of the Council. More information is outlined in the 'Long-Term Investments' section on page 11.

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

Group Accounts

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

The Council has interests in the Zetland Educational Trust (ZET), Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board. During the year, Shetland Leasing and Property Developments Ltd (SLAP) entered liquidation but the process has not been concluded so the Council also retains an interest in the company as at 31 March 2022.

The net impact of the consolidation modifications to the financial statements for the OSVJB is deemed to be not material and are therefore not consolidated in group accounts. The results of the remaining entities have a net neutral impact on both the Comprehensive Income and Expenditure Statement and the Balance Sheet and are therefore not consolidated in the group accounts. More detail can be found in Note 38 Group Interests.

The accounts of the ZET, ZetTrans and the IJB can be found on the Council's website at:

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

The accounts of the O&SVJB can be found at:

<http://www.orkney.gov.uk>

Looking Ahead

There is no doubt the outlook for Local Government is challenging. As we attempt to recover from the pandemic, and support others with their own recovery efforts, we face significant challenges on the horizon. We are experiencing an increase in poverty across our communities as a result of spiralling inflation, rising energy costs and increased food prices. Global inflationary pressures have intensified following the reintroduction of COVID-19 restrictions in China and the Russian invasion of Ukraine, driving up the costs of procuring goods and services. The global supply chain is suffering from sustained disruption which is hampering our ability to deliver key projects.

Closer to home, the local economy has showed significant signs of recovery, with local contractors struggling to satisfy demand for goods, labour and services. The Viking Energy Wind Farm is a major development which has gathered pace in the year, with many businesses working to support the construction phase. Three further large scale wind farm developments are due to start in 2022/23, along with the development of two major housing schemes, in Lerwick and Scalloway, and the Saxavord Spaceport in Unst, which has recently been granted planning permission. The outlook is relatively positive, with a number of planned new developments in and around Shetland (including a mix of residential and commercial developments) which should come to fruition in the coming years. The availability of contracted labour required to support those developments will most likely act as a limiting factor.

We continue to experience increasing demand for services across the Council at a time when we are struggling to recruit and retain staff that are integral to the delivery of services. At the same time, we are also trying to deliver an ambitious programme of activity in *Our Ambition*, which includes significant capital investments in housing, infrastructure and measures to tackle climate change.

And amidst all of that, the most recent Resource Spending Review indicated that Local Government funding is to be frozen in cash terms for the next three

years. The establishment of a National Care Service, if implemented, will likely result in the diversion of staff and resources to work through the implications of a significant restructuring of public services.

2022/23 Budget

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Plan*, presented in January 2022. We have refined our budget proposals to take into account any changes planned by each directorate that are required to ensure continued provision and delivery of services in 2022/23.

The Settlement indicated the Scottish Government will provide total revenue funding of £98.91m, inclusive of £20.79m of ring-fenced revenue funding for specific purposes in 2022/23. Ring-fenced revenue funding includes £17.29m provided for the operational costs of inter-island ferry services, along with £2.76m for the continued provision of Early Learning and Childcare services.

Our budget proposals included an assumption that Council Tax would increase by 3.0% in 2022/23 and would raise £10.62m in Council Tax (net of any discounts or exemptions) during the year, which is £0.31m more than last year. Elected Members made a decision to freeze Council Tax at the same level as 2021/22, with the average Band D Council Tax liability remaining at £1,206.33.

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges, by using £24.92m from our reserves to meet our total planned revenue expenditure in 2022/23. This amount includes:

- £14.37m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Plan*, and
- £10.56m of trading income generated from the Harbour Account, including additional income from the Shetland Gas Plant, and the application of Crown Estate funding. This amount differs from *Our Medium-Term Financial Plan*, by £3.10m.

We can therefore expect our total income to amount to £134.45m.

We expect to spend £148.26m delivering services funded through the General Fund in 2022/23. We planned to use some of the anticipated underspend in 2021/22 to offset planned expenditure in 2022/23. Total net revenue expenditure is anticipated to be £139.59m, after allowing for financing costs, recharges, an appropriate contingency and the use of current year underspends. This leaves a remaining deficit of £5.45m that cannot be met from other sources of funding, and will need to be met from reserves in order to set a balanced General Fund budget.

Our planned capital investment for the year amounts to £20.09m and largely relates to the maintenance of existing assets. Some £5.67m capital expenditure relates to new and potential capital expenditure, subject to business cases being approved. The Settlement provides a core capital grant of £5.62m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, from revenue funding, borrowing or the reserves. We anticipate a need to use £0.04m from reserves to finance our capital expenditure plans in 2022/23. Our financial planning assumptions did not anticipate a need to utilise the reserves to support capital expenditure in 2022/23. The additional draw from reserves, albeit relatively modest in comparison to 2021/22, is nonetheless considered unsustainable. This means our combined revenue and capital budgets for 2022/23 require £5.49m more than we had planned to draw from the reserves in order to achieve financial balance.

We developed our overall budget for 2022/23 amidst the uncertainty of the ongoing pandemic, which has influenced most services across the Council in at least some way, shape or form. We have taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, under the expectation that the pandemic will become endemic, and that services will, as far as possible, gradually return to pre-pandemic levels of service, whilst remaining alert to the potential need to adapt to changing circumstances. The budgets outlined in the Budget Book are balanced and affordable but once again cannot be considered sustainable in the longer-term.

For more detail about the 2022/23 budget can be found on the Council's website at:

<https://www.shetland.gov.uk/budget-finance/council-budget>.

Medium-Term Financial Outlook

Our Medium-Term Financial Plan (MTFP) is a key document within a wider suite of plans and strategy documents that collectively seek to define our ambition, strategic priorities and operational plans over the next five years. An updated MTFP was presented to Elected Members in January 2022 and can be found on our website:

<https://www.shetland.gov.uk/downloads/download/208/budget-book-and-financial-plans>

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

The MTFP summarises our key financial planning assumptions and translated our assumptions and financial modelling into three different scenarios:

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

Our scenario planning and financial modelling indicates that the Council faces a significant challenge in being able to set balanced budgets in the future. Our central scenario indicates a potential cumulative budgetary deficit of £102.8m by 2026/27 should the Council not be proactive in managing and addressing the financial pressures it expects to face in the short- to medium-term. The more optimistic scenario indicated a likely deficit of £61.2m while the pessimistic scenario indicated a likely deficit of £142.1m over the same time period.

We recognise that our MTFP doesn't provide all the answers. Effective financial management cannot be

achieved in a vacuum and that is why the MTFP is part of a collection of planning documents that seek to define what we will do over the next five years, and how we will go about it. The wider suite of documents includes:

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

Conclusion

The Council's primary focus in the year has been navigating the way out of the COVID-19 pandemic along with the rest of Scotland. The road to recovery has not been straightforward and it continues to present challenges in the short term as we seek to bring service levels back to pre-pandemic levels, while prioritising the health and wellbeing of staff and the communities we serve.

We have ended the financial year in a relatively positive position, which stands us in good stead for managing some of the headwinds we expect to face in the short term, such as rising inflation, the establishment of the National Care Services and pressures around public sector funding. In addition, *Our Ambition* sets out an ambitious agenda for change, which will require careful prioritisation given the medium and longer-term challenges we face. Despite these challenges, the Council remains financially sound with a strong balance sheet and is well placed to serve the Shetland community in the future.

Councillor Emma Macdonald
Political Leader of the Council
30 June 2022

Maggie Sandison
Chief Executive
30 June 2022

Annual Governance Statement

Introduction

This Annual Governance Statement explains how the Council has complied with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' for the year ended 31 March 2022. It sets out the Council's governance arrangements and systems of internal control, and concludes on their effectiveness.

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

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

The Council approved and adopted its Code of Corporate Governance in March 2017 which sets out six fundamental elements that govern how the Council conducts its business. The Code of Corporate Governance is consistent with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government', which was published in 2016.

The Council has a system of internal controls in place designed to manage risk to a reasonable level. Internal controls cannot completely eliminate the risk of failure to achieve strategic priorities and outcomes, but they can provide a reasonable level of assurance.

The system of internal controls is regularly reviewed to identify and prioritise the risks to the achievement of the Council's strategic priorities and outcomes, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled, and the activities used to

engage with and lead the community. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

The Governance Framework

The governance framework adopted by the Council is consistent with the seven core principles of the CIPFA/SOLACE framework illustrated below:

A	<i>Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law.</i>
B	<i>Ensuring openness and comprehensive stakeholder engagement.</i>
C	<i>Defining outcomes in terms of sustainable economic, social and environmental benefits</i>
D	<i>Defining the interventions necessary to optimise achievement of intended outcomes.</i>
E	<i>Developing the entity's capacity, including the capability of its leadership and the individuals within it.</i>
F	<i>Managing risks and performance through robust internal control and strong public financial management.</i>
G	<i>Implementing good practices in transparency, reporting and audit to deliver effective accountability</i>

The governance framework has been in place for the year ended 31 March 2022 and up to the date of approval of the annual accounts.

The key elements of the Council's governance framework include:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- **Scheme of Administration and Delegations**, which detail the functions that the Council has asked officers to carry out on its behalf, and the conditions they must comply with in doing so;
- **Standing Orders**, which set out the rules around how committees are run and decisions are made;

- **Financial Regulations**, setting out how the Council manages its financial affairs in accordance with good practice and statute;
- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;
- the Council's **Performance Management Framework**, which sets out how the Council sets its objectives, monitors and reports on its performance against those objectives and identifies areas for improvement;
- **Compliance** with CIPFA codes of practice and the CIPFA statements on *the Role of the Head of Internal Audit* and *the Role of the Chief Financial Officer*.
- A **comprehensive programme of internal audit reviews** across different service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

The Council's suite of governance documents, including the Scheme of Administration and Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's [website](#).

Impact of COVID-19

COVID-19 continued to impact many of the Council's services and activities during 2021/22. At all times, services have been managed in accordance with the Scottish Government's *COVID-19: Scotland's Strategic Framework* document, which summarised the restrictions and guidance in place through the year.

Council and committee meetings continued to take place during the year, but hybrid arrangements were used to facilitate attendance in line with the restrictions and public health guidance at the time of the meeting. Limited numbers of Elected Members were able to attend meetings in person at the Town Hall, with other Elected Members, officers and external advisors attending remotely. These arrangements enabled routine business to be conducted through the year without any significant or adverse impact on the governance of the Council's activities.

Additional resource was provided by the Scottish Government to help meet the continued financial pressure caused by the COVID-19 pandemic. An initial £1.9m was provided through the Local Government Finance Settlement for 2021/22. Further funding has been received during the year, which has been sufficient to meet total costs that can be attributed to

the ongoing pandemic, amounting to £3.5m in 2021/22. No additional resource in respect of COVID-19 pressures have been provided in 2022/23 however, following the UK Government's decision to discontinue COVID-19-related funding streams.

Review of Effectiveness

The Council conducts an annual review of the effectiveness of its overall governance framework. The review is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance framework, the Internal Audit Annual Report prepared by the Chief Internal Auditor, and also reports from external auditors and other external agencies.

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

- Each director has reviewed the arrangements in place for their respective portfolios and certified their effectiveness to the Executive Manager – Finance. These assurances include confirmation of compliance with internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2021/22, no areas of weakness or concern were identified.
- The Council has assessed its compliance with the CIPFA *Financial Management Code (2019)*, which became mandatory from 2021/22 onwards. The assessment indicated the Council was compliant with each of the requisite financial management standards during the 2021/22 financial year.
- 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*.
- 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 and for capital investments.
- The Audit Committee remains responsible for considering all reports prepared by internal and external auditors and ensuring the effectiveness of the system of internal controls. 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 2022 election.
- The Council's internal audit function operates in accordance with the CIPFA Statement on *the Role of the Head of Internal Audit*. Furthermore, internal audit reviews are conducted in accordance with Public Sector Internal Audit Standards (PSIAS).
- The internal audit function followed the approved internal audit plan through the year and their work revealed a range of findings. Management are working to implement agreed recommendations. The Internal Audit Annual Report contains further detail.
- The Council's external auditor reports to the Audit Committee. Reports from the external auditor include annual external audit plan and audit reports of the financial statements and wider audit dimensions, such as financial management, financial sustainability, governance and transparency and value for money, as required by Audit Scotland's Code of Audit Practice.

Best Value Assurance Review

The Council is currently subject to a Best Value Assurance Review. The audit fieldwork, undertaken jointly by Audit Scotland and the Council's external auditor, Deloitte LLP, took place between March and April 2022. The review will consider intelligence from audit reports and other scrutiny work carried out in previous years and includes interviews with Elected Members, senior officers and other stakeholders.

The Council expects the final Best Value Assurance Review to be published in August 2022.

Significant Governance Issues

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

The following issues and related action plans are highlighted specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
<p>Partnership working: Orkney & Shetland Valuation Joint Board</p> <p>Serious flaws in the governance arrangements of the Orkney and Shetland Valuation Joint Board were identified in the 2020/21 external audit report. Issues included unlawful decision-making and breaches of the Procurement (Scotland) Regulations 2016, which occurred during the 2021/22 financial year. The external auditor concluded that the Board did not have appropriate arrangements in place to secure Best Value.</p> <p>No financial management information has been shared with Shetland Islands Council since April 2021, when Orkney Islands Council took over the responsibility for managing the Board's finance functions. The</p>	Chief Executive / Executive Manager – Finance	<p>The lack of financial management information means the Council has been unable to determine whether its financial contribution to the Board has been used to deliver Best Value.</p> <p>The lack of engagement during budget-setting could have resulted in insufficient resources being made available to the Board, which may have hampered their ability to deliver core services. The Council may face a requisition for additional resources, which creates further financial pressure on the Council's financial position.</p>	Following the Board's 2020/21 external audit report and also an Accounts Commission report, both of which highlighted serious failings in relation to governance and transparency, the Board has committed to making improvements and addressing the weaknesses in the Board's governance arrangements. The Council is monitoring the Board's progress against an agreed action plan.	Further work is required to rebuild the relationship between the Board and Shetland Islands Council in order for the latter to receive sufficient assurance that its financial contributions are being used lawfully to provide cost-effective services, in accordance with the Board's duty to secure Best Value.	<i>31 December 2022</i>

Council has had no insight into how its financial contribution to the Board's activities has been used through the year nor did it receive any information regarding the Board's budget for 2022/23 in advance of the Council's own budget-setting exercise. In addition, the Council's proper officers have been excluded from attending meetings of the Board.					
Compliance with EU funding regulations: There is no formal framework to specifically mitigate the risks associated with EU Funding compliance.	Corporate Management Team	Failure to comply with EU Funding rules for live and completed projects may result in financial clawback.	<p>Whilst there are the expected project level systems and controls in place, there is an absence of a specific comprehensive control framework for EU Funding compliance.</p> <p>The Council is liaising with the Scottish Government to identify the appropriate remedy for funding received that could be considered non-compliant.</p>	Internal audit is discussing appropriate remedial actions with management. This will be formalised into an action plan and completion monitored by Internal Audit.	30 September 2022
Compliance with Financial Regulations: An internal audit review highlighted unsatisfactory internal controls and compliance with Financial Regulations with regard to cash handling in community health and social care settings.	Director of Community Health and Social Care	Significant financial and reputational risk exposure, which may ultimately result in the Council's failure to demonstrate Best Value.	<p>The Council's existing Financial Regulations set out the standards expected of all staff.</p> <p>An action plan has developed in response to the internal audit review, and implementation of recommended actions has already commenced.</p>	An action plan has been developed to address the serious control deficiencies identified in the internal audit review. The Council has started to implement the recommendations made by internal auditors, and expects to have addressed all of the recommendations by the end of August 2022.	31 August 2022

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
<p>Procurement:</p> <p>An internal audit review highlighted serious control deficiencies with regard to the commissioning of consultancy services across Council services.</p>	Director of Corporate Services	Significant operational, financial and reputational risk exposure, which may ultimately result in the Council's failure to demonstrate Best Value.	<p>The Council's existing Contract Standing Orders set out the principles and processes that govern the commissioning of all goods and services across the Council.</p> <p>The Council accepts the findings and recommendations of the internal audit review and has started to implement the recommendations.</p>	<p>The Council has developed an action to plan to address the serious deficiencies identified in the internal audit review. The proposed actions include:</p> <ul style="list-style-type: none"> • Introduction of supplementary procedures regarding the use of consultants, • Review of the Council's commissioning and procurement framework and Contract Standing Orders, • Review and revision of IR35 guidance, which will be clearly linked to the Council's commissioning and procurement framework and Contract Standing Orders. <p>The Council expects to address all of the recommendations made by internal audit by end of January 2023.</p>	31 January 2023

Update on Significant Governance Issues previously reported

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

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

Internal Audit Opinion

Internal Audit prepared an annual plan for 2021/22, and the majority of fieldwork has been undertaken as planned.

The Audit Committee continued to receive full reports for audits and assurance reviews completed during the year. During the year, internal audit made 86 recommendations which have been accepted by management. Internal Audit will monitor the implementation of recommended actions through future follow up audits and provide the Audit Committee with regular updates on the implementation of these.

Where the audit opinion arising from an audit states that the control environment has been assessed as unsatisfactory, the concerns highlighted are reported in the Annual Governance Statement. Based on the 2021/22 fieldwork completed to date, there are three areas that fall into this category - the use of consultants, procurement, and the management of cash and belongings at health and social care services. Management have accepted the recommendations made and we will monitor the implementation of these recommendations closely and provide support to management as required. A small number of reviews have also resulted in a limited audit opinion, including controls relating to:

- performance management,
- information security,
- Non Domestic Rates/Council Tax,
- the delivery of the change programme,
- housing repairs and,
- the roll out of school devices.

There were seven reports with reasonable/satisfactory assurance.

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

As part of the Internal Audit reviews we have identified improvements to the internal control environment, which have been accepted by management. Internal Audit will monitor the implementation of these improvements through future follow up audits.

Based on the audit work undertaken, the assurances provided by Service Directors, and excluding the issues

noted above, it is the Chief Internal Auditor's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2021/22 in the Council.

External Audit

An [Interim Audit Report on Audit Dimensions and Best Value](#) was considered by the Audit Committee in June 2021. This report focused on areas other than the financial statements and summarised the external auditor's findings in the areas of:

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

The Interim Audit Report made three new recommendations following the first stage of the audit process. All three recommendations have been addressed during the year.

In addition, Council had 21 outstanding audit recommendations from financial years 2019/20 and 2020/21. Of these, fifteen recommendations have been fully implemented. Six recommendations have not yet been fully implemented by 22 June 2022.

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

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

Conclusion

Overall, it is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and internal controls that operate across Shetland Islands Council throughout 2021/22. We consider that the arrangements and internal control environment allow us to identify any significant risks which may impact on the achievement of the Council's principal objectives, and to take action (or actions), to avoid or mitigate the impact of any such risks.

Remuneration Report

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

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

Remuneration Arrangements of Senior Councillors

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

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

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415, which came into effect on 10 February 2009 (later amended by the 2013 and 2015 Regulations). For 2021/22 the level of remuneration (including expenses) for the Leader, S Coutts, was £32.9k (£29.8k in 2020/21), and £24.9k for the Convener, M Bell (£22.4k in 2020/21).

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 £188k in 2021/22 (£181k in 2020/21).

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

The senior councillor positions are:

- Chair of Education and Families Committee;
- Chair / Vice Chair of IJB;
- Chair of Development Committee;
- Chair of Environment and Transport Committee;
- Chair of Audit Committee;
- Chair of Planning Committee;
- Chair of Licensing Committee;
- Chair of Harbour Board; and
- Chair of Shetland College Board to 4 May 2022.

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2021/22 was £186k (£179k in 2020/21).

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 [Committee Information](#) pages

Remuneration of Conveners and Vice-Conveners for Joint Boards

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

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

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

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

Remuneration of Senior Employees

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

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2021/22.

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

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

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

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

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

Allowances

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

General Disclosure by Pay Band

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

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

Bands that do not appear in the table had nil employees in both 2021/22 and 2020/21.

Number of Employees							
Total at 31 March 2021	Remuneration Bands	Children's Services	Infrastructure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2022
68	£50,000 - £54,999	23	29	6		5	63
66	£55,000 - £59,999	39	28		1	1	69
27	£60,000 - £64,999	11	14	4	2	1	32
27	£65,000 - £69,999	8	18	2	3	4	35
10	£70,000 - £74,999	6	7	1			14
11	£75,000 - £79,999	1	7				8
5	£80,000 - £84,999		6	1		2	9
4	£85,000 - £89,999	1	2				3
6	£90,000 - £94,999		2	1			3
1	£95,000 - £99,999	1	1		1	1	4
3	£100,000 - £104,999		1				1
1	£105,000 - £109,999						0
2	£110,000 - £114,999					1	1
0	£115,000 - £119,999		2				2
0	£120,000 - £124,999		1				1
0	£125,000 - £129,999		2				2
231	Total	90	120	15	7	15	247

Of the 90 staff (86 in 2020/21) in Children's Services noted above, 26 were head teachers or senior teaching staff (26 in 2020/21).

Of the 120 staff (107 in 2020/21) in Infrastructure Services noted above, 106 worked in Ports and Harbours Operations or Ferry Operations (100 in 2020/21).

Summary of Remuneration paid to Councillors

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

	2020/21 £000	2021/22 £000
Salaries	393	409
Expenses	3	6
Allowances	34	36
Total	430	451

The annual return of Councillors' salaries and expenses for 2021/22 is available for any member of the public to view on the Council's website [here](#).

Summary of Remuneration paid to Employees

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

	2020/21 £000	2021/22 £000
Salaries	80,722	83,283
Overtime	3,273	3,816
Expenses	491	791
Allowances	1,093	1,150
Total	85,579	89,040

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

Exit Packages

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

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

There were no exit packages awarded in 2021/22, however, pay in lieu of notice amounting to £3k, relating one of the exit packages for 2020/21 was only paid out during 2021/22 (2 packages amounting to £85k in 2020/21).

Exit package cost band (including special payments)	(a)		(b)		(a+b)			
	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21 £000	2021/22 £000
£0 - £19,999	0	0	1	0	1	0	2	0
£20,000 - £39,999	0	0	0	0	0	0	0	0
£40,000 - £59,999	0	0	0	0	0	0	0	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	1	0	1	0	83	3
£100,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £199,999	0	0	0	0	0	0	0	0
Total	0	0	2	0	2	0	85	3

The table above details the number and cost of exit packages awarded in 2020/21 only. Included in the cost of the exit packages are:

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

Disclosure of Remuneration for Senior Councillors

2020/21	Name of Councillor	Designation	2021/22		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
22,399	M Bell	Convener	23,257	1,632	24,889
29,839	S Coutts	Leader of the Council	31,010	1,965	32,975
19,695	A Duncan	Chair - Audit Committee	20,434	15	20,449
20,783	A Cooper	Chair - Development Committee	21,550	15	21,565
20,761	G Smith	Chair - Education & Families Committee	21,550	15	21,565
20,761	R Thomson	Chair - Environment & Transport Committee	21,550	15	21,565
19,611	A Manson	Chair - Harbour Board	20,434	15	20,449
18,496	C Smith	Chair - Licensing Committee	20,434	15	20,449
20,755	E Macdonald c)	Chair - Planning Committee	21,550	(615)	20,935
19,702	P Campbell	Chair - Shetland College Board	20,434	15	20,449

Notes:

- a) Taxable expenses include telephone line rental / broadband costs;
- b) Councillors are only paid one special responsibility allowance, irrespective of how many Chair/Vice Chair positions they hold;
- (c) E MacDonald - Expenses recharged to COSLA in respect of Health & Social Care Board of £1,035.40.

Remuneration of Senior Employees of the Council

2020/21	Name of Senior Employee	Designation	2021/22		
Total Remuneration £			Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
112,747	M Sandison	Chief Executive	113,840	0	113,840
94,267	H Budge	Director - Children's Services	95,359	0	95,359
78,541	J Robinson (c) (d)	Director - Community Health & Social Care	92,350	0	92,350
94,372	C Ferguson	Director - Corporate Services	95,359	0	95,359
94,267	N Grant	Director - Development Services	95,359	0	95,359
94,053	J Smith	Director - Infrastructure Services	95,368	0	95,368
84,140	D Morgan (d)	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	92,820	84	92,905
82,826	J Manson	Executive Manager - Finance (Section 95 Officer)	84,887	0	84,887
83,790	J Riise	Executive Manager - Governance & Law (Monitoring Officer)	84,882	0	84,882

Notes:

- Remuneration includes ad-hoc elements that are part of the normal duties of the post, i.e. call-out and stand-by allowances;
- Taxable expenses include taxable mileage and / or expenses out with HMRC's dispensation;
- J Robinson was employed from 1 April 2021 to 31 March 2022 as interim Depute Director for Community Health & Social Care. Ms Robinson has continued to receive an honorarium to provide the Interim Chief Officer of IJB with support. Ms Robinson's costs have been paid in full by Shetland Islands Council and funded by grant income received from the Scottish Government for IJB Covid-19 costs. Ms Robinson continues to work a 34 hour week. The full time equivalent for Ms Robinson's substantive post in 2021/22 is £62,517.75. The Director of Community Health & Social Care role has been covered by Brian Chittick from 1 April 2021 to 31 March 2022. Mr Chittick was interim director up to 31 July 2021, then permanently appointed in the role from 1 August 2021. NHS Shetland pay the full cost, then Shetland Islands Council is recharged for 50%. The Council was recharged **£69,922** in 2021/22. Mr Chittick's full time equivalent remuneration for 2021/22 was **£103,810**.
- Remuneration for these officials includes a £500 (pro rate where applicable) Health & Social Care Thank You payment. From an accounting perspective, this is treated as an agency payment on the basis the Council was the agent paying out the bonus directly to staff members on behalf of the Scottish Government.

Pension Benefits – Senior Councillors

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

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
		31 March 2021 £000	31 March 2022 £000	As at 31 March 2022		Difference from 31 March 2021	
				Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	5	5	5	0	1	0
S Coutts	Leader of the Council	6	6	4	0	1	0
A Duncan	Chair - Audit Committee	4	3	3	0	1	0
A Cooper	Chair - Development Committee	4	4	3	0	1	0
G Smith	Chair - Education & Families Committee	4	4	4	0	0	0
R Thomson	Chair - Environment & Transport Committee	4	4	2	0	1	0
A Manson	Chair - Harbour Board	4	4	4	0	1	0
C Smith	Chair - Licensing Committee	4	2	3	0	1	0
E Macdonald	Chair - Planning Committee	4	4	2	0	0	0
P Campbell	Chair - Shetland College Board	4	4	5	0	0	0

Pension Benefits - Senior Employees

Name of Senior Official	Designation	31 March 2021 £000	31 March 2022 £000	As at 31 March 2022		Difference from 31 March 2021	
				Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Sandison	Chief Executive	23	24	46	59	3	1
H Budge	Director - Children's Services	22	22	35	106	1	5
J Robinson	Executive Manager	16	14	24	26	(3)	(7)
C Ferguson	Director - Corporate Services	20	20	59	105	3	1
N Grant	Director - Development Services	20	20	31	23	3	1
J Smith	Director - Infrastructure Services	20	20	40	54	3	1
J Manson	Executive Manager - Finance	17	18	6	0	2	0
D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	17	19	43	69	4	4
J Riise	Executive Manager - Governance & Law	17	18	45	72	1	(2)

Pension Benefits

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

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

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

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

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

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

Tiered contribution rates on whole time pay are as follows:	2020/21 %	Tiered contribution rates on whole time pay are as follows:	2021/22 %
On earnings up to and including £22,200	5.50	On earnings up to and including £22,300	5.50
On earnings above £22,201 and up to £27,100	7.25	On earnings above £22,301 and up to £27,300	7.25
On earnings above £27,101 and up to £37,200	8.50	On earnings above £27,301 and up to £37,400	8.50
On earnings above £37,201 and up to £49,600	9.50	On earnings above £37,401 and up to £49,900	9.50
On earnings above £49,601	12.00	On earnings above £49,901	12.00

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

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

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

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

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

Trade Union Facility Time Report 2021/22

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

The 2021/22 data, which must be published by 31 July 2022, will be included within the Audited Annual Accounts for 2021/22.

.....
Emma Macdonald
Leader of the Council
30 June 2022

.....
Maggie Sandison
Chief Executive
30 June 2022

Statement of Responsibilities for the Annual Accounts

The Council's Responsibilities

The Council is required to:

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

Signed on behalf of Shetland Islands Council.

.....
Emma Macdonald
Leader of the Council

The Executive Manager - Finance's Responsibilities

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

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

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

The Executive Manager - Finance has also:

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

I certify that the annual accounts give a true and fair view of the financial position of the Council at the reporting date and the transactions of the Council for the year ended 31 March 2022.



Jamie Manson CPFA
Executive Manager - Finance
30 June 2022

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2022

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.

2020/21 Gross Expenditure £000	2020/21 Gross Income £000	2020/21 Net Expenditure £000		Notes	2021/22 Gross Expenditure £000	2021/22 Gross Income £000	2021/22 Net Expenditure £000
2,064	(20)	2,044	Chief Executive and Cost of Democracy		2,381	(4)	2,377
60,162	(8,323)	51,839	Children's Services		66,013	(8,991)	57,022
58,070	(32,613)	25,457	Community Care Services		66,265	(35,650)	30,615
16,340	(5,826)	10,514	Corporate Services		18,424	(6,348)	12,076
20,303	(6,398)	13,905	Development Services		21,192	(6,249)	14,943
45,377	(11,312)	34,065	Infrastructure Services		49,643	(18,722)	30,921
5,811	(7,250)	(1,439)	Housing Revenue Account		6,971	(7,712)	(741)
19,297	(31,167)	(11,870)	Harbour Account		24,324	(36,113)	(11,789)
227,424	(102,909)	124,515	Net Cost of Services		255,213	(119,789)	135,424
2,953	(380)	2,573	Other operating income and expenditure	8	5,009	(798)	4,211
(82,308)	(28,205)	(110,513)	Financing and investment income and expenditure	9	33,036	(22,749)	10,287
0	(109,427)	(109,427)	Taxation and non-specific grant income	11	0	(104,502)	(104,502)
148,069	(240,921)	(92,852)	Gain on Provision of Services		293,258	(247,838)	45,420
			<i>Items that will not be reclassified to the (surplus) or deficit on the provision of services</i>			Notes	
		(4,315)	(Surplus) / Deficit on revaluation of property, plant and equipment assets			12	(16,954)
		59,859	Remeasurement of the net defined benefit liability			28	(108,470)
		55,544	Other Comprehensive Income and Expenditure				(125,424)
		(37,308)	Total Comprehensive Income and Expenditure				(80,004)

Movement in Reserves Statement

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

2021/22	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 2021	(224,139)	(20,405)	(66,096)	(133,654)	(444,294)	(158,140)	(602,434)
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	46,786	(1,366)	0	0	45,420	(125,424)	(80,004)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(39,355)	2,328	6,270	0	(30,757)	30,757	0
Net (Increase)/Decrease before transfers	7,431	962	6,270	0	14,663	(94,667)	(80,004)
Net Transfers to/(from) Other Statutory Reserves	4,155	0	(5,443)	1,390	102	(102)	0
(Increase)/Decrease in year	11,586	962	827	1,390	14,765	(94,769)	(80,004)
Balance at 31 March 2022	(212,553)	(19,443)	(65,269)	(132,264)	(429,529)	(252,909)	(682,438)

2020/21	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2020	(137,124)	(18,237)	(63,269)	(110,104)	(328,734)	(236,390)	(565,124)
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	(90,610)	(2,242)	0	0	(92,852)	55,544	(37,308)
Adjustments between accounting basis & funding basis per regulations (Note 6)	(26,397)	74	3,550	0	(22,773)	22,773	0
Net (Increase)/Decrease before transfers	(117,007)	(2,168)	3,550	0	(115,625)	78,317	(37,308)
Net Transfers to/(from) Other Statutory Reserves	29,992	0	(6,377)	(23,550)	65	(65)	0
(Increase)/Decrease in year	(87,015)	(2,168)	(2,827)	(23,550)	(115,559)	78,252	(37,308)
Balance at 31 March 2021	(224,139)	(20,405)	(66,096)	(133,654)	(444,294)	(158,140)	(602,434)

Balance Sheet as at 31 March 2022

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

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

As at 31 March 2021 £000		Notes	As at 31 March 2022 £000
461,854	Property, Plant and Equipment	12	461,085
1,724	Investment Property	13	1,678
4,587	Heritage Assets	14	4,412
33,732	Intangible Assets	15	43,623
437,580	Long-term Investments	17	411,438
1,293	Long-term Debtors	21	965
940,770	Long-Term Assets		923,201
329	Assets held for Sale	20	82
5,113	Inventories	24	5,248
22,154	Short-term Debtors	22	19,771
8,973	Cash and Cash equivalents	19	20,436
36,569	Current Assets		45,537
(21,494)	Short-term Creditors	23	(34,174)
(15,413)	Intercompany Loan	23	0
(2,912)	Short-term Provisions	25	(214)
(39,819)	Current Liabilities		(34,388)
(49,100)	Long-term Borrowing	17	(49,072)
(243,841)	Pension Liability	27	(161,939)
(502)	Long-term Provisions	25	(649)
(40,551)	PFI and Similar Contracts	16	(39,219)
(1,092)	Other Long-term Liabilities	17	(1,033)
(335,086)	Long-Term Liabilities		(251,912)
602,434	Net Assets		682,438
444,294	Usable Reserves	6	429,529
158,140	Unusable Reserves	11	252,909
602,434	Total Reserves		682,438

The unaudited financial statements were issued on 30 June 2022.



Jamie Manson CPFA
Executive Manager - Finance
30 June 2022

Cash Flow Statement for year ended 31 March 2022

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

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

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

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

2020/21 £000		2021/22 £000
	Operating activities	
(92,852)	Net deficit (surplus) on the provision of services	45,420
(33,815)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	(57,469)
9,011	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,492
(117,656)	Net cash flows from Operating Activities	(5,557)
112,685	Investing activities	(7,331)
1,428	Financing activities	1,425
(3,543)	Net increase in cash and cash equivalents	(11,463)
5,430	Opening Cash and Cash Equivalents	8,973
3,543	Net movement of Cash and Cash Equivalents during the year	11,463
8,973	Closing Cash & Cash Equivalents	20,436

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

2020/21 £000		2021/22 £000
(1,086)	Interest received	(3,212)
5,760	Interest paid	5,983
(2,912)	Dividends received	(5,931)
1,762	Total	(3,160)

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

2020/21 £000		2021/22 £000
(22,869)	Depreciation, impairment and revaluations	(19,226)
(1,648)	Amortisation	(1,816)
(439)	Increase in impairment for bad debts	(283)
(2,278)	Increase in creditors	(12,594)
5,694	Increase in debtors	(2,359)
(3)	Decrease in inventories	135
(12,071)	Movement in pension liability	(26,567)
(2,943)	Carrying amount of non-current assets sold or de-recognised	(4,970)
2,742	Other non-cash items charged to the net surplus or deficit on the provision of services	10,211
(33,815)	Total	(57,469)

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

2020/21 £000		2021/22 £000
370	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	760
8,641	Any other items for which the cash effects are investing or financing cash flows	5,732
9,011	Total	6,492

Investing Activities

2020/21 £000		2021/22 £000
23,568	Purchase of property, plant and equipment, investment property and intangible assets	17,714
98,280	Purchase of short-term and long-term investments	(18,189)
(370)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(760)
(152)	Proceeds from short-term and long-term investments	(363)
(8,641)	Other receipts from investing activities	(5,732)
112,685	Total	(7,330)

Financing Activities

2020/21 £000		2021/22 £000
1,394	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,394
34	Repayments of short and long-term borrowing	31
1,428	Total	1,425

Housing Revenue Account

Introduction and Statutory Background

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

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

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

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

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

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

The HRA Income and Expenditure Statement

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

Housing Revenue Account Income and Expenditure Statement

2020/21 £000		2021/22 £000
	Expenditure	
2,767	Repairs and maintenance	3,371
849	Supervision and management	894
1,837	Depreciation and impairment of non-current assets	1,862
74	Movement in the allowance for bad debts	159
284	Other expenditure	295
5,811	Total expenditure	6,581
	Income	
(7,010)	Dwelling rents	(7,078)
(229)	Non-Dwelling rents	(230)
(11)	Other Income	(14)
(7,250)	Total income	(7,322)
(1,439)	Net income of HRA services as included in the CIES	(741)
(1,439)	Net Income of HRA Services	(741)
	HRA share of operating income and expenditure included in the CIES	
666	(Gain) or Loss on sale of HRA non-current assets	586
480	Interest payable and similar charges	497
(2,015)	Interest and investment income	(1,789)
66	Pension interest cost and expected return on pension assets	81
(803)	Net HRA share of operating expenditure	(625)
(2,242)	(Surplus) / Deficit for the year on HRA services	(1,366)

Movement on the Housing Revenue Account Statement

2020/21 £000		2021/22 £000
(18,237)	Opening balance on the HRA	(20,405)
(2,242)	(Surplus) / Deficit on the HRA Income and Expenditure Statement	(1,366)
74	Adjustment between accounting basis and funding basis under statute	2,328
(2,168)	Increase in year on the HRA	962
0	Transfers to reserves	0
(20,405)	Closing balance on the HRA	(19,443)

The adjustments between accounting basis and funding basis for the HRA are shown in disclosure Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations and transfers to or from reserves are shown in Note 6: 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:

2020/21 Number	Housing Stock	2021/22 Number
75	1 Apartment	75
412	2 Apartment	412
523	3 Apartment	524
611	4 Apartment	611
33	5 Apartment	33
1	6 Apartment	1
2	8 Apartment	2
1,657	Total	1,658

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. There are 13 less properties in arrears as at 31 March 2022. The total value of rent arrears has decreased by £23k in 2021/22, to £381k. This compares to a total value of arrears of £404k in 2020/21.

2020/21 £000		2021/22 £000
404	Total value of rent arrears	381

2020/21		2021/22
546	Number of properties in arrears	533
33.0%	Properties in arrears as share of total stock	32.1%
£740	Average amount per property in arrears	£714

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The value of housing debt written off in 2021/22 was £55k (£44k 2020/21). The housing bad and doubtful debt provision included within the Council's accounts at 31 March 2022 is £161k (£77k 2020/21).

Void Rents

The following table summarises the income lost due to voids in 2021/22. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2020/21 £000		2021/22 £000
129	General needs void rents and charges	133
41	Sheltered housing void rents and charges	32
170	Total	165

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

2020/21 £000		2021/22 £000
(12,547)	Gross Council Tax levied and contributions in lieu	(12,662)
764	Council Tax Reduction Scheme	716
1,578	Other discounts and reductions	1,578
62	Write-offs of uncollectable debts	64
37	Adjustment to previous years' Community Charge and Council Tax	18
(10,106)	Transfer to General Fund	(10,286)

Council Tax Base

The table below shows the Council Tax base used to set the 2021/22 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.

2021/22	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2021/22 Band D equivalents	2020/21 Band D equivalents
Band A*			7	(1)	(2)	5	0.56	3	3
Band A	2,955	(138)	7	(479)	(290)	2,045	0.67	1,557	1,375
Band B	1,844	(71)	9	(251)	(181)	1,350	0.78	1,191	1,057
Band C	2,831	(87)	13	(343)	(242)	2,172	0.89	2,146	1,941
Band D	1,869	(38)	7	(153)	(66)	1,619	1.00	1,685	1,621
Band E	1,461	(17)	1	(84)	(16)	1,345	1.31	1,788	1,757
Band F	300	(3)	1	(11)	(2)	286	1.63	468	461
Band G	67	(4)	0	(3)	0	60	1.96	118	115
Band H	2	(1)	0	(1)	0	1	2.45	2	1
Sub-total								8,958	8,331
Less Bad Debt provision								(58)	(58)
Council Tax Base								8,900	8,273

* 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

2020/21 £000		2021/22 £000
31,019	Gross rates levied and contributions in lieu	28,828
(7,066)	Reliefs and other deductions	(6,185)
(58)	Write-offs of uncollectable debts	(15)
23,895	Net non-domestic rate income	22,628
(1,330)	Adjustment to previous years' national non-domestic rates	(6,105)
22,565	Contribution to non-domestic rate pool	16,523
(17,182)	Distribution from non-domestic rate pool	(26,690)
(17,182)	Transfer to Comprehensive Income & Expenditure Statement	(26,690)

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 2021/22 is 49p (49.8p in 2020/21).

From 1 April 2020, the Scottish Government introduced an additional Intermediate Property Rate of 1.3p for all subjects with a rateable value between £51,000 and £95,000, and an additional Higher Property Rate of 2.6p for all subjects with a rateable value above £95,000. Rates reliefs for 2021/22 was included in the Local Government Finance Circular No. 1/2021.

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 2021	Number of Subjects	Rateable Value £000
Commercial	578	7,987
Industrial	494	36,755
Other	1,312	14,906
Total	2,384	59,648

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

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

2021/22	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	3,607	366	(1,596)	2,377
Children's Services	50,332	8,770	(2,080)	57,022
Community Care Services	23,403	7,195	17	30,615
Corporate Services	8,536	3,353	187	12,076
Development Services	11,591	3,368	(16)	14,943
Infrastructure Services	20,425	10,566	(70)	30,921
Housing Revenue Account	2,156	(2,179)	(718)	(741)
Harbour Account	(12,969)	5,030	(3,850)	(11,789)
Net Cost of Services	107,081	36,469	(8,126)	135,424
Other income and expenditure	(98,572)	558	8,010	(90,004)
(Surplus) or Deficit	8,509	37,027	(116)	45,420
Opening General Fund and HRA balance*		244,544		
Add (Surplus) / Deficit in the year		8,509		
Add other items not charged to the (Surplus) / Deficit		(21,057)		
Closing General Fund and HRA balance		231,996		

2020/21	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,804	240	0	2,044
Children's Services	47,507	6,621	(2,289)	51,839
Community Care Services	21,858	3,606	(7)	25,457
Corporate Services	9,245	2,387	(1,118)	10,514
Development Services	11,303	2,645	(43)	13,905
Infrastructure Services	23,952	10,189	(76)	34,065
Housing Revenue Account	(155)	(73)	(1,211)	(1,439)
Harbour Account	(14,664)	4,264	(1,470)	(11,870)
Net Cost of Services	100,850	29,879	(6,214)	124,515
Other income and expenditure	(100,843)	(3,556)	(112,968)	(217,367)
(Surplus) or Deficit	7	26,323	(119,182)	(92,852)
Opening General Fund and HRA balance*		155,361		
Add (Surplus) / Deficit in the year		7		
Add other items not charged to the (Surplus) / Deficit		89,176		
Closing General Fund and HRA balance		244,544		

*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:

2021/22	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	118	248	0	366
Children's Services	3,716	5,437	(383)	8,770
Community Care Services	716	6,363	116	7,195
Corporate Services	1,390	1,904	59	3,353
Development Services	2,071	1,409	(112)	3,368
Infrastructure Services	6,530	4,014	22	10,566
Housing Revenue Account	(2,647)	450	18	(2,179)
Harbour Account	3,272	1,736	22	5,030
Net Cost of Services	15,166	21,561	(258)	36,469
Other income and expenditure	(4,448)	5,006	0	558
Total adjustments between accounting basis and funding basis	10,718	26,567	(258)	37,027

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

Capital Adjustments

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

Pensions Adjustments

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

Other Adjustments

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

Presentational Adjustments

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

Note 2: Accounting Standards Issued and Adopted in Year

Adoption of new and revised Standards

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

In the current year, the Council has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual reporting period that begins on 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Amendments to IFRS 3 (Definition of a Business);
- Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Interest Rate Benchmark Reform – Phase 2).

b) Standards, amendments and interpretations early adopted this year

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

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year

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

- IFRS 16 (leases) – HM Treasury have agreed to defer implementation until 1 April 2024;
- Annual improvements to IFRS Standards 2018-2020 – applicable for period beginning on or after 1 April 2022:
 - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS;

- IAS 37 (Onerous contracts) – clarifies the intention of the standard;
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material;
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

- Amendments to IAS 16 (Property, Plant and Equipment) – applicable for periods beginning on or after 1 April 2022.

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

IFRS 16 Leases supersedes IAS 17 and is being applied by the Code from 1 April 2024. Local Authorities can adopt the standard early from 1 April 2022 or 1 April 2023 should they wish to.

IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosure to improve transparency of reporting on capital employed.

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

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

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

Note 4: Judgements and Major Sources of Estimation Uncertainty

The 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 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties - Judgements	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets (see Note 28: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £15.0m; 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 £43.0m by an independent broker at 31 March 2022. In line with the Code and IFRS 13, the valuer determined the market valuation of the Council's holding with reference to the number of Fixed Quota Allocation (FQA) units held, offers made in the year in the active market, then adjusted for Council specific considerations. It is highly probable that Brexit will have a long-term impact on the quantity of FQAs in the market affecting future valuations.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.

Item	Uncertainties - Estimates	Effect if actual results differ from assumptions
Financial Instruments	At 31 March 2022, the Council had external investments with Fund Managers amounting to £415m. The value of the Council's investments can increase or decrease, from movements in the price of these investments. The Council is exposed to risk in terms of a loss arising if investments were sold at a point in time when the decrease in value of the investment showed the sale price to be lower than the original purchase price.	It is estimated that a general shift of 5% in the general price of shares (positive or negative) would result in a £14.7m gain or loss in value being recognised in the CIES. The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would result in an estimated gain or loss of £2.2m.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund

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

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

Housing Revenue Account

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

Capital Usable Reserves

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

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

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

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

2021/22	Usable Reserves				Unusable Reserves £000
	General Fund	Housing Revenue Account	Capital Usable Reserves	Total Usable Reserves	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(17,097)	(1,775)	0	(18,872)	18,872
Charges for impairment of non-current assets	(247)	(61)	0	(308)	308
Movement in the fair value of Investment Properties	(46)	0	0	(46)	46
Amortisation of intangible assets	(1,790)	(26)	0	(1,816)	1,816
Capital grants and contributions applied	5,732	0	0	5,732	(5,732)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(4,363)	(607)	0	(4,970)	4,970
Capital repayment in respect of finance leases	57	0	0	57	(57)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,889	808	0	3,697	(3,697)
Capital expenditure charged against the General Fund and HRA balances	1,285	3,763	0	5,048	(5,048)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	834	834	(834)
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	3,799	3,799	(3,799)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	739	21	0	760	(760)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,637	1,637	(1,637)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(42,034)	0	0	(42,034)	42,034
Employer’s pensions contributions and direct payments to pensioners payable in the year	15,244	223	0	15,467	(15,467)
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	276	(18)	0	258	(258)
Total Adjustments	(39,355)	2,328	6,270	(30,757)	30,757

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

Note 6: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2021/22.

	Balance at 31 March 2021 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2022 £000
General Fund Balance (unearmarked)	(19,291)	84,097	(89,323)	(24,517)
Unrealised Investment Gains (earmarked)	(154,363)	21,978	0	(132,385)
Equalisation Fund (unearmarked)	(23,439)	0	(2,055)	(25,494)
Revenue Spend to Save Fund	(1,931)	395	(169)	(1,705)
Council Tax Second Homes Receipts	(1,963)	78	(390)	(2,275)
Welfare Reform Fund	(303)	0	(27)	(330)
Hansel Funds	(217)	18	0	(199)
School Funds	(338)	4	0	(334)
Central Energy Efficiency Fund	(68)	24	(53)	(97)
Coastal Community Fund	(3,367)	0	(954)	(4,321)
Early Learning and Childcare (ELC)	(882)	0	(486)	(1,368)
Pupil Equity Funding (PEF)	(121)	0	(141)	(262)
Other Earmarked Reserves	0	0	(1,001)	(1,001)
Local Investment Fund	(17,856)	0	(409)	(18,265)
Total General Fund	(224,139)	106,594	(95,008)	(212,553)
Capital Fund	(66,096)	6,272	(5,445)	(65,269)
Repairs & Renewals Fund	(41,386)	8,437	(3,628)	(36,577)
Housing Revenue Account	(20,405)	4,117	(3,155)	(19,443)
Harbour Reserve Fund	(88,795)	26,234	(29,098)	(91,659)
Insurance Fund	(3,473)	0	(555)	(4,028)
Total Statutory Reserves	(220,155)	45,060	(41,881)	(216,976)
Total Usable Reserves	(444,294)	151,654	(136,889)	(429,529)

General Fund Reserves

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

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2022 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 2022. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the Council does not consider it prudent to use to fund services.

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

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

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

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

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

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

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

Coastal Community Fund: to fund projects intended to improve the economic development of coastal communities.

Early Learning and Childcare: to fund the expansion of Early Learning and Childcare facilities.

Pupil Equity Funding: to help fund initiatives to raise attainment in schools.

Other Earmarked Reserves: earmarked balances from grant income received in advance.

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

Other Statutory Reserves

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

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

The **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.

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.

Note 7: Other Operating Income and Expenditure

2020/21 £000		2021/22 £000
2,573	Losses on the disposal of non-current assets	4,211
2,573	Total	4,211

Note 8: Financing and Investment Income and Expenditure

2020/21 £000		2021/22 £000
5,612	Interest payable and similar charges	5,839
(262)	Income and expenditure in relation to Investment properties	(263)
411	Changes in fair value of Investment Properties	46
4,043	Pensions interest cost and expected return on pensions assets	5,087
(1,086)	Interest receivable and similar income	(3,212)
(2,908)	Other investment income	(5,931)
(23,859)	Realised gains in relation to available for sale financial assets	(15,158)
(92,460)	Unrealised (gains)/losses in relation to available for sale	21,978
(4)	Income from transferred SDT financial instruments	0
0	Losses arising from the derecognition of financial instruments	1,901
(110,513)	Total	10,287

Note 9: Revenue from Contracts with Service Recipients

The Council has recognised £50.0m in 2021/22 (£45.9m in 2020/21) 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, 59% (71% 2020/21) on average was within the standard 30 day payment terms. Performance obligations which are partially unsatisfied include ferry fare multi-journey tickets.

Timing of Payment	Average % 2020/21	Average % 2021/22
Paid at point of use	0.4%	1.4%
Paid in advance	13.6%	14.1%
Paid in arrears	86.0%	84.5%

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.

2021/22	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	(137)	(41)	(948)	(515)	(1,641)
Care home fees	0	0	0	0	(763)	(763)
Course Fees	(1)	(4)	0	0	(322)	(327)
Other Income	(156)	(187)	(74)	(21)	(3,250)	(3,688)
Sale of materials / equipment	(22)	0	0	0	(1,079)	(1,101)
Sale of Meals	0	0	0	0	(897)	(897)
Transport Income	(102)	(20)	(14)	(18)	(1,920)	(2,074)
Waste disposal	(189)	(257)	(28)	(204)	(1,190)	(1,868)
General Fund	(470)	(605)	(157)	(1,191)	(9,936)	(12,359)
Dues	0	0	0	0	(2,163)	(2,163)
Jetty and Spur Booms Income	0	0	0	0	(4,993)	(4,993)
Other Income	0	0	0	0	(558)	(558)
Tanker Income	0	0	0	0	(22,580)	(22,580)
Harbour Account	0	0	0	0	(30,294)	(30,294)
Rental Income	0	0	0	0	(7,310)	(7,310)
Other Income	0	0	0	0	(32)	(32)
Housing Revenue Account	0	0	0	0	(7,342)	(7,342)
Total	(470)	(605)	(157)	(1,191)	(47,572)	(49,995)

2020/21	Central Government	Other Local Authorities	NHS Bodies	Public Corporations and Trading Funds	Other Entities and Individuals	Total
	£000	£000	£000	£000	£000	£000
Agency Income	0	(27)	(22)	(713)	(848)	(1,610)
Care home fees	0	0	0	0	(645)	(645)
Course Fees	0	0	0	0	(418)	(418)
Other Income	(20)	(196)	(68)	(16)	(3,522)	(3,822)
Sale of materials / equipment	0	0	0	0	(737)	(737)
Sale of Meals	0	0	0	0	(467)	(467)
Transport Income	(167)	(10)	(8)	(13)	(1,074)	(1,272)
Waste disposal	(142)	(413)	(3)	(187)	(1,293)	(2,038)
General Fund	(329)	(646)	(101)	(929)	(9,004)	(11,009)
Dues	0	0	0	0	(1,430)	(1,430)
Jetty and Spur Booms Income	0	0	0	0	(1,923)	(1,923)
Other Income	0	0	0	0	(515)	(515)
Tanker Income	0	0	0	0	(23,768)	(23,768)
Harbour Account	0	0	0	0	(27,636)	(27,636)
Rental Income	0	0	0	0	(7,239)	(7,239)
Other Income	0	0	0	0	(11)	(11)
Housing Revenue Account	0	0	0	0	(7,250)	(7,250)
Total	(329)	(646)	(101)	(929)	(43,890)	(45,895)

Note 10: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2021/22:

2020/21 £000		2021/22 £000
	Credited to Taxation and Non-Specific Grant Income	
(73,776)	Revenue Support Grant	(61,795)
(17,182)	Non-domestic Rates	(26,690)
(10,106)	Council Tax	(10,286)
(8,363)	Capital Grants and Contributions	(5,732)
(109,427)	Total	(104,503)
	Credited to Services	
(5,223)	Support for Ferries	(10,784)
(2,858)	Expansion of early learning and childcare	(3,363)
(3,304)	Scottish Government PFI Support	(3,220)
(3,227)	Housing Benefit funding	(3,085)
(1,443)	COVID-19 Grants	(2,341)
(187)	Grants for Economic Development	(2,285)
(1,986)	Rural Care Model	(1,986)
(1,562)	Resource Transfer	(1,590)
(1,360)	Crown Estate	(1,572)
(667)	Energy grants	(1,006)
(2,674)	FE and HE funding	(931)
(524)	Employability funding	(381)
(329)	Criminal Justice grant	(351)
(564)	EU grants	(345)
(294)	NHS grants	(342)
(358)	Support for Lecturer's National Pay Bargaining	(132)
(229)	Educational attainment / Pupil equity funding	(270)
0	Promise Funding	(240)
(186)	Active Schools funding	(192)
(215)	Other grants and contributions	(165)
0	Tourism Marketing and Development	(134)
0	Levelling Up Funding	(125)
0	Place Based Investment Programme	(124)
(118)	Education Maintenance Allowance funding	(101)
(52)	Electric Vehicle funding	(101)
(54)	Department of Work and Pensions funding	(96)
(310)	Skills Development Scotland	(75)
(73)	Empowering Communities	(74)
(76)	Youth Music funding	(53)
0	Technology Enabled Care Programme	(50)
(29)	Sports Development and Facilities funding	(48)
0	Bikeability	(29)
0	Grants from Other Local Authorities	(25)
(27)	SCSP Local Authority Fund	(19)
0	Shetland Energy Hub	(19)
(61)	Town Centre Improvements	0
(27,990)	Total	(35,654)

Note 11: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2020/21 £000		2021/22 £000
(133,054)	Revaluation Reserve	(145,774)
243,842	Pensions Reserve	161,939
(272,682)	Capital Adjustment Account	(272,570)
3,754	Employee Statutory Adjustment Account	3,496
(158,140)	Total Unusable Reserves	(252,909)

Revaluation Reserve

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

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

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

2020/21 £000		2021/22 £000
(133,045)	Opening balance	(133,054)
(4,480)	(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(16,754)
	Amounts written off to the Capital Adjustment Account:	
4,192	Difference between fair value depreciation and historical cost depreciation	4,069
114	Assets sold or scrapped	165
165	Decommissioning Obligation provision	(200)
(133,054)	Closing balance	(145,774)

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.

2020/21 £000		2021/22 £000
171,912	Opening balance	243,842
59,859	Actuarial (gains) and losses on pensions assets and liabilities	(108,470)
26,941	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	42,034
(14,870)	Employer's pensions contributions and direct payments to pensioners payable in the year	(15,467)
243,842	Closing balance	161,939

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.

2020/21 £000		2021/22 £000
(277,780)	Opening balance	(272,682)
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
19,982	Charges for depreciation of non-current assets	18,872
2,476	Charges for revaluation gains/losses of non-current assets	308
411	Movement in the fair value of Investment Properties	46
1,648	Amortisation of intangible assets	1,816
(56)	Repayment of capital on finance leases	(57)
(1,288)	Repayment of capital on PFI contract	(1,260)
2,943	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,970
(4,307)	Adjustment amounts written out of the Revaluation Reserve	(4,234)
	Capital financing applied in the year:	
(2,425)	Use of the Capital Receipts Reserve to finance new capital expenditure	(2,397)
(8,156)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(5,732)
0	Application of grants to capital financing from the Capital Grants Unapplied Account	(834)
(2,412)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,437)
(1,950)	Capital expenditure charged against the General Fund and HRA balances	(5,048)
(1,768)	Capital Fund / Other Reserves	(3,901)
(272,682)	Closing balance	(272,570)

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.

2020/21 £000		2021/22 £000
2,523	Opening balance	3,754
(2,523)	Settlement or cancellation of accrual made at the end of the preceding year	(3,754)
3,754	Amounts accrued at the end of the current year	3,496
3,754	Closing balance	3,496

Note 12: Property, Plant and Equipment

Movements in 2021/22	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra- structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2021	70,319	244,757	63,920	173,502	7,470	2,202	10,730	572,900	46,023
Additions	3,739	2,201	3,734	2,348	0	0	5,842	17,864	0
Revaluation increases recognised in the Revaluation Reserve	5	2,203	0	0	0	(37)	0	2,171	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(61)	(166)	0	0	0	1	0	(226)	0
Derecognition – disposals	(2)	(69)	(1,585)	0	(11)	(2)	(1)	(1,670)	0
Derecognition – other	(524)	(2,846)	(427)	(397)	0	0	0	(4,194)	0
Assets reclassified (to) / from Assets Held for Sale	0	0	0	0	0	0	0	0	0
Other movements in cost or valuation	76	5,961	1,186	5,467	0	507	(13,197)	0	0
Closing Balance at 31 March 2022	73,552	252,041	66,828	180,920	7,459	2,671	3,374	586,845	46,023
Depreciation and Impairment									
Opening Balance at 1 April 2021	(2,666)	(15,110)	(27,057)	(66,171)	0	(40)	0	(111,044)	(4,484)
Depreciation charge	(1,682)	(8,035)	(4,611)	(4,478)	0	(51)	0	(18,857)	(1,285)
Depreciation written out to the Revaluation Reserve	0	2,867	0	0	0	0	0	2,867	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	41	0	0	0	0	0	41	0
Derecognition – disposals	0	12	1,220	0	0	1	0	1,233	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	(4)	1	(30)	30	0	3	0	0	0
Closing Balance at 31 March 2022	(4,352)	(20,224)	(30,478)	(70,619)	0	(87)	0	(125,760)	(5,769)
Net Book Value as at 31 March 2022	69,200	231,817	36,350	110,301	7,459	2,584	3,374	461,085	40,254
Net Book Value as at 31 March 2021	67,653	229,646	36,863	107,331	7,470	2,161	10,730	461,854	41,539

Movements in 2020/21	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra- structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2020	69,138	242,724	70,557	172,493	7,475	6,282	3,325	571,994	46,023
Additions	1,952	1,445	3,074	635	0	5	8,340	15,451	0
Revaluation increases recognised in the Revaluation Reserve	36	1,084	(1,912)	0	0	(1,271)	0	(2,063)	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(69)	(140)	(5,154)	0	0	(1,075)	0	(6,438)	0
Derecognition – disposals	0	(482)	(3,128)	0	(5)	(21)	0	(3,636)	0
Derecognition – other	(666)	(340)	(182)	(561)	0	0	(360)	(2,109)	0
Assets reclassified (to) / from Assets Held for Sale	(72)	0	0	0	0	(227)	0	(299)	0
Other movements in cost or valuation	0	466	665	935	0	(1,491)	(575)	0	0
Closing Balance at 31 March 2021	70,319	244,757	63,920	173,502	7,470	2,202	10,730	572,900	46,023
Depreciation and Impairment									
Opening Balance at 1 April 2020	(1,028)	(7,991)	(29,821)	(61,730)	0	(20)	0	(100,590)	(3,199)
Depreciation charge	(1,640)	(8,126)	(5,624)	(4,441)	0	(136)	0	(19,967)	(1,285)
Depreciation written out to the Revaluation Reserve	2	469	1,537	0	0	512	0	2,520	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	84	3,875	0	0	3	0	3,962	0
Derecognition – disposals	0	60	2,968	0	0	3	0	3,031	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	394	8	0	0	(402)	0	0	0
Closing Balance at 31 March 2021	(2,666)	(15,110)	(27,057)	(66,171)	0	(40)	0	(111,044)	(4,484)
Net Book Value as at 31 March 2021	67,653	229,646	36,863	107,331	7,470	2,161	10,730	461,854	41,539
Net Book Value as at 31 March 2020	68,110	234,733	40,736	110,763	7,475	6,262	3,325	471,404	42,824

Capital Commitments

At 31 March 2022 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 £4.6m. Similar commitments at 31 March 2021 were £7.6m. Major projects are detailed in the table below.

Major commitments at 31 March 2022	£m
Terminal Life Extension	1.796
Housing Quality Standard	1.069
ERP Furnace Upgrade	0.656

Revaluations

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

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

The significant assumptions applied in estimating the fair values are:

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

- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the property is not subject to any unusual or especially onerous restrictions, encumbrances, or outgoing and that good title can be demonstrated;
- that the property and its 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 inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- that there are no outstanding Statutory Notices affecting any of the properties;
- that no account has been made of any debt liability held against the property valued;
- that no structural surveys of the properties have been made nor have the service installations been tested;
- that the value of plant and machinery has not been included in the valuation except to the extent that it forms part of the building services installations; and
- the valuations are exclusive of VAT and any other tax, which may arise on disposal.

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

Category of Asset	Useful Life	Average Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2019
Other Land and Buildings (including PFI Assets)	1-105 years	27 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	31 March 2018-22 across 5 Year Rolling Programme
Vehicles, Furniture, Plant & Equipment	1-40 years	7 years	Operational Manager	Existing Use Value	31 March 2021
Infrastructure Assets	5-60 years	28 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	1-40 years	21 years	Asset Services Manager	Fair Value (estimated at highest and best use)	31 March 2018-22 across 5 Year Rolling Programme
Assets Under Construction	n/a	n/a	n/a	Historical Cost	n/a

Note 13: Investment Properties

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

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

2020/21 £000		2021/22 £000
(348)	Rental income from investment property	(349)
86	Direct operating expenses arising from investment property	86
(262)	Net gain/(loss)	(263)

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

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

2020/21 £000		2021/22 £000
2,135	Opening balance at 1 April	1,724
0	Additions	0
(411)	Net gains/(losses) from fair value adjustments	(46)
1,724	Closing balance at 31 March	1,678

Fair Value Hierarchy

Detail of the Council's investment properties and information about the fair value hierarchy as at 31 March 2022 are as follows:

Recurring fair value measurements using:	Other Significant observable inputs (Level 3)	
	2020/21 £000	2021/22 £000
Commercial Units	1,724	1,678
Total	1,724	1,678

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

The fair value of the Council's investment property is measured annually at 31st March based on rental incomes. The rental incomes relate to commercial properties which are bound into lease agreements and index linked, not driven by market forces at review. The industry sector using this property is stable providing logistics and downstream services to the oil, gas, exploration, fishing and aquaculture sectors. Therefore the Council's investment property are categorised as Level 3 in the fair value hierarchy as the level of unobservable inputs are significant.

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

Note 14: Heritage Assets

Net Value 2021/22	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2021	1,529	3,058	4,587
Revaluation Increases / (Decreases)	(245)	0	(245)
Depreciation	70	0	70
Closing Balance at 31 March 2022	1,354	3,058	4,412

Net Value 2020/21	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2020	1,543	3,282	4,825
Revaluation Increases / (Decreases)	0	(224)	(224)
Depreciation	(14)	0	(14)
Closing Balance at 31 March 2021	1,529	3,058	4,587

Historic Buildings

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

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

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

Museum Collection

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

Note 15: Intangible Assets

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

A fishing quota is the right to fish species over a defined period, usually one year. Quotas 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 2022 is £43.0m (£32.9m in 2020/21). 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 £13.3m (£14.0m in 2020/21).

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. In 2021/22 the Shetland Islands Council sold the Fishing Licences to the LHD for the value of £0.1m (£0.0m in 2020/21).

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

The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £1.8m was charged directly to the Net Cost of Services in the CIES for 2021/22 (£1.6m in 2020/21).

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

As at 31 March 2021 £000		As at 31 March 2022 £000
32,914	Cost or Valuation	
	Opening Balance	35,617
244	Additions	49
2,683	Revaluation increases recognised in the Revaluation Reserve	10,110
(224)	Derecognition - disposals	(96)
35,617	Closing Balance	45,680
	Depreciation and Impairment	
(2,027)	Opening Balance	(1,885)
(1,648)	Amortisation charge	(1,816)
1,566	Amortisation written out to the Revaluation Reserve	1,644
224	Derecognition - disposals	0
(1,885)	Closing Balance	(2,057)
33,732	Net Book Value	43,623

Note 16: Private Finance Initiatives and Similar Contracts

Anderson High School contract

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

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

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

Property, Plant and Equipment

The assets used to provide services at the school are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in Note 12: 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 2022 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Contingent Rent	Total £000
Payable in 2022/23	385	1,332	2,040	78	3,835
Payable within 2 to 5 years	2,043	5,756	7,433	311	15,543
Payable within 6 to 10 years	3,202	8,699	7,525	498	19,924
Payable within 11 to 15 years	5,273	10,230	5,042	-1	20,544
Payable within 16 to 20 years	5,815	13,141	2,168	121	21,245
Payable within 21 to 25 years	398	1,393	20	86	1,897
Total	17,116	40,551	24,228	1,093	82,988

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:

	2020/21 £000	2021/22 £000
Opening balance	43,098	41,810
Capital payments incurred in the year	(1,288)	(1,259)
Closing balance	41,810	40,551

Note 17: Financial Instruments

Categories of Financial Instruments

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

Financial Assets	Investments				Debtors				As at 31 March 2022
	As at 31 March 2021		As at 31 March 2022		As at 31 March 2021		As at 31 March 2022		
	Long-Term	Current	Long-Term	Current	Long-Term	Current	Long-Term	Current	
	£000	£000	£000	£000	£000	£000	£000	£000	
Fair value through profit or loss	437,581	0	411,438	0	0	0	0	0	411,438
Amortised cost	0	0	0	0	1,293	159	965	139	1,104
Total Financial Assets	437,581	0	411,438	0	1,293	159	965	139	412,542

	Borrowings / Other Long Term Liabilities				Creditors				As at 31 March 2022
	As at 31 March 2021		As at 31 March 2022		As at 31 March 2021		As at 31 March 2022		
	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	Long- Term £000	Current £000	
Amortised cost	(89,651)	(1,291)	(88,291)	(1,360)	(1,092)	(57)	(1,033)	(59)	(90,743)
Total Financial	(89,651)	(1,291)	(88,291)	(1,360)	(1,092)	(57)	(1,033)	(59)	(90,743)

Income, expense, gains and losses

	2020/21	2021/22
	Surplus or Deficit on the Provision of Services £000	Surplus or Deficit on the Provision of Services £000
Net (gains)/losses on:		
Financial assets measured at fair value through profit or loss	(116,317)	8,721
Total net gains/losses	(116,317)	8,721
Interest revenue:		
Financial assets measured at amortised cost	(3,954)	(9,106)
Total interest revenue	(3,954)	(9,106)
Interest expense	3,938	3,856
Impairment Loss	352	171
Total interest expense	4,290	4,027
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(44)	(37)
Total fee income	(44)	(37)
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	1,202	1,680
Financial assets measured at amortised cost	120	132
Total fee expense	1,322	1,812

There were losses on available-for-sale financial assets on revaluation of £8.7m as at 31 March 2022 (gains of £116.3m at 31 March 2021).

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 2021			As at 31 March 2022	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,452	1,452	Loans and receivables	1,104	1,104
(92,091)	(108,455)	Financial liabilities at amortised cost	(90,743)	(102,043)

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

Note 18: Nature and Extent of Risks arising from Financial Instruments

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the [Treasury Management and Annual Investment Strategy](#). The Council's credit risk management practices are set out on page 15 of this strategy.

Credit Risk Management Practices

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

As at 31 March 2022, £0.6m of this balance was loaned to local businesses, leaving £14.4m available for future lending.

As at 31 March 2021 £000	Shetland Investment Fund	As at 31 March 2022 £000
158	Less than 1 year	139
639	2-5 years	476
200	6-10 years	11
997	Total	626

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default.

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	2020/21 £000	2021/22 £000
Balance at 1 April	(300)	(658)
Other Changes	(358)	(171)
Balance at 31 March	(658)	(829)

Liquidity Risk

The Council has external investments with Fund Managers amounting to £415.2m (£423.0m 2020/21) at 31 March 2022. 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 2022 the Council had total borrowings of

£49.1m (£49.1m in 2020/21) comprising £49.0m of fixed rate borrowings from the Public Works Loan Board (£49.0m 2020/21) and £0.10m of external interest-free borrowing for energy efficiency improvement projects (£0.13m 2020/21).

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2021 £000	Borrowing	As at 31 March 2022 £000
14,130	Less than 10 years	22,100
23,000	10-20 years	15,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
49,130	Total	49,100

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 2022 the composition of these funds was diversified between the following asset classes:

- UK Equities;
- Overseas Equities;
- Diversified Growth Fund;
- Emerging Market Equities;
- Direct Lending; and
- Cash.

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

The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would have resulted in a gain or loss in the region of £2.2m for 2021/22 (£2.2m for 2020/21). This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 17: Financial Instruments.

At 31 March 2022, the Council held no variable rate borrowing (£0.0m in 2020/21). Borrowing is not valued at fair value, so nominal gains and losses on fixed rate borrowing 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 £415.2m (£423.0m 2020/21) of investments as at 31 March 2022 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external Fund Managers, asset classes, investment guidelines and benchmarks. The Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the CIES. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £14.7m gain or loss being recognised in the CIES for 2021/22.

Foreign Exchange Risk

The Council has £231.8m (£247.8m 2020/21) invested in overseas equities held within unitised products which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

Note 19: Cash and Cash Equivalents

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

As at 31 March 2021 £000		As at 31 March 2022 £000
33	Cash held by the Council	32
6,183	Bank current accounts	16,630
2,757	Cash equivalents	3,774
8,973	Total	20,436

Note 20: Assets Held for Sale

2020/21 £000		2021/22 £000
260	Opening balance	329
299	Assets newly classified as held for sale: Property, plant and equipment	0
(230)	Assets declassified as held for sale: Assets sold	(247)
329	Closing balance	82

Note 21: Long-term Debtors

As at 31 March 2021 £000		As at 31 March 2022 £000
396	Sub Debt Investment	393
839	Development loans	487
58	Other long-term debtors	85
1,293	Total	965

Note 22: Short-term Debtors

As at 31 March 2021 £000		As at 31 March 2022 £000
8,472	Central Government Bodies	4,171
303	Other Local Authorities	224
1,770	NHS Bodies	3,192
1,162	Public Corporations and Trading Funds	1,155
10,447	Other Entities and Individuals	11,029
22,154	Total	19,771

Movements in impairment allowance

The Council has made an allowance for bad and doubtful debts. Debtor figures in the Balance Sheet are shown net of this allowance. The movement of the expected credit loss on the Council's Trade Receivables is shown in Note 18: Nature and Extent of Risks arising from Financial Instruments.

Note 23: Short-term Creditors

As at 31 March 2021 £000		As at 31 March 2022 £000
(3,516)	Central Government Bodies	(10,518)
(2,519)	Other Local Authorities	(4,576)
(748)	NHS Bodies	(1,101)
(872)	Public Corporations and Trading Funds	(1,057)
(13,839)	Other Entities and Individuals	(16,922)
(21,494)	Total	(34,174)

As at 31 March 2021 £000		As at 31 March 2022 £000
(15,413)	Intercompany Loan	0
(15,413)	Total	0

Note 24: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000
Balance at 1 April	3,227	3,201	1,676	1,723	213	189	5,116	5,113
Purchases	598	600	2,152	3,041	158	126	2,908	3,767
Recognised as an expense in the year	(624)	(600)	(2,077)	(2,851)	(182)	(106)	(2,883)	(3,557)
Balances written off	0	(28)	(28)	(9)	0	(38)	(28)	(75)
Balance at 31 March	3,201	3,173	1,723	1,904	189	171	5,113	5,248

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

Note 25: Provisions

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

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

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 2022 and 2027.

The short-term element of this liability is estimated at £0.2m, which represents the expected payment due in 2022/23. Total estimated costs are adjusted in the year when events indicating a change become known.

The Council committed to meet the one-off pension scheme cessation costs attributed to the North Atlantic Fisheries College as part of the merger of tertiary education institutions in Shetland. During 2021/22 these institutions merged and the pension cessation liability transferred to Shetland UHI. The provision set-aside for this purpose £2.4m has been reversed.

Long-term Provisions	Decommissioning £000	Pension Cessation £000	Total £000
Balance at 1 April 2021	(502)	0	(502)
Additional provisions made in 2021/22	(223)	0	(223)
Unwinding of discounting in 2021/22	(76)	0	(76)
Transfer to Short-term Provisions	152	0	152
Balance at 31 March 2022	(649)	0	(649)

Short-term Provisions	Decommissioning £000	Pension Cessation £000	Carbon Reduction Commitment £000	Other Provisions £000	Total £000
Balance at 1 April 2021	(465)	(2,447)	0	0	(2,912)
Amounts used in 2021/22	404	0	0	0	404
Unused amounts reversed in 2021/22	0	2,447	0	0	2,447
Transfer from Long-term Provisions	(153)	0	0	0	(153)
Balance at 31 March 2022	(214)	0	0	0	(214)

Note 26: Leases

The Council as a Lessee

Finance Leases

The Council previously acquired a music, cinema and creative industries centre under a finance lease. The asset acquired under the lease is carried as property, plant and equipment in the Balance Sheet at the following net amounts:

As at 31 March 2021 £000		As at 31 March 2022 £000
740	Property, plant and equipment	693
740		693

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

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

As at 31 March 2021 £000		As at 31 March 2022 £000
(46)	Current	(46)
(698)	Non-current	(653)
(191)	Finance costs payable in future years	(166)
(935)		(865)

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

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2021 £000	As at 31 March 2022 £000	As at 31 March 2021 £000	As at 31 March 2022 £000
Not later than one year	(70)	(68)	(46)	(46)
Later than one year and not later than five years	(262)	(255)	(183)	(183)
Later than five years	(603)	(542)	(515)	(470)
	(935)	(865)	(744)	(699)

Operating Leases

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe Oil Terminal where the Council leases land from Shetland Charitable Trust for £0.7m per year and sub-leases it to Enquest for the same amount. This lease arrangement is due to run until 2025.

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

As at 31 March 2021 £000		As at 31 March 2022 £000
1,143	Not later than one year	990
3,390	Later than one year and not later than five years	2,214
3,883	Later than five years	3,828
8,416	Total	7,032

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

As at 31 March 2021 £000		As at 31 March 2022 £000
1,457	Minimum lease payments	1,013
(752)	Sub-lease payments receivable	(589)
705	Total	424

The Council as a lessor

Operating Leases

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

- for the provision of community services, such as culture and arts, sports facilities, tourism services and community centres; and

- for economic development purposes to provide suitable affordable accommodation for local businesses.

The average length of operating leases is 8 years.

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

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

As at 31 March 2021 £000		As at 31 March 2022 £000
(748)	Not later than one year	(582)
(2,519)	Later than one year and not later than five years	(1,395)
(177)	Later than five years	(335)
(3,444)	Total	(2,312)

The total value of rental income, excluding sub-leases, recognised in 2021/22 was £2.6m (£1.8m in 2020/21).

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

As at 31 March 2021 £000		As at 31 March 2022 £000
(1,629)	Not later than one year	(2,444)
(5,449)	Later than one year and not later than five years	(8,798)
(14,690)	Later than five years	(27,049)
(21,768)	Total	(38,291)

Note 27: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

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

Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Scheme is the responsibility of the Pension Fund Committee and Pension Board. The Pension Fund

Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administering authority for the Shetland Islands Council Pension Fund.

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

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

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

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

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

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

The McCloud Judgement

The LGPS benefit structure has been reviewed following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to members who were within 10 years of normal retirement age in 2012 when the scheme was reformed on 1 April 2015 were unlawful on the grounds of age discrimination. A consultation on this closed on 23 October 2020. As a result of the responses received following the consultation, Scottish Ministers decided to address retrospective changes to the "McCloud Judgement" separately in The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2022. Further guidance on the exact details on how to deal with these age inequalities are still awaited.

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

No further adjustments to the financial statements have been made in 2021/22.

The Goodwin Case

An employment tribunal case (Mrs. Goodwin v Department for Education) concluded on 30 June 2020

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

2020/21 £000		2021/22 £000
(763,018)	Present value of the defined benefit obligation	(745,378)
519,177	Fair value of assets in the Local Government Pension Scheme	583,439
(243,841)	Net liability arising from Defined Benefit Obligation	(161,939)
(213,247)	Local Government Pension Scheme	(134,178)
(14,711)	Unfunded liabilities for Pension Fund	(13,467)
(15,883)	Unfunded liabilities for Teachers	(14,294)
(243,841)	Total	(161,939)

that a female member in an opposite sex marriage is treated less favourably than a female in a same-sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. Where schemes contain provisions deemed discriminatory, those provisions must be dis-applied as being contrary to the non-discrimination rule set out in section 61 of the Equality Act 2010.

Regulations have now been made which change the rules for calculating pre-April 15 survivor pensions in response in this case. Principally, for deaths on or after 5 December 2005, the amendments place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

The Regulations were made on 29 April 2022 and come into force on 1 June 2022. As such, there is insufficient data at present to estimate reliably the impact this will have on scheme liabilities however the impact is thought to be minimal.

Transactions Relating to Post-Employment Benefits

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

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2020/21 £000	Local Government Pension Scheme	2021/22 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
22,805	Current service cost	36,947
93	Past service cost (including curtailments)	0
	Financing and Investment Income and Expenditure:	
4,043	Net interest expense	5,087
26,941	Total pension benefit charged to the Surplus/Deficit on the Provision of Services	42,034
	Other pension benefit charged to the CIES	
108,371	Return on plan assets (excluding the amount included in the net interest expense)	49,803
9,595	Actuarial (gains) and losses arising from changes in demographic assumptions	4,059
(155,734)	Actuarial (gains) and losses arising on changes in financial assumptions	54,842
(22,091)	Actuarial (gains) and losses arising from other experience	(234)
(32,918)	Total pension benefit charged to the CIES	150,504
	Movement in Reserves Statement	
(12,071)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(26,567)
14,870	Employer's contributions and direct payments to pensioners payable in the year	15,467

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2020/21 £000		2021/22 £000
414,024	Opening balance	519,177
9,545	Interest income	10,417
	Re-measurement gains and (losses):	
108,371	Return on assets excluding amounts included in net interest	49,803
(15,273)	Other Experience	0
14,870	Employer contributions	15,467
3,943	Contributions by scheme participants	4,126
(16,303)	Benefits paid	(15,551)
519,177	Closing balance	583,439

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

2020/21 £000		2021/22 £000
585,936	Opening balance	763,019
22,805	Current service cost	36,947
13,588	Interest cost	15,504
3,943	Contributions by scheme participants	4,126
	Remeasurement (gains) and losses:	
(9,595)	Actuarial (gains) and losses from changes in demographic assumptions	(4,059)
155,734	Actuarial (gains) and losses from changes in financial assumptions	(54,842)
6,818	Actuarial (gains) and losses from other experience	234
(16,303)	Benefits paid	(15,551)
93	Past service costs including curtailments	0
763,019	Closing balance	745,378

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2022 comprised:

2020/21 £000	Quoted Prices not in Active Markets	2021/22 £000
4,271	Cash and cash equivalents	3,399
	Property:	
59,689	UK property	58,108
381	Overseas property	90
60,070	Sub-total Property	58,198
	Investment Funds and Unit Trusts:	
328,695	Equities	391,418
41,590	Bonds	40,312
84,551	Other	90,112
454,836	Sub-total Investment Funds and Unit Trusts	521,842
519,177	Total Assets	583,439

Basis for Estimating Assets and Liabilities

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

Estimates for the Shetland Islands Council's Pension Fund are based on the latest full valuation of the Scheme as at 31 March 2020, extrapolated to 31 March 2022.

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

The principal assumptions used by the actuary have been:

2020/21		2021/22
	Long-term expected rate of return on assets in the Scheme:	
1.8%	Investment Funds and Unit Trusts	1.8%
	Mortality Assumptions:	
	<i>Longevity at 65 for current pensioners (in years):</i>	
20.8	Men	20.7
23.1	Women	22.9
	<i>Longevity at 65 for future pensioners (in years):</i>	
22.3	Men	22.1
25.3	Women	25.1
3.3%	Rate of inflation	3.7%
2.9%	Rate of increase in salaries	3.2%
2.9%	Rate of increase in pensions	3.2%
2.0%	Rate for discounting scheme liabilities	2.7%
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	2021/22	
	%	£000
0.1% decrease in real discount rate	2.0%	14,988
0.1% increase in the salary increase rate	0.1%	1,607
0.1% increase in the pension increase rate	2.0%	13,271

Impact on the Council's Cash flows

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

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

Each participating employer's contribution requirements have been determined following the

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

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

Further Information

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The [Pension Fund's Unaudited Annual Report and Accounts for 2021/22](#) was presented to the Pension Fund Committee and Pension Board on 22 June 2022.

Note 28: Pension Schemes Accounted for as Defined Contribution Schemes

IAS 19 – Employee Benefits para 148 – Multi-employer plans

(a) The Shetland Islands Council participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2016. This valuation informed an increase in

the employer contribution rate from 17.2% to 23.0% of pensionable pay from September 2019 and an anticipated yield of 9.0% employees' contributions.

- (b) The Shetland Islands Council has no liability for other employers' obligations to the multi-employer scheme.
- (c) 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.
- (d) (i) The scheme is an unfunded multi-employer defined benefit scheme.
 - (i) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Shetland Islands Council is unable to identify its share of the underlying assets and liabilities of the scheme.
 - (ii) The employer contribution rate for the period from 1 April 2021 is 23% of pensionable pay. The employee rate applied is variable and is anticipated to provide a yield of 9.4% of pensionable pay.
 - (iii) While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme/Sargeant (Firefighters' Scheme) cases) that held the transitional protections provided as part of the 2015 reforms was unlawfully discriminated on the grounds of age. Following consultation and an announcement in February 2021 on proposals to remedy the discrimination, the UK Government has also asked the Government Actuary to review whether, and to what extent, the cost control mechanism is meeting its original objectives. The 2020 actuarial valuations will take the report's findings into account. The interim report is complete (restricted) and is currently being finalised with a consultation. Alongside these announcements, the UK Government

confirmed that current employer contribution rates would stay in force until 1 April 2024.

- (iv) Shetland Islands Council's level of participation in the scheme is 0.6% based on the proportion of employer contributions paid in 2020-21.

In 2021/22, the Council paid £4.0m to the SPPA in respect of teachers' pension costs, representing 23% of pensionable pay for 2021/22 (£4.1m and 23% for 2020/21). There were no contributions remaining payable at the year-end.

The estimated contribution for 2022/23 is £3.9m.

In 2021/22 these amounted to £0.9m, representing 5.06% of teachers' pensionable pay (£0.9m and 5.0% for 2020/21).

Note 29: External Audit Costs

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

2020/21 £000		2021/22 £000
213	Fees payable with regard to external audit services carried out by the appointed auditor for the year	217
0	Non-audit services fee	0
213	Total	217

Note 30: Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2021/22 the Council collected £16.5m (£22.6m 2020/21) and received £26.7m (£17.2m 2020/21) contribution from the National Non-Domestic Rates pool.

The Council is required by legislation to provide a collection service for Scottish Water, involving the collection of £3.3m (£3.3m 2020/21) of Scottish Water charges. The legislation stipulates a minimum amount that Scottish Water must pay in commission for this service. The Council received £0.1m in 2021/22 for providing this service (£0.1m in 2020/21).

The Council disbursed COVID-19-related grants on behalf of the Scottish Government during 2021/22 to the value of £4.3m (£11.7m 2020/21). The Council received £0.1m from the Scottish Government to

cover the administration costs of distributing the grants in 2021/22 (£0.0m 2020/21).

The Council acted as an agent in connection with the Northern Alliance Regional Improvement Collaborative between eight local authorities. A total of £0.9m was disbursed in 2021/22 (£1.3m in 2020/21).

Note 31: Related Parties

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions sets out 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 because 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 10: Grant Income.

Elected 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 at www.shetland.gov.uk. The Register contains details of external bodies which are represented by Elected Members and/or for which they have declared an interest. The Council made payments totalling £1.8m in 2021/22 (£1.7m in 2020/21) to these bodies. At 31 March 2022 £22k was outstanding (no amounts were outstanding at 31 March 2020).

Officers

There were no related party transactions in 2021/22 (nil in 2020/21).

Local Government Pension Scheme

The Council is the administering authority for the Shetland Islands Council Pension Fund, for which the Council charged the Pension Fund £0.4m for this service.

During the year, the Council paid £15.5m of employer contributions for current and former employees to the Pension Fund (£14.9m in 2020/21).

Group Entities

On 23 October 2018 the Council acquired 100% interest in SLAP. The Council is the only shareholder in the company, representing 100% of the issued share capital. On 30 April 2019 the business, assets and liabilities of SLAP were transferred to the Council. During 2021/22, SLAP entered liquidation but the process had not been concluded by 31 March 2022 so the Council also retains an interest in the company as at 31 March 2022. The residual interest and net impact of the consolidation is deemed not to be material and is therefore not consolidated in group accounts.

The IJB is responsible for the strategic planning of the functions delegated to it by the Council and the

Shetland Health Board; it is a Joint Venture between the two bodies. The Council made payments totalling £25.1m (£23.2m in 2020/21) to the IJB.

ZetTrans is a Regional Transport Partnership set up to oversee transport services for Shetland. It is an associate of the Council, who provides deficit funding as the sole funding member of the partnership. The Council made payments totalling £3.7m (£3.7m in 2020/21) to ZetTrans.

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. The Council made payments totalling £0.5m (£0.3m in 2020/21) to the VJB.

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

Note 32: Capital Expenditure and Capital Financing

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

2020/21 £000		2021/22 £000
98,684	Opening Capital Financing Requirement	96,488
	Capital investment:	
15,615	Property, plant and equipment	17,664
244	Intangible assets	49
	Sources of finance:	
(2,425)	Capital receipts	(2,398)
(8,156)	Government grants and other contributions	(6,566)
(1,768)	Funding from reserves	(3,901)
	Sums set aside from revenue:	
(1,950)	Direct revenue contributions	(5,048)
(2,412)	Loans fund principal	(2,437)
(56)	Lease principal	(57)
(1,288)	PFI contract principal repayments	(1,259)
96,488	Closing Capital Financing Requirement	92,535
	Explanation of movements in year:	
(1,017)	Increase/(decrease) in underlying need to borrow	(2,437)
(56)	Assets acquired under finance leases	(57)
(1,288)	Assets acquired under PFI contracts	(1,259)
165	Assets acquired under Decommissioning Obligations	(200)
(2,196)	Increase in Capital Financing Requirement	(3,953)

Note 33: Contingent Liabilities

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

Note 34: Contingent Assets

There is one current legal claim which is likely to result in the recovery of sums awarded to the Council following court action. There is a high degree of certainty that recovery will be successful, with a value of £170,000 attributed to the claim.

For cases where the legal claim has not yet been served, no value has been disclosed in the accounts.

Note 35: Trust Funds administered by the Council

The Council administers, as sole trustee, five trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over many years. Funds are held in deposit accounts with local banks and in bond and equity investments. The bond and equity investments are

valued at market value. The funds do not represent assets of the Council and are not included in the Balance Sheet.

The Bare Trust was set up following the cessation of the Shetland Development Trust to hold a number of loans and equity investments, which were not considered cost effective to transfer to the Council. All assets and income arising from the Bare Trust are paid or delivered to the Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees. As at 31 March 2022, the remaining assets held by the Bare Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2021/22, the ZET received receipts of £0.02m (£0.02m 2020/21) and made payments of £0.02m (£0.01m 2020/21).

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

The accounts of ZET can be found on the Council's website at:
<https://www.shetland.gov.uk/about/finances/>.

The financial position of the trust funds administered by the Council is shown below:

As at 31 March 2021 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2022 £000
(572)	Bare Trust	0	0	(556)	(556)
(731)	Zetland Educational Trust	(7)	(674)	0	(681)
(3)	Others	(3)	0	0	(3)
(1,306)	Total	(10)	(674)	(556)	(1,240)

Note 36: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 30 June 2022. 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 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 37: Critical Judgements in Applying Accounting Policies

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

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

value through profit or loss. During 2021/22 the unrealised gain on provision of services recognised in the CIES was £45.4m;

- 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 £40.3m at 31 March 2022) which is recognised as Property, Plant and Equipment on the Council's Balance Sheet; and
- The Council has acted as an agent for the Scottish Government in relation to the disbursement of Scottish Government COVID-19 grant funding. Income and expenditure of £4.3m has been accounted for on an agency basis for that reason (£11.7m 2020/21).

Note 38: Group Interests

Introduction

The Code requires the Council to prepare group accounts where the Council has interests in subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality. The Council has assessed that it has no material group entities, therefore no Group Accounts have been prepared. This assessment is based on the following considerations.

Group Boundary

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

Subsidiaries

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

- Zetland Educational Trust (ZET); and
- Shetland Leasing and Property Developments Ltd (SLAP).

Zetland Educational Trust

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

2020/21 £000	Zetland Educational Trust	2021/22 £000
(23)	Gross Income	(24)
7	Gross Expenditure	19
(16)	Total Comprehensive Expenditure	(5)
42	Current Assets	7
689	Investments	674
731	Net Assets	681

Shetland Leasing and Property Development Ltd (SLAP)

In 2018/19 the Council acquired 100% interest in SLAP, a property investment and development company. Under accounting standards, the Council has the controlling interest in the company, and therefore falls under the criteria of a subsidiary. On 30 April 2019 SLAP ceased trading and the business, assets and liabilities were transferred to the Council. On 30 April 2019 the business, assets and liabilities of SLAP were transferred to the Council. During 2021/22, SLAP entered liquidation but the process had not been concluded by 31 March 2022. The residual interest and net impact of the consolidation

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

The following table summarises the financial position of SLAP in 2021/22.

2020/21 £000	SLAP	2021/22 £000
(1)	Gross Income	(1)
1	Gross Expenditure	1
0	Total Comprehensive Expenditure	0
16,349	Current Assets	16,349
(16,349)	Capital and Reserves	(16,349)
0	Net Assets	0

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The IJB meets the definition of a joint venture.

Integration Joint Board

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

The Council contributed 47.7% of the Board's operating costs in 2021/22 (46% in 2020/21). It has three out of six voting members on the board.

The Council's share of the net surplus of the IJB was £2.2m as at 31 March 2022 (£1.1m at 31 March 2021), 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:

2020/21 £000	Integration Joint Board	2021/22 £000
(28,271)	Gross Income	(32,761)
27,661	Gross Expenditure	31,702
(610)	Net (Surplus) / Deficit	(1,059)
1,099	Current Assets	2,158
0	Current Liabilities	0
1,099	Net Assets	2,158

Associates

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

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

Orkney & Shetland Valuation Joint Board (O&SVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2021/22, the Council held five Board places out of ten and contributed 49.2% of the Board's operating costs (49.2% in 2020/21).

The Council's share of the year-end net liability is £0.9m as at 31 March 2022 (£1.2m at 31 March 2021), 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:

2020/21 £000	Orkney and Shetland Valuation Joint Board	2021/22 £000
(551)	Gross Income	(584)
407	Gross Expenditure	500
(144)	Net (Surplus) / Deficit	(84)
41	Current Assets	35
(55)	Current Liabilities	(50)
(1,218)	Non-current Liabilities	(902)
1,218	Capital and Reserves	902
(14)	Net Assets	(15)

Zetland Transport Partnership

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

The Council contributed 96.5% of the Partnership's operating costs in 2021/22 (96.6% in 2020/21) and holds four out of six seats on the Partnership. The Council's share of the net liability is £0.05m at 31 March 2021

(£0.03m at 31 March 2021) and is therefore considered immaterial for consolidation in group accounts.

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

2020/21 £000	Zetland Transport Partnership	2021/22 £000
(2,949)	Gross Income	(2,977)
2,923	Gross Expenditure	2,951
(26)	Net (Surplus) / Deficit	(26)
27	Current Assets	53
(27)	Capital and Reserves	(53)
0	Net Assets	0

Note 39: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

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

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

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

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

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

C Accruals of Income and Expenditure

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

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

D Cash and Cash Equivalents

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

E Charges to Revenue for Non-Current Assets

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

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

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

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

F Employee Benefits

Benefits payable during employment

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

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

being the period in which the employee takes the benefit.

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

CIES is charged with the employer's contributions payable in respect of teachers' pensions in the year.

The Local Government Pension Scheme

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

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

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

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

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

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

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

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

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

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

Discretionary benefits

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

G Events after the reporting period

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

Two types of events can be identified:

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

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

H Financial Instruments

Financial liabilities

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

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

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

Financial assets

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

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

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

Amortised Cost

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

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

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

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

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

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

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

Fair Value through Profit or Loss (FVPL)

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

Fair Value measurements of financial assets

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

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

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

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

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

The Council invests through three Fund Managers, Baillie Gifford, Blackrock and Insight. These Fund Managers all invest on behalf of the Council into

unitised products. They record income and account for transactions relating to these units as follows:

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

I Foreign Currency Translation

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

J Government Grants and Contributions

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

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

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

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

K Heritage Assets

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

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

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

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

Historical buildings

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

Museum collection

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

L Intangible Assets

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

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

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

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

M Inventories and Long-term Contracts

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

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

N Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset,

investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

O Leases

Operating leases

The Council as lessee

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

The Council as lessor

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

Finance leases

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

The Council as lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured

at the lease's inception (or the present value of the minimum lease payments, if lower).

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

Lease payments are apportioned between:

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

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

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

The Council as lessor

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

time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

P Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

amount of the asset is written down against the relevant service lines in the CIES.

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

Impairment

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

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

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

Depreciation

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

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

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

- infrastructure: 2 - 47 years

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

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

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

Disposals and non-current assets held for sale

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are

credited to the same line in the CIES, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

Q Fair Value Measurement

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess at the measurement date;

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 – unobservable inputs for the asset.

R Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

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

property, plant and equipment when the relevant works are carried out.

S Provisions, Contingent Assets and Contingent Liabilities

Provisions

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

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

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

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

Contingent Assets

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

Contingent Liabilities

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

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

T Reserves

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

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

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

U Value Added Tax

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

Zetland Educational Trust Schemes 1961 to 1965

Trustees'
Annual Report
and Unaudited
Financial
Statements
2022



Contents

Trustees' Annual Report for the Year Ended 31 March 2022	1
Statement of Receipts and Payments for the year ended 31 March 2022	5
Statement of Balances as at 31 March 2022.....	6
Notes to the Financial Statements	7

ZETLAND EDUCATIONAL TRUST
TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

Introduction

The trustees present their annual report together with the financial statements for the year ended 31 March 2022.

Administration Information

Charity Name	Zetland Educational Trust Schemes 1961 to 1965, known as Zetland Educational Trust (ZET)
Charity Number	SC001146
Contact Address	Shetland Islands Council Office Headquarters 8 North Ness Business Park Lerwick Shetland ZE1 0LZ

Current Trustees (following the local elections in May 2022)

Duncan Anderson	Andrea Manson
Alex Armitage	Tom Morton
Allison Duncan	Neil Pearson
John Fraser	Bryan Peterson
Catherine Hughson	Liz Peterson
Dennis Leask	Gary Robinson
John Leask	David Sandison
Stephen Leask	Ian Scott
Moraig Lyall	Cecil Smith
Emma Macdonald	Ryan Thomson
Robbie McGregor	Arwed Wenger

Auditor	Deloitte LLP 110 Queen Street Glasgow United Kingdom G1 3BX
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Structure, Governance and Management

Constitution

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

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

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

Trustees

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

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

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

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

Management

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

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

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

Objectives and Activities

Charitable purposes

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

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

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

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

The trust will fund projects that fall under the following headings:

- **Educational excursions**

The trust may provide assistance to meet the costs of organised educational excursions for the benefit of pupils attending school centres in Shetland. The pupils should derive some educational benefit from attending the excursion.

- **Special equipment**

The trust may fund the enhancement of education by assisting the provision of special equipment additional to that which the local authority may reasonably be expected to supply.

- **Promotion of ability and skill in swimming**

The trust may fund the promotion and encouragement of swimming among pupils in Shetland through organised instruction by paying fees, travelling expenses and personal expenses of teams, instructors and any other appropriate costs.

- **Promotion of knowledge of Shetland**

The trust may fund the promotion of knowledge of Shetland: its character, its skills and its arts, among persons being educated in Shetland by, for example, assisting to meet the costs of museum provision, making films designed to develop the knowledge of Shetland and any other appropriate costs.

- **Educational experiments and research**

The trust may fund bodies, or other persons it approves, to undertake educational experiments and research, including archaeological research that, in its opinion, will be for the educational benefit of persons in Shetland.

Performance

For the year ended 31 March 2022, the trust received bank interest of £12 (2020/21: £2) and paid bank charges of £12 (2020/21: £1).

The Corporate Bond Fund generated investment income of £24,053 (2020/21: £22,573) and resulted in £2,137 of fund manager fees (2020/21: £2,020).

There were 13 bursaries (2020/21: 10) awarded to university students in support of their studies, totalling £2,600 (2020/21: £2,000). These bursaries are issued in the name of the original donors: E & M Gair 7 awards (2020/21: 6) and Arthur Anderson 6 awards (2020/21: 4). These bursaries will continue to be awarded as the students' progress through their degree programmes.

The trust also provides grants for projects in line with its objectives. There were 9 (2020/21: 4) grants awarded totalling £13,853 in the year to 31 March 2022 (2020/21: £2,156). The increase in grants paid is due to the relaxation of the restrictions imposed by the Scottish Government to deal with the Covid-19 pandemic, which has allowed greater numbers of activities and projects to be undertaken in the year.

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

Financial Review

Overview

In the year to 31 March 2022, the trust made a surplus of £5,063 (2020/21: £15,997).

At 31 March 2022 the trust held cash of £7,265 (2020/21: £42,202) and investments of £674,200 (2020/21: £689,458).

Reserves Policy

The Reserves policy is to maintain capital balances, with disbursements being made from investment income and bank interest earned.

Declaration

The accounts were issued on 30 June 2022:

.....
Emma Macdonald - Trustee

ZETLAND EDUCATIONAL TRUST

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2022

The Statement of Receipts and Payments, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), provides an analysis of the incoming and outgoing cash and bank transactions for the year.

	Note	Unrestricted Funds £	Restricted Funds £	2021/22 £	2020/21 £
Receipts					
Investment Income	5	24,053	0	24,053	22,573
Bank Interest		12	0	12	2
Total receipts		24,066	0	24,065	22,575
Payments					
Disbursements	6	16,453	0	16,453	4,156
Fund Manager Fees	5	2,137	0	2,137	2,020
Service Charges	7	412	0	412	401
Total payments		19,002	0	19,002	6,577
Surplus for the year		5,063	0	5,063	15,997

ZETLAND EDUCATIONAL TRUST
STATEMENT OF BALANCES AS AT 31 MARCH 2022

The Statement of Balances, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), reconciles the cash and bank balances at the start and end of the financial year with any surpluses shown in the Statement of Receipts and Payments.

	Unrestricted Funds £	Restricted Funds £	2021/22 £	2020/21 £
Note				
Cash and Bank				
Opening cash balance	42,202	0	42,202	26,205
Surplus for the year	5,063	0	5,063	15,997
Transfer to Investment	(40,000)	0	(40,000)	0
Closing cash balance	7,265	0	7,265	42,202

	2021/22 £	2020/21 £
Note		
Investments at market value		
Baillie Gifford Corporate Bond 5	674,200	689,458
Total Investments	674,200	689,458

The financial statements were issued on 30 June 2022:

.....
 Emma Macdonald - Trustee

1. Basis of Accounting

The financial statements have been prepared on a receipts and payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The Trustees are satisfied it is appropriate that the financial statements have been prepared on a going concern basis.

2. Nature and purpose of funds

Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes.

3. Grants and Donations paid

Disbursements: bursaries	2021/22		2020/21	
	Number	£	Number	£
Disbursements				
E & M Gair student bursaries	7	1,400	6	1,200
Arthur Anderson student bursaries	6	1,200	4	800
Total	13	2,600	10	2,000

Disbursements: grants	2021/22		2020/21	
	Number	£	Number	£
Type of activity or project supported				
Educational Excursions	1	1,857	0	0
Educational experiments and research	0	0	0	0
Promotion of ability and skill in Swimming	1	2,000	0	0
Promotion of knowledge of Shetland	2	4,284	1	374
Special equipment	5	5,712	3	1,782
	9	13,853	4	2,156

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

4. Trustee Remuneration, Expenses and Related Party Transactions

- a) No remuneration or expenses were paid during the year to any trustee or persons connected to a trustee during 2021/22 or 2020/21;
- b) Shetland Islands Council has not charged the trust any fees for legal, financial or administrative services provided during the year; and
- c) There were no related party transactions during the year (2020/21: £0).

5. Cash and investments

Investment balances are held in a Baillie Gifford Corporate Bond Fund. An additional sum of £40,000 was invested in the bond during the year.

Fund manager fees of 0.3% on the daily market value of the fund are charged and invoiced quarterly in arrears.

The trust holds one bank account. In addition to receiving bank interest, income generated from the bond is received by the account. The bank account is used to make payments.

6. Governance Costs

Shetland Islands Council has an agreement with the trust whereby the audit fee is borne by the Council unless the trust earns a minimum income of £10,000 in the year. This income threshold was exceeded in 2021/22 and the trust has paid audit fees of £400 (2020/21: £400).

7. Taxation

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



Meeting:	Special Shetland Islands Council	17 August 2022
Report Title:	Appointments to Committee Vacancies	
Reference Number:	GL-25-22	
Author / Job Title:	Executive Manager – Governance and Law	

1.0 Decisions / Action required:

- 1.1 That the Council RESOLVES to appoint a Member from the **North Isles Ward** to the following vacancies (refer to Sections 4.2 and 4.3 below):
 - Education and Families Committee
 - Planning Committee
- 1.2 That the Council RESOLVES to appoint a Member from **Shetland South Ward** to the Planning Committee (refer to Section 4.3 below).
- 1.3 That the Council RESOLVES to appoint a Member to the following vacancies (refer to Sections 4.4 to 4.6 below):
 - Pension Board
 - Employees Joint Consultative Committee
 - Placing Requests Appeals Sub-Committee/Staffing Appeals Committee/Education Appeals Sub-Committee

2.0 High Level Summary:

- 2.1 The purpose of this report is to fill vacancies following the appointments made by the Council at its statutory meeting on 23 May 2022. At that meeting, a number of appointments were deferred until the conclusion of the by-election for the North Isles Ward on 4 August 2022.

3.0 Corporate Priorities and Joint Working:

- 3.1 This report has no impact on the Council's corporate priorities or on joint working.

4.0 Key Issues:

- 4.1 The Council is required to make appointments to fill vacancies that were deferred at its statutory meeting on 23 May until the by-election for the North Isles Ward had been held. There is also a vacancy for a Shetland South Ward representative on the Planning Committee that was deferred until a Ward meeting had been held. Current membership for each of the following committees is contained in Appendix 1.

Education and Families Committee

- 4.2 Membership of the Education and Families Committee consists of one Member from each Ward, in addition to the Chair and Vice-Chair, and the Council agreed to appoint an Additional Council Member to this Committee at its statutory meeting. At that meeting, the Council agreed to defer the appointment of a North Isles Ward representative until the conclusion of the by-election on 4 August 2022.

Planning Committee

- 4.3 At its statutory meeting, the Council agreed to defer the appointment of a Shetland South Ward representative until a Ward meeting of Shetland South Members had been held, and to defer the appointment of a North Isles Ward representative until the by-election had been held.

Pension Board

- 4.4 The Pension Fund Committee comprises the same membership of the Policy and Resources Committee, and membership of the Pension Board is from the remaining Councillors. There is no Ward representative requirement.

Employees Joint Consultative Committee (EJCC)

- 4.5 Membership of the EJCC comprises eight members, and there is one vacancy. There is no Ward representative requirement.

Placing Requests Appeals Sub-Committee/Staffing Appeals Committee/Education Appeals Sub-Committee

- 4.6 At its statutory meeting, the Council agreed to appoint a group of 14 councillors from which the membership of the above Committees/Sub-Committees could be drawn. There is currently one vacancy on this group and there is no Ward representative requirement.

Method of Election/Voting

- 4.7 Should a vote be required in respect of any of the vacancies, Section 10 of the Council's Standing Orders sets out the method of appointment of office bearers. When Councillors are to be appointed to any positions to be filled by the Council, and where the number of candidates nominated exceeds the number of vacancies, the Councillors to be appointed will be determined by a vote or votes in each of which Members will be entitled to vote for as many candidates as there are vacancies; but they may not cast more than one vote for any candidate.
- 4.8 The vote will normally be taken by a show of hands, unless the Council resolves in the case of any particular appointment to take the vote by secret ballot. It has been custom and practice for the Council to undertake such voting by secret ballot.
- 4.9 The name of the candidate having fewest votes will be deleted from the list and a fresh vote, or votes, will be taken. This process of elimination will be continued until the number of candidates equals the number of vacancies.

- 4.10 Where only one vacancy requires to be filled, and any candidate has an absolute majority of the votes, the candidate will be declared appointed. Otherwise, the name of the candidate having fewest votes will be deleted from the list. This process of elimination will be continued until one candidate has a majority of the votes.
- 4.11 In the case of an equality of votes the Members shall be elected by lot as between those who received equal votes and proceed on the basis that the person to whom the lot falls upon had received an additional vote.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications:

6.1 Service Users, Patients and Communities:	None
6.2 Human Resources and Organisational Development:	None
6.3 Equality, Diversity and Human Rights:	None
6.4 Legal:	The legal framework for this report is supported by the Council's Constitution, including the Scheme of Administration and the Standing Orders.
6.5 Finance:	Attendance at Council committees is an approved duty and costs are met from the Members' budget.
6.6 Assets and Property:	None
6.7 ICT and new technologies:	None
6.8 Environmental:	None
6.9 Risk Management:	Failure to make the remaining appointments to Committees would be in breach of the Council's Constitution.

6.10 Policy and Delegated Authority:	The appointment of Committee members is provided for within the Council's constitution and is a matter reserved to the Council.	
6.11 Previously considered by:	None.	

Contact Details:

Jan Riise, Executive Manager - Governance and Law jan.riise@shetland.gov.uk
10 August 2022

Appendices:

Committee Memberships

Background Documents:

None.

END

CURRENT COMMITTEE APPOINTMENTS as at 8 AUGUST 2022

GL-25-A1

	Education and Families Committee (7 ward members + Ch & VCh + Leader + 1 + 3 Religious Reps)	Planning Committee 11 Councillors, being a Member from each Ward, plus two further Councillors to be Chair and Vice-Chair appointed by the Council, plus two further Councillors having regard to skill and expertise
Chair	Davie Sandison	Robbie McGregor
Vice-Chair	Catherine Hughson	Davie Sandison
North Isles	<i>Vacant [awaiting by-election]</i>	<i>Vacant [awaiting by-election]</i>
Shetland North	Tom Morton	Andrea Manson
Shetland West	Liz Peterson	John Leask
Shetland Central	Moraig Lyall	Catherine Hughson
Lerwick South	John Fraser	Cecil Smith
Lerwick North & Bressay	Stephen Leask	Arwed Wenger
Shetland South	Bryan Peterson	<i>Vacant</i>
Leader	Emma Macdonald	<i>Additional Member 1</i>
Additional Member	Neil Pearson	<i>Additional Member 2</i>
Religious Reps (3)	Ellen Griffiths Weir	
	<i>2 – awaiting nominations</i>	
Official Observers (MSYPs) (2)	Michaela Christie John Fraser	

Pension Board	Employees Joint Consultative Committee 8 Councillors	Placing Requests Appeals Sub-Committee 3 persons to be drawn from the Panel of 4 Councillors and 4 independent persons.	Staffing Appeals Committee A Panel of 4 Councillors to be drawn from a group of 14 Councillors.	Education Appeals Sub-Committee A Panel of 4 Councillors will be drawn from a group of 14 Councillors.
Tom Morton	Davie Sandison	Moraig Lyall	Moraig Lyall	Moraig Lyall
Bryan Peterson	Alex Armitage	Alex Armitage	Alex Armitage	Alex Armitage
<i>Vacant [awaiting by-election]</i>	John Leask	Catherine Hughson	Catherine Hughson	Catherine Hughson
	Tom Morton	Tom Morton	Tom Morton	Tom Morton
	Gary Robinson	Bryan Peterson	Bryan Peterson	Bryan Peterson
	Arwed Wenger	John Fraser	John Fraser	John Fraser
	Bryan Peterson	Liz Peterson	Liz Peterson	Liz Peterson
	<i>Vacant</i>	Andrea Manson	Andrea Manson	Andrea Manson
		Ryan Thomson	Ryan Thomson	Ryan Thomson
		Robbie McGregor	Robbie McGregor	Robbie McGregor
		Neil Pearson	Neil Pearson	Neil Pearson
		Dennis Leask	Dennis Leask	Dennis Leask
		Arwed Wenger	Arwed Wenger	Arwed Wenger
		<i>Vacant</i>	<i>Vacant</i>	<i>Vacant</i>

END



Meeting(s):	Special Shetland Islands Council	17 August 2022
Report Title:	Appointment of Religious Representatives to the Education and Families Committee	
Reference Number:	GL-23-22	
Author / Job Title:	Executive Manager - Governance and Law	

1.0	Decisions / Action required:
1.1	That the Council RESOLVES to appoint Mr John Rollo to the Education and Families Committee.
2.0	High Level Summary:
2.1	This report addresses the statutory requirement to have religious representation on the Education and Families Committee.
3.0	Corporate Priorities and Joint Working:
3.1	In addition to the statutory requirement, the appointment of religious representatives would meet the outcomes of the Council's Equality Statement in relation to the need to ensure that democratic bodies better reflect the diversity of Shetland's communities, and would assist the Council in meeting its objective of ensuring high quality education services.
4.0	Key Issues:
4.1	The Council is required by Section 124 of the Local Government (Scotland) Act 1973 to appoint three representatives of religious interests to the committee which discharges its education function.
4.2	Section 1.2.1(2) of the Council's Constitution states that the Education and Families Committee, will comprise "...11 Councillors, being one councillor from each Ward, the relevant Senior Councillor Chair mentioned in Article 7 of Part A of the Constitution and the relevant Vice Chair, the Leader of the Council, and one further Councillor having regard to relevant skills and expertise." The Constitution goes on to state that "When the Education and Families Committee is considering any of the functions of the Council as education authority , three persons interested in the promotion of religious education will be voting members of the Committee."
4.3	At its meeting on 23 May 2022, the Council appointed the Church of Scotland nominated representative – Ellen Griffiths Weir – to the Education and Families Committee (Min Ref 40/22) and noted that the two outstanding nominations would be reported in due course.

4.4	The remaining two nominations were sought by the Council from the Shetland Inter Faith Group and the Shetland Churches Council Trust.
4.5	The Shetland Churches Council Trust nominated Mr John Rollo, and his application was received with sufficient information to enable his appointment to be submitted to the Committee. His appointment to this Committee would be for the remainder of this Council's term of office.
4.6	Shetland Inter Faith Group have provided the name of a nominee, but no application has yet been received. The Group will confirm their nomination following their next scheduled meeting on 19 August 2022.
5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	The appointment of religious representatives would meet the outcomes of the Council's Equality Statement in relation to the need to ensure that democratic bodies better reflect the diversity of Shetland's communities, and would assist the Council in meeting its objective of ensuring high quality education services.
6.2 Human Resources and Organisational Development:	None.
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	The Council is required by Section 124 of the Local Government (Scotland) Act 1973 to appoint three representatives of religious interests to the committee which discharges its education function.
6.5 Finance:	All members of the Council's Committees are entitled to claim legitimate expenses. There are no significant financial implications arising from this report.
6.6 Assets and Property:	None.
6.7 ICT and new technologies:	None.
6.8 Environmental:	None.

6.9 Risk Management:	Failure to appoint representatives of religious interests to its Education and Families Committee would be in breach of the Council's Constitution, and the statutory requirement.	
6.10 Policy and Delegated Authority:	<p>The appointment of non-councillor members is provided for within the Council's Constitution, and is a matter reserved to the Council.</p> <p>The designation of any non-councillor position and any changes to the Council's Constitution are matters reserved to the Council.</p>	
6.11 Previously considered by:	N/A	

Contact Details:

Jan Riise, Executive Manager – Governance and Law jan.riise@shetland.gov.uk
10 August 2022

Appendices:

None

Background Documents:

SIC Constitution - Part A – Governance

<https://www.shetland.gov.uk/downloads/file/1710/part-a-governance>

END



Meeting(s):	Special Shetland Islands Council	17 August 2022
Report Title:	Appointments to External Organisations – CoSLA Boards and SJC	
Reference Number:	GL-26-F	
Author / Job Title:	Executive Manager – Governance and Law	

1.0 Decisions / Action required:

That the Council **RESOLVES** to consider the recommendations made in Section 4, and:

- 1.1 appoint one member and one substitute member to each of the CoSLA Boards as set out in paragraph 4.2; and
- 1.2 appoint the Depute Leader to the Scottish Joint Council for Local Government Employees (SJC).

2.0 High Level Summary:

- 2.1 This report seeks the appointment of Members to CoSLA Boards and the Scottish Joint Council for Local Government Employees.

3.0 Corporate Priorities and Joint Working:

- 3.1 The recommendation in this report is not linked directly to any of the Corporate Priorities, but will support the Council's general constitutional policy and ambitions in terms of governance, accountability and partnership working.

4.0 Key Issues:

- 4.1 CoSLA Boards: There are four Policy Boards which meet six times a year. Each Council has one nominated elected Member as their representative. Each Board will agree a specific work plan at their first meeting which will cover the entirety of the work it will take forward. However, a broad indication of the functional areas that each of the Boards will cover is outlined in Appendix 1, including a generic remit for the Boards. Appendix 2 contains the diary of meetings for 2022.
- 4.2 Given the nature of CoSLA representation being at a political level, it is recommended that the Council follow the custom and practice of other and previous Council appointments and align the appointments with the most appropriate appointments already made by the Council, as follows:

COSLA Board	Substantive	Substitutes
Children and Young People Policy Board	Chair - Education and Families Committee – Mr D Sandison	Vice-Chair - Education and Families Committee – Mrs C Hughson
Health and Social Care Policy Board	Chair/Vice Chair IJB – Mr J Fraser	P&R member of IJB – Ms L Peterson
Environment and Economy Policy Board	Chair - Environment and Transport Committee – Mrs M Lyall	Vice- Chair - Environment and Transport Committee – Mr R McGregor
Community Wellbeing Policy Board	Chair - Development Committee – Mr D Leask	Vice-Chair - Development Committee – Mr J Leask

- 4.3 The remit of some Boards may cross over into the functional areas of more than one Council Committee and such circumstances substitution could be arranged depending on the business being transacted, or the availability of members.
- 4.4 Scottish Joint Council for Local Government Employees (SJC)
The SJC is Scotland's largest council in terms of both employer representation and the number of employees covered. The full SJC council contains 32 Councillors (and the COSLA resources spokesperson), and 33 union representatives.
- 4.5 The full SJC meets once a year in November. It has decision making authority. In practice, however, decisions about financial matters, and in particular pay, are reserved for Leaders who provide negotiating remits. Each Council is being asked to nominate one member for the SJC. Where the nominated councillor is unable to attend a meeting, the constitution allows another councillor to substitute. Councils may wish to nominate a member who can deputise in this way or may wish to address it in an ad hoc manner should the need arise. Councillor representatives on the SJC Steering Group which meets 3-6 times a year will be drawn from the group of councillors nominated to the SJC at the COSLA Convention.
- 4.6 The SJC constitution does not specify anything about the councillor nominated and the role they should cover, but previous membership has included the Convener or Deputy Leader. Following discussion with the Leader, and given the decision making role for Leaders meetings on pay and negotiating remits, the recommendation for nomination is for the Deputy Leader, with no named substitute, so another councillor may be appointed to attend the annual meeting if the Deputy Leader is unavailable:

Scottish Joint Council for Local Government Employees (SJC)	Substantive	Substitute
	Depute Leader – Mr G Robinson	Ad hoc – as required/available

5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None.
6.2 Human Resources and Organisational Development:	There are no impacts on employees and/or wider workforce management and development, and there are no issues which will affect staff health, safety and wellbeing.
6.3 Equality, Diversity and Human Rights:	There are no known internal and/or external equalities issues associated with the terms of this report.
6.4 Legal:	None.
6.5 Finance:	The costs of any attendance outwith Shetland will be maintained within existing budgets. However, the Council is continuing to pursue efficiencies by carefully considering the requirement to attend meetings on the mainland. Officers and Councillors alike are making use of alternatives such as video conferencing to avoid the cost of travel to the mainland, and such efficiencies will be sought whenever possible.
6.6 Assets and Property:	There are no implications for any of the Council's major assets and property, buildings or equipment.
6.7 ICT and new technologies:	There are no implications for ICT and ICT systems.
6.8 Environmental:	There are no implications for the local environment, Climate Change or Carbon Management - a Strategic Environmental Impact Assessment is not required.
6.9 Risk Management:	Failure to make the appropriate appointments may lead to the loss of knowledge and involvement in matters affecting the Council's governance and services.
6.10 Policy and Delegated Authority:	In order to ensure approved duty status, appointments to external organisations as a representative of the Council must be made by the Council or a Committee which forms part of the

	political management framework. Given the political nature of the appointments it is considered more appropriate to have all the appointments made by the Council.	
6.11 Previously considered by:	None	

Contact Details:

Jan Riise, Executive Manager – Governance and Law jan.riise@shetland.gov.uk
10 August 2022

Appendices:

Appendix 1 – CoSLA Policy Board Remits
Appendix 2 – CoSLA Diary of Meetings 2022

Background Documents:

None.

END

COSLA Boards

Health and Social Care

- Charging Policies for Social Care
- Health and Social Care Reform
- Mental health
- Older People's Care and Support/ NCHC and Care Home Provision
- Public Health and Health Inequalities
- Social Care Workforce
- Care and Well Being Programme
- Supporting Carers
- Digital and Data

Children and Young People

- Education
- Early Learning and Childcare
- Additional Support Needs
- Inclusive Education
- Education Reform
- Learning Estate
- Educational Attainment
- Free School Meal entitlement
- The Promise, Secure Care
- Continuation of Care
- Children's Hearing System
- Sibling Separation, Kinship Care
- Youth Justice
- Child Protection
- Family Support
- Financial Redress
- Joint Investigative Interviewing
- Equally Safe
- Mental Health
- Child Poverty
- Workforce – Education and Social Work

Community Wellbeing

- Community Empowerment and Engagement
- Community Safety and Resilience
- Consumer Protection
- Culture including libraries
- Employability
- Housing & Homelessness
- Human Rights, Equalities and Violence against Women and Girls
- Justice (community and criminal)
- Migration & Population Policies, Refugee & Asylum Seeker support & settlement Issues
- Poverty, Social Security and Welfare Reform
- Sports
- Veterans / Armed forces

Environment and Economy

- Digital Connectivity
- Climate Change
- Heat and Energy
- Economy

- Europe, International & Post Brexit
- UN Biodiversity Declaration/Nature Based Solutions
- Planning, Place and Regeneration
- Transport and Flooding
- Waste and the Circular Economy

Key Responsibilities of Policy Boards

- To develop and shape policy in relation to its remit, in ways which uphold the Association's principles of: a) Strengthening Local Democracy; b) Working Together Locally; c) Delivering Outcomes; d) Focusing on Communities; and e) Defending Local Choices.
- In relation to its remit, to be a channel of communication between individual Member Councils and the Association, to support Member Councils through the identification, discussion and resolution of mutual issues (including legislative or other proposals), the building of consensus to develop joint policy and strategy, and the agreement of joint lobbying positions, and future steps.
- To take forward work that delivers the strategic priorities set by the Association including campaigns, research, improvement support, public statements, and other steps as appropriate.
- To work with the Association's Resources Spokesperson to scrutinise and address the financial, human, and other resource implications for Local Government associated with its terms of reference, making recommendations to the Leaders' Meeting as appropriate.
- To involve Members, Member Councils, and other appropriate stakeholders in the delivery of its work through a varied mix of events, presentations of advice and evidence, networks, debate, and other means of engagement.
- To draw on the expertise of key advisors from the sector, including SOLACE and other local government professional associations. Professional advisers attending meetings will not have voting rights.
- To contribute to reforms, efficiencies, and improvements in the delivery of local services, and identify and share good practice and ideas to stimulate innovation and improvement.
- To provide a mandate to the Spokesperson in their interactions with Ministers and legislatures and hold them accountable in progressing the Association's policy positions.
- To develop and maintain a programme of work to prioritise and deliver their remit, linking with other boards where appropriate. This work plan should include, where appropriate, how the Board will contribute to the Association's overall priorities as agreed by Convention. The Board will report to Leaders' Meetings on relevant matters arising from their work plan, including any issues with significant political and budgetary implications.
- To recommend to the Leadership Sounding Board the establishment of Special Interest Groups, with such terms of reference as Leadership Sounding Board may determine.
- To consider workforce and funding issues relevant to its remit.

CONVENTION OF SCOTTISH LOCAL AUTHORITIES - CALENDAR OF MEETINGS 2022																																						
	TUE	WED	THU	FRI	SAT SUN	MON	TUE	WED	THU	FRI	SAT SUN	MON	TUE	WED	THU	FRI	SAT SUN	MON	TUE	WED	THU	FRI	SAT SUN	MON	TUE	WED	THU	FRI	SAT SUN	MON	TUE	WED						
AUGUST						1	2	3	4	5	6/7	8	9	10	11	12	13/14	15	16	17	18	19	20/21	22	23	24	25	26	27/28	29	30	31						
																LSB												LD										
SEPTEMBER			1	2	3/4	5	6	7	8	9	10/11	12	13	14	15	16	17/18	19	20	21	22	23	24/25	26	27	28	29	30										
				HSC						CYP						LSB		PH			CWB							LD										
OCTOBER					1/2	3	4	5	6	7	8/9	10	11	12	13	14	15/16	17	18	19	20	21	22/23	24	25	26	27	28	29/30	31								
										EE						LSB												CON										
																												LD										
NOVEMBER	1	2	3	4	5/6	7	8	9	10	11	12/23	14	15	16	17	18	19/20	21	22	23	24	25	26/27	28	29	30												
				HSC						LSB						CYP						LD																
DECEMBER			1	2	3/4	5	6	7	8	9	10/11	12	13	14	15	16	17/18	19	20	21	22	23	24/25	26	27	28	29	30	31									
										EE																												
				CW																		PH		PH	PH	PH	PH	PH										
KEY	LSB - LEADERSHIP SOUNDING BOARD						LSB	CW	CW - COMMUNITY WELLBEING BOARD														PH - COSLA Public Holiday															
	LD - LEADERS					LD		HSC	HSC - HEALTH & SOCIAL CARE BOARD																													
	CON - CONVENTION					CON		CYP	CYP - CHILDREN & YOUNG PEOPLE BOARD																													
								EE	EE - ENVIRONMENT & ECONOMY BOARD														*Special Leaders' meetings will only be called if required															



Meeting(s):	Shetland Islands Council	17 August 2022
Report Title:	Scord Quarry Charges	
Reference Number:	RD-03-22-F	
Author / Job Title:	David Coupe Executive Manager, Roads	

1.0 Decisions / Action required:

- 1.1 That Shetland Islands Council APPROVE the new Scord Quarry price list attached as Appendix 1.

2.0 High Level Summary:

- 2.1 Since the charges for Scord Quarry products were approved by Council in February 2022 (Appendix 1), production costs have risen at an unprecedented rate due to world events and in particular, the cost of fuel and bitumen. This has led to it being necessary to increase the list prices of both dry and, in particular, coated materials. There is still a high level of uncertainty about future prices with the suppliers warning that further increases are likely.
- 2.2 Legislation brought into effect in April 2022 has precluded the use of rebated “red” diesel (Gas Oil) in all quarrying operations. This has led to considerable increases in fuel costs and is in addition to the increase in fuel prices resulting from international events.
- 2.3 The proposed charges detailed in Appendix 1 have been checked against local quarries for dry materials since the Scord is the only supplier of bitumen coated roadstone in Shetland, and quarries in Orkney and Aberdeenshire for coated materials and are in line with them.

3.0 Corporate Priorities and Joint Working:

- 3.1 An outcome from Shetland’s Partnership Plan is that “Shetland will continue to be a safe and happy place.” The condition of the carriageway has direct implications for road safety. It is therefore imperative that the Scord Quarry continues to be able to provide road maintenance materials at a sustainable level.
- 3.2 A top priority of “Our Ambition,” the Council’s corporate plan, is to “invest in the maintenance of our roads network to ensure it continues to support our economy and communities.” A further aim is that Shetland’ transport network “will support our community outcomes of achieving climate change targets, reducing inequality, improving public health and enabling access to essential goods and services, employment, education and health care, as well as other opportunities to ensure inclusive economic growth and healthy communities.”

3.3 Shetland Islands Council Improvement Plan 12/13

Area 8.1 – Make sure the Council has a comprehensive view of its asset needs and how they are to be most effectively delivered.

4.0 Key Issues:

4.1 There are many areas where materials used at the Scord quarry have increased in cost over recent months but the main areas triggering the need for the charges to be increased are detailed below in sections 4.2 to 4.5.

4.2 Bitumen Prices

The cost of bitumen has risen from £579 to £794 per tonne which represents an increase of £215 per tonne (37%) since the charges were set for approval on 16th February 2022.

Looking at last year's production, the quarry used 900 tonne. Assuming a similar production, should the bitumen price remain at this level, the cost of production of coated roadstone will rise by £193,500 this year.

4.3 Rebated Fuel Legislation

Legislation came into effect on the 1 April 2022 changing the permitted use of rebated "red" diesel (Gas Oil).

Prior to the legislation change and at the time of setting the Scord charges, Gas Oil was 60p per litre and Derv was 122.26p per litre. We are now having to use Derv for all operations at a current cost of 152.72p per litre which in effect represents a fuel cost increase of 92.72p per litre or 154%.

Looking at last year's production, the quarry used 48,000 litres of Gas Oil. Assuming a similar production, should the Derv price remain at this level, the cost of production across the Scord Quarry will rise by £44,500 this year.

4.4 Kerosene price increase

Kerosene is used in the production of bitmac and is used to fuel the main dryer which heats and dries the stone prior to the addition of the bitumen binder. Although legislation still allows its use as a rebated fuel for heating there has been a significant increase in the price.

Kerosene prices have risen from 49.47p per litre to 83.85p per litre since the charges were set. This represents an increase of 34.38p per litre or 69.5%.

Looking at last year's production, the quarry used 150,000 litres. Assuming a similar production, should the kerosene price remain at this level, the cost of production of coated roadstone will rise by £51,570 this year.

4.5 Electricity

Electricity is used in most of the quarrying operations to varying degrees.

Electricity prices have risen from a rolled up year average of 15.77p per unit to a current rolled up price of 19.33p per unit since the charges were set. This represents an increase of 22.5%.

Looking at last year's production, the quarry used 532,994 units. Assuming a similar production, should the electricity price remain at this level, the cost of production across the Scord Quarry will rise by £19,000 this year.

4.6 The increased production costs noted above have been used to calculate the proposed charges shown in Appendix 1 and to ensure that we are in line with competing local suppliers.

4.6 Officers are exploring a pragmatic mechanism, as part of the wider review of the Council's constitutional framework that would allow a Council service to vary prices mid-way through a financial year, without inadvertently distorting local markets and competition (for example, by inadvertently undercutting competing suppliers by not being able to increase charges outwith the normal annual budgeting cycle).

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :

6.1 Service Users, Patients and Communities:	<p>The condition of the road network will affect its reliability which in turn will impact on stakeholders and the community if there is an inability to supply road maintenance materials at a sustainable level.</p> <p>The contribution of road maintenance to communities is recognised by the Audit Commission in their 2011 report Going the Distance. The report states "Councils must use their road maintenance to support the economic competitiveness of their area. Roads play a critical role in public service delivery and economic growth – both through the increased mobility of citizens, goods and services, and through building and maintaining infrastructure."</p>
6.2 Human Resources and Organisational Development:	There are no implications regarding staffing of the quarry if the quarries viability is maintained.
6.3 Equality, Diversity and Human Rights:	No implications.
6.4 Legal:	<p>The Council's statutory duties are defined by Section 1 of the Roads (Scotland) Act 1984 which requires that "a local roads authority shall manage and maintain all such roads in their area as are for the time being entered in a list (in this Act referred to as their "list of public roads")".</p> <p>The Council is permitted by Section 69 of the Local Government (Scotland) Act 1973 to dispose of property which facilitates, is conducive or incidental to, the discharge of local authority functions which allows for the operation of Scord Quarry.</p>

6.5 Finance:	<p>The Scord quarry is accounted for within the Roads Service accounts, as they are the largest quarry customer. If the quarry were to operate at a loss in any financial year then this would impact on the Maintenance budgets.</p> <p>An increase in quarry charges is required to enable the quarry to cover its costs, including capital charges, and make a contribution to meeting the Roads budgets.</p> <p>The performance of the Scord Quarry is monitored to ensure that it delivers value for money and budgets are prepared so that material can be sold at prices that reflect the costs of production.</p>
6.6 Assets and Property:	<p>The Scord Quarry is a Council asset that supplies quarry products, and in particular coated roadstone (bitmac), not only to Council Services for the maintenance of its assets, but also to the wider construction industry. As the only supplier of bitmac in the Islands it is important for the maintenance of the road network, and for the control of budgets that the quarry remains financially viable and continues to provide quarry products, and in particular, bitmac, at a competitive price.</p>
6.7 ICT and new technologies:	None.
6.8 Environmental:	No implications.
6.9 Risk Management:	<p>Failure to manage the net ongoing running costs of the Scord quarry carries a significant risk of the Council's financial policies not being adhered to and would require a further draw on Reserves.</p>
6.10 Policy and Delegated Authority:	<p>In accordance with Section 2.2.1 of the Council's Scheme of Delegations the Policy and Resources Committee has referred authority to make recommendations to the Council as to the charges for Council services.</p> <p>However, this report is being submitted directly to Shetland Islands Council due to the need to timeously review the charges at Scord Quarry.</p>
6.11 Previously considered by:	None.

Contact Details:

David Coupe – Executive Manager, Roads
4 July 2022

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Appendices:

Appendix 1: Scord Quarry Current and Proposed Charges

Appendix 1 - Current and Proposed Charges

Product Code	Description	Charge Unit	Current Approved Charges £	Proposed Charges £	% Variation
01	Hardcore	per tonne	4.24	9.00	112.26
02	Primary Armouring	per tonne	10.27	11.50	11.98
05	Armouring	per tonne	10.27	11.50	11.98
10	Recycled Bitmac Out	per tonne	6.18	10.00	61.81
11	Crusher Run	per tonne	7.60	9.60	26.32
13	Type 1	per tonne	6.49	8.50	30.97
15	Scalpings	per tonne	4.24	5.00	17.92
20	6mm Chippings	per tonne	11.20	11.50	2.68
21	10mm Chippings	per tonne	11.20	11.50	2.68
22	14mm Chippings	per tonne	11.20	11.50	2.68
23	20mm Chippings	per tonne	11.20	11.50	2.68
24	28mm Chippings	per tonne	11.20	11.50	2.68
25	40mm Chippings	per tonne	11.20	11.50	2.68
29	20mm Aggregate	per tonne	11.20	11.50	2.68
30	Anti-Frost Dust	per tonne	11.20	11.50	2.68
31	Quarry Dust	per tonne	11.20	11.50	2.68
32	Quarry Cleanings	per tonne	5.34	7.50	40.45
5B	AC 10 SURF 160/220 Gas Oil 2%	per tonne	96.90	119.13	22.94
6A	AC 6 SURF 100/150	per tonne	103.56	125.79	21.47
6B	AC 6 SURF 160/220	per tonne	103.56	125.79	21.47
6C	AC 10 SURF 100/150	per tonne	94.99	117.22	23.40
6D	AC 10 SURF 160/220	per tonne	94.99	117.22	23.40
6E	AC 14 SURF 100/150	per tonne	94.20	116.43	23.60
6F	AC 14 SURF 160/220	per tonne	94.20	116.43	23.60
6G	AC 20 BASE 100/150	per tonne	91.61	113.84	24.27
6H	AC 20 BASE 160/220	per tonne	91.61	113.84	24.27
6J	AC 32 BASE 100/150	per tonne	81.03	103.26	27.43
6K	AC 32 BASE 160/220	per tonne	81.03	103.26	27.43
6L	AC 10 SURF 160/220 Gas Oil 8%	per tonne	112.55	134.78	19.75
6M	AC 10 SURF 100/150 Cement 2%	per tonne	112.55	134.78	19.75
6N	AC 14 SURF 100/150 Cement 2%	per tonne	112.55	134.78	19.75
6Q	AC 6 SURF Nytherm 190	per tonne	105.41	127.64	21.09
6R	AC 10 SURF Nytherm 190	per tonne	96.90	119.13	22.94
6T	AC 14 SURF Nytherm 190	per tonne	96.11	118.34	23.13
6W	AC 20 BASE Nytherm 190	per tonne	93.51	115.74	23.77
81	ROAD SALT/GRIT MIX	per tonne	11.20	13.00	16.07