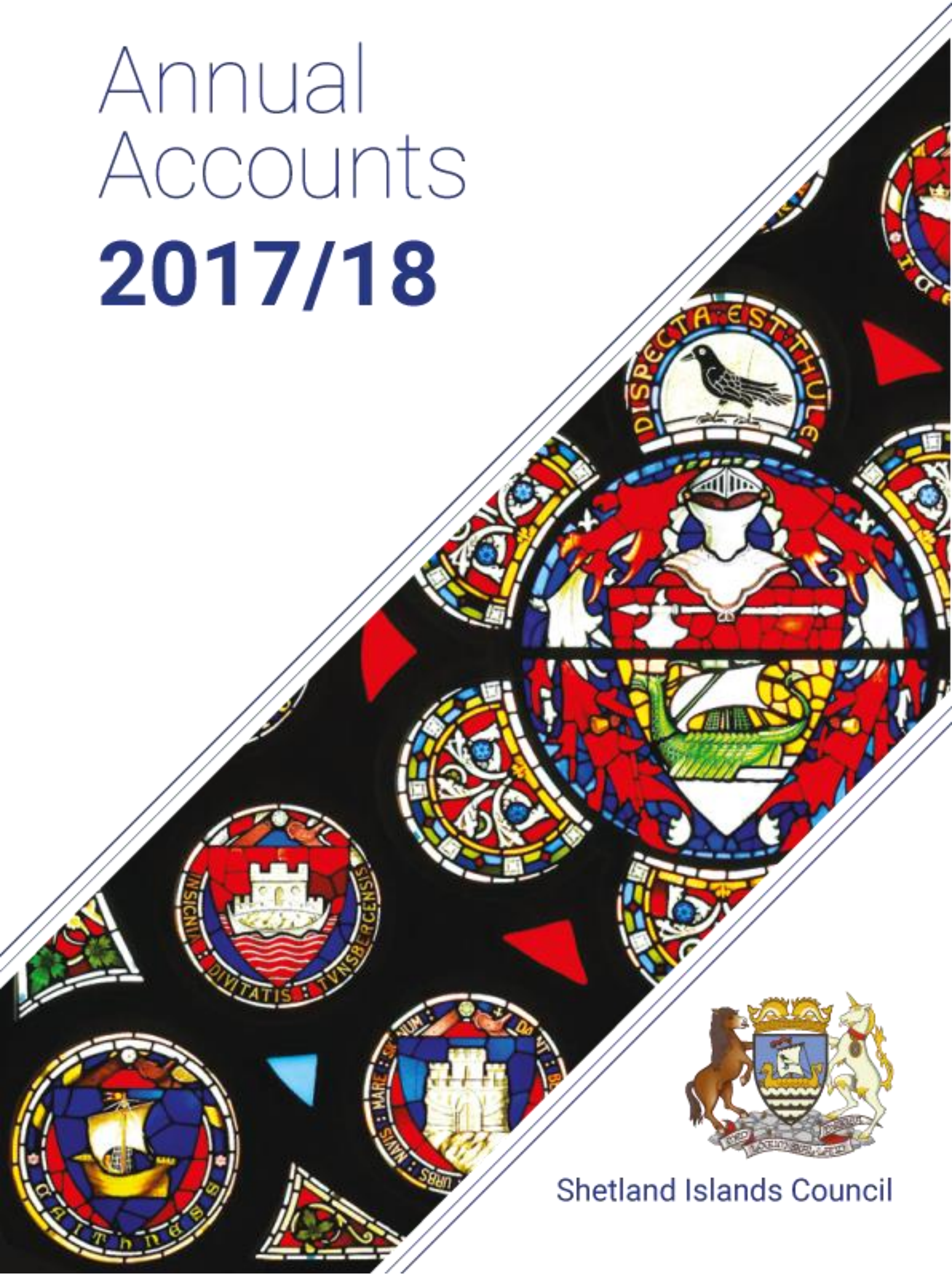
Annual Accounts
2017/18



Shetland Islands Council

Contents

Management Commentary

Introduction

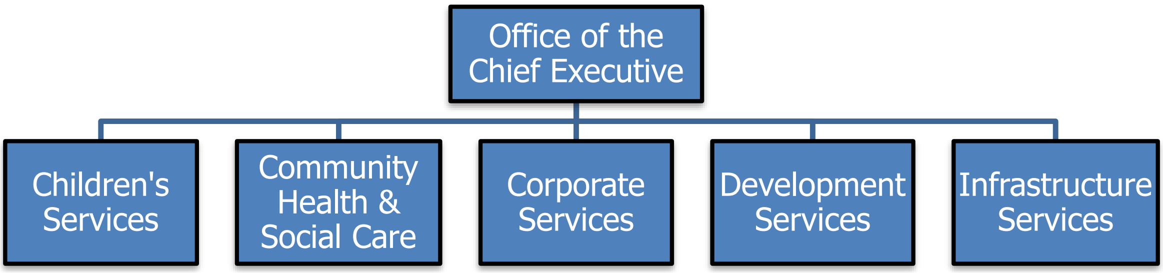
The Annual Accounts present the financial statements of Shetland Islands Council for the year ended 31 March 2018.

The purpose of the Management Commentary is to present an overview of the Council's financial performance during the year 2017/18 and to help readers understand its financial position at 31 March 2018. In addition, it outlines the main risks and uncertainties facing the Council for the financial year 2017/18 and beyond.

Background

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

It is governed by 22 elected members (21 independent and 1 SNP) serving a population of approximately 23,000 people. The Council is organised to provide and deliver its services to the public, such as schools, public transport, economic development, social care, environmental health, housing, ports and harbours and roads, as follows:



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

Strategy and Performance Management

Corporate Plan

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

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

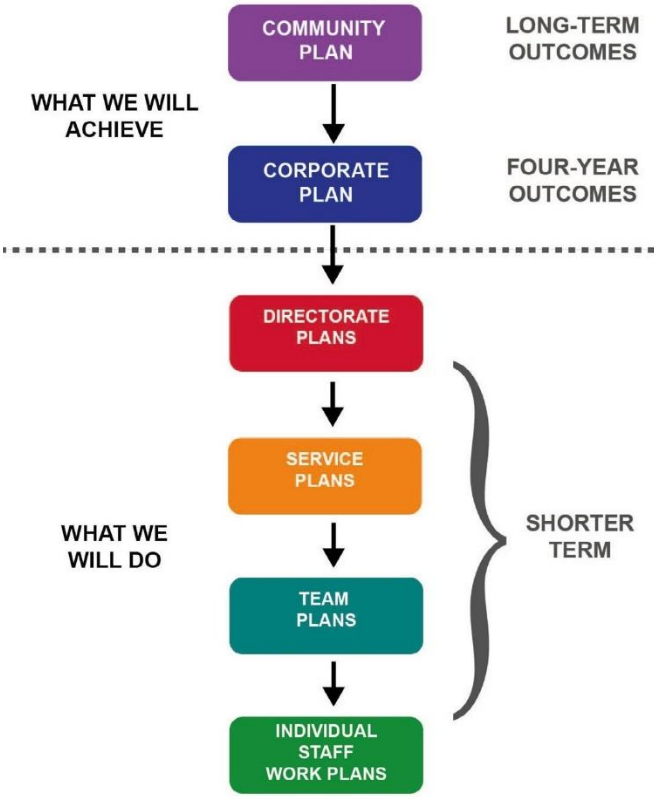
The plan is monitored through the quarterly reporting cycle of service performance reports and a half-way progress update is due to be reported to Council in autumn 2018. It can be found at: http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf.

The plan details five top political priority areas for 2016-2020, as follows:

- Complete and move into the new Anderson High School and Halls of Residence – pupils and teachers moved in during October 2017;
- Increase the supply of affordable housing in Shetland – the Scottish Government have committed £14.3m for affordable housing in Shetland over the next three years and the current Strategic Housing Investment Plan, delivered in conjunction with Hjaltland Housing Association, plans for 316 dwellings over the next five years;
- Improve high-speed broadband and mobile connections throughout Shetland – 'Broadband and Connectivity' is one of the key strands in the Council's Business Transformation Programme, currently being progressed;
- Provide quality transport services within Shetland, and push for improvements in services to and from Shetland – in partnership with ZetTrans, the Shetland Transport Strategy is currently being refreshed;
- Support older people across Shetland so that they can get the services they need to help them live as independently as possible – the Council, through the Integration Joint Board, introduced a number of new initiatives during

2017/18, including a Falls Prevention Strategy and extension to the work of the Intermediate Care Team.

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



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

Community Planning

The Council is a statutory member of the Shetland Partnership, which is the local Community Planning Partnership for Shetland. Partners are drawn from across the public, private and third sectors in Shetland. The Community Plan sets out what the Partnership will try to do for Shetland over the long term.

Community Planning in Shetland aims to create communities that are:

- Wealthier and fairer
- Smarter (learning and supportive)
- Healthier (healthy and caring)
- Safer
- Greener

The Community Plan is linked to the Local Outcomes Improvement Plan (LOIP), which sets out the activities and priorities of the Shetland Partnership to deliver the Community Plan.

The Community Planning Partnership is responsible for preparing a LOIP under the Community Empowerment (Scotland) Act 2015, which aims to empower community bodies through ownership or control of land and buildings and by giving them more say in decisions about public services.

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

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

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

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

Within the Council, it will be supported by delivery plans that will be monitored by the relevant committees.

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

The Partnership will undertake evaluation of its own performance annually as well as on delivery of the Plan. Reporting on this performance will be transparent and publicly available.

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

Performance

The principal source of council performance information is the Local Government Benchmarking Framework website (http://www.improvementservice.org.uk/benchmarking/explore-the-data.html); it provides a range of indicators that show how Shetland Islands Council is performing over time and against other local authorities.

In addition, the Council has its own performance web page, called Our Performance Matters, that can be accessed here: http://www.shetland.gov.uk/about_performance/default.asp. The following table gives a sample of the types of information available, but there is much more data to explore online, as detailed above.

2016/17 Data	Shetland Islands Council	Scottish Average
Cost per primary school pupil	£7,779	£4,788
Cost per secondary pupil	£10,792	£6,806
Cost per home of Council Tax collection	£13.96	£8.98
Council Tax collection rate	97.1%	95.8%
Cost per premise on refuse collection	£48.00	£64.50

Key Risks

The Council maintains a Corporate Risk register and reports progress on a quarterly basis to the Policy & Resources Committee. The latest report was presented on 28 August 2018 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22956

This report highlights two risks considered to be high in both likelihood and probability. These are extracted as follows:

Risk 1: Infrastructure Maintenance

The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this.

Actions to mitigate risk

The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013.
Other measures in place include: MTFP, budget monitoring and scrutiny, clear and robust roles and responsibilities for managers and financial procedures and regulations.

Responsible officer

Director – Corporate Services

Risk 2: Pension Fund

The SIC Pension Fund is not currently 100% funded. At 31 March 2017 triennial evaluation the Fund was 90% funded. The Fund, as well as the Council has a number of Scheduled and Admitted Bodies that have liabilities to fund over the long term.
Admitted bodies failing or being unable to meet their contributions places risk from these arrangements on the Council, as the largest contributor to the Pension Fund.

Actions to mitigate risk

Bodies seeking admission to the Pension Fund they now have to be supported in doing so by the Council (as a Schedule 1 Body) and also provide a guarantee / bond to meet any liabilities should they default in the future. This mitigates the risk to the Fund in relation to new employers.

Responsible officer

Executive Manager - Finance

Council Highlights 2017/18

New Chief Executive

Maggie Sandison, who has served as Director of Infrastructure Services since October 2013, was appointed in February 2018 as the new Chief Executive of Shetland Islands Council. Her appointment follows the retirement of Mark Boden, who held the post for over five years.

Community Choices Project

A well-used coastal footpath in Lerwick known as the Sletts opened to the public in December after the completion of improvement works that were initiated as a result of this project being the first-choice voted for by the public in the Shetland Community Choices project in 2017.

Town Centre Works

A new 20mph zone, traffic calming and zebra crossings have been introduced in Lerwick town centre with a view to reducing accidents and improving the town centre experience for pedestrians.

New High School and Halls of Residence

In October 2017 the new Anderson High School and Halls of Residence opened to pupils, with final construction costs amounting to £55.75m.

The Scottish Government has committed to funding construction costs of £42m over the next 25 years.

Knab Site Masterplan

In July 2017, Edinburgh-based 7N Architects were appointed by the Council to produce a masterplan for the redevelopment of the site of the previous Anderson High School in Lerwick. This will include public consultation and is expected to incorporate mixed use and residential development.

Values and Behaviours

During 2017, the Council launched its staff Values and Behaviours Framework, which has the following message at its core: "Excellent service is at the heart of everything we do. We provide excellent service by taking personal responsibility and working well together."

New tug for Sullom Voe port

In November 2017 the Council completed its purchase of a new £7.6m tug to the port of Sullom Voe as a replacement for the *Tirrick*, which was sold to Greek buyers.

A second new tug, replacing the *Shalder*, is currently in operation under a 'bare boat' charter arrangement, with an option to purchase later in 2018.

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2018 and its cashflows. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

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

Financial Performance in 2017/18

The Comprehensive Income and Expenditure Statement (CIES) on page 30 presents the full economic cost of providing Council services in 2017/18. This differs from the budgeted outturn position that was reported to the Policy & Resources Committee of the Council on 22 May 2018 and is available on the Council's website. The reasons for this difference are two-fold:

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

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

The final reporting position reflects only those costs that are required to be met from local taxation. Therefore, the difference between the CIES and the actual outturn position is as a result of necessary accounting adjustments.

The Deficit on Provision of Services of £25.5m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £7.0m in the Expenditure and Funding Analysis on page 38.

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

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

The table that follows shows that the draw on reserves, excluding accounting adjustments, was £8.6m for 2017/18. This is significantly lower than the planned draw on reserves of £17.2m. A breakdown of the variances can be seen in this table and in is explained further detail in the following sections.

As a result of an overall budget underspend and by applying the Council's carry-forward scheme, a sum of £6.7m has been committed for use in 2018/19. Of this, £3.7m will support the 2018/19 revenue budget and £3.0m will support asset investment, or capital, activities.

The actual Total Revenue Draw figure below of £6.973m reconciles to the deficit shown in Note 1: Expenditure and Funding Analysis on page 38.

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

Budget v Expenditure draw from / (contribution to) Reserves 2017/18	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund	22.853	19.345	3.508	1.696	1.812
Revenue Spend to Save	0.250	0.000	0.250	0.377	(0.127)
Housing Revenue Account	0.484	(1.048)	1.532	0.157	1.375
Harbour Account	(9.376)	(11.324)	1.948	1.440	0.508
Total Revenue Draw	**14.211**	**6.973**	**7.238**	**3.670**	**3.568**
Capital Spend to Save	0.620	0.292	0.328	0.268	0.060
Asset Investment Plan	2.334	1.332	1.002	2.734	(1.732)
Total	**17.165**	**8.597**	**8.568**	**6.672**	**1.896**

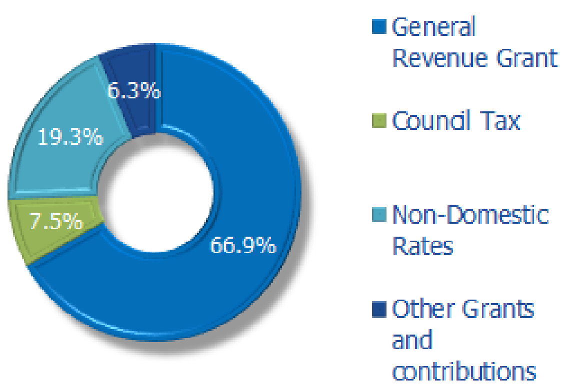
General Fund

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

The General Fund expenditure for 2017/18 was £109.1m, which amounts to 96.7% of the Council's annual budget, resulting in a net underspend of £3.8m. This underspend can be attributed to a drive across services to reduce expenditure and increase income, as well as a number of one-off savings in year, mainly due to the number of staff vacancies within the Council.

In 2017/18 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 total external funding breakdown is shown below:



The collection of Council Tax represents 7.5% of the Council's overall funding and an in-year collection rate of 97.1% was achieved during 2017/18.

The remainder of funding comes from Council's own reserves. This is set at a sustainable level, based on assumptions made about investment income and longer-term growth.

The resources deployed by the Council through its General Fund were used in the delivery and commissioning of services to the population of Shetland. As mentioned above, there have been some notable high-level achievements that have developed and improved these services during 2017/18.

Given the current economic climate and the UK Government's financial objectives over the coming years, it is anticipated that there will be further reductions in the core revenue grant from the Scottish Government. At the same time, the Council must manage demographic and service delivery changes resulting from, for example, increasing demand for community care services, as well as having to manage cost pressures arising from inflation.

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 £9.4m contribution to the Reserve Fund in 2017/18.

The actual contribution was £11.3m, the increase being due to additional income from fish landings, delays in capital programme meaning less revenue contributions required and higher than expected throughput income from the Shetland Gas Plant.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate account within the Council. The HRA budgeted for a £0.5m contribution from its reserve in 2017/18 which was exceeded by £1.5m, giving a total contribution to the HRA of £1.0m in the year. The increase is mainly due to increased capital receipts which reduced the requirement to fund capital from rental income.

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

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

At 31 March 2018 the HRA was responsible for 1,662 properties, a decrease of 22 since 31 March 2017. There has been a consistent reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme. The right to request a council house purchase under the scheme ended on 31 July 2016, however there are still a number of purchases being finalised.

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 2017/18 Shetland Islands Council incurred capital expenditure of £27.8m against a budget of £35.0m representing an underspend of £7.2m in the year.

The main reason for this underspend is a revision to the timing of construction in relation to the Halls of Residence, Scalloway Fish Market, Recycling Sorting Shed and Lerwick Library, as well as delays in ferry replacement and life extension works.

£7.2m will be carried forward to future years to enable work to be completed.

More information about capital expenditure and funding can be found in Note 34: Capital Expenditure and Capital Financing on page 71.

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 2018. When comparing this to the position at 31 March 2017, there has been an overall increase in the net worth of the Council of £73.0m. 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 2013-18, which seeks to provide financial support to the Council's Medium-Term Financial Plan, reduce fund manager fees as a proportion of the fund, and lower the risk of large negative returns while maintaining similar levels of return to that achieved in recent years.

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

As at 31 March 2018 the Council had £345.4m invested with three external Fund Managers, an increase of £11.6m from the previous year. This increase is mainly attributable to excellent equity growth throughout the year and the Fund Managers' management of the investments. During the year the Council withdrew £10.0m from investments to meet its cashflow requirements. This is in line with the approved strategy, which sets a maximum 5.2% withdrawal of investments funds per annum.

The Fund Management Annual Investment Report 2017/18 was presented to Council on 23 May 2018 and this summarised the performance of the Council's investments during the year. The report indicates that the Council's investments experienced positive returns of 6.6% during the year. The target was 7.3%, however this is viewed over a 20-year planning timeframe, to take account of market volatility.

A new investment strategy for 2018/19 onwards was approved by the Council on 22 August 2018.

External Borrowing

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

The Council's Capital Financing Requirement (CFR) is £93.0m as at 31 March 2018, of which £41.2m 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 cashflow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need).

As at 31 March 2018, external borrowing was £41.2m (£31.1m at 31 March 2017) and this is reflected on the Council's Balance Sheet on page 32.

Debt financing costs currently represent 2.1% of the Council's net revenue stream (2% 2016/17) 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 2018/19 is 1.8% 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 2017/18 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The impact of the Local Government Pension Scheme and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 26 and 27 to the accounts.

The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £165.2m as at 31 March 2018 (£229.7m at 31 March 2017). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff up and until 31 March 2018.

During 2017/18, the net pension liability has decreased by £64.5m as a result of updated assumptions. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £58.3m. The assumptions interact in complex ways, however, and are established for particular reasons.

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

Health and Social Care Integration

The Public Bodies (Joint Working) (Scotland) Act 2014 introduced significant changes to the provision of social and health 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, seamless and improved quality of health and social care provision.

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

In 2017/18, the Council contributed £20.6m to the IJB and received income from it of £21.7m, 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 1 April 2017 £m	As at 31 March 2018 £m
General Fund	54.292	60.318
Housing Revenue Account	15.614	17.335
Harbour Reserve Funds	63.518	63.221
Capital Funds	66.498	66.330
Other Usable Funds	44.378	42.593
Total Usable Reserves	**244.300**	**249.797**

The overall level of usable reserves was £249.8m at 31 March 2018, an increase of £5.5m 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 (page 31) and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve has decreased by £1.4m to £22.9m as at 31 March 2018 from the previous year (see page 45). The uncommitted balance represents 19.9% of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

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

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is measured in terms of income generated by those investments and a change in their value reflected by unrealised gains, plus any injection of new money by the Council during the year. More information is outlined in the 'Long-Term Investments' section on page 6.

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

Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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 Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board (IJB).

The interest in OSVJB is deemed to be not material and is therefore not consolidated in group accounts. The results of the remaining two bodies have a net nil impact on both the Comprehensive Income and Expenditure Statement and the Balance Sheet; therefore, no Group Accounts are presented for 2017/18 as there is no financial impact and no qualitative benefit to readers. More detail can be found in Note 38: Group Interests on page 73.

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

2018/19 Budget and Medium-Term Financial Outlook

2018/19 Budget

The Council's 2018/19 budget is a tactical financial plan that complements the strategic Medium-Term Financial Plan (MTFP), to ensure that the Council delivers its strategic financial objectives and achieves its target outcomes.

It was prepared in line with budget targets set out in the Council's MTFP 2016/17-2021/22.

Comparative figures for the 2017/18 settlement are shown in the following table. The increase in revenue funding for Shetland is significantly higher than the Scottish average as a result of an additional funding for internal ferry operations that affected only Shetland and Orkney Islands Councils. Capital funding, however, has reduced by 7.8% for 2018/19; a significantly different outcome for Shetland than the average change.

Note that 2017/18 figures have been redetermined by the Scottish Government (Circular 4/2018).

	2018/19	2017/18	Movement	
Scotland	**£bn**	**£bn**	**£bn**	**%**
Revenue	9.780	9.686	0.094	1.0%
Capital	0.876	0.786	0.090	11.5%
Total	**10.656**	**10.472**	**0.184**	**1.8%**
Shetland	**£m**	**£m**	**£m**	**%**
Revenue	86.061	81.964	4.097	5.0%
Capital	6.643	7.208	(0.565)	-7.8%
Total	**92.704**	**89.172**	**3.532**	**4.0%**

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

- Overall teacher: pupil ratios to be maintained and all probationer placements secured;
- £52m revenue and £150m capital funding to deliver the programme for the expansion of Early Years provision;
- A further £66m funding for social care, to be used for specific purposes; and
- Council Tax increases capped at 3%.

Following the announcement of the financial settlement for 2018/19 the Corporate Management Team considered the detail and agreed a revised budget strategy that was discussed with Councillors in seminars held in November 2017. A report on the settlement was also prepared and the Council considered this ahead of the formal budget-setting meeting.

The revised budget strategy took into account additional funding that was announced by the Scottish Government in January 2018 in support of inter-island ferries, which benefits Shetland to the value of £5.0m. The 2018/19 budget was formally approved by the Council on 14 February 2018.

Medium-Term Financial Outlook

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

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

The latest MTFP was approved by the Council on 8 March 2017; it covers a five-year period to March 2022 and will be refreshed in autumn 2018. The MTFP is based on the following key principles:

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

Outlook - Projects and Initiatives

New Council Leadership

Cecil Smith stepped down as Council leader in March 2018 and a new leader was appointed by the Council in May. Steven Coutts had been serving as Deputy Leader since the local elections in May 2017 and is an independent member for Shetland West.

The Council also appointed a replacement Deputy Leader in May 2018: Emma MacDonald, who was elected as a member for Shetland North in the local elections in May 2017.

Business Transformation Programme

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

The most recent update report was presented to the Policy & Resources Committee on 28 August 2018 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22952

It demonstrates that all workstreams are well underway and in particular, that the Customer Strategy and Charter were approved on 18 June 2018 and are now live.

The report also updates the programme to Phase 2, removing completed items and introducing additional areas of work.

There are now eight subject areas, known as 'workstreams', as follows:

- Customer First
- Commissioning / Procurement Framework
- Workforce Strategy
- Accommodation Rationalisation
- Broadband & Connectivity
- Digital First
- Information Management & Improvement
- Performance & Management Reporting

Eric Gray Resource Centre

The construction of a new Eric Gray Resource Centre to support adults with learning disabilities and complex needs commenced in August 2016, with the contract awarded to local contractor DITT Construction Limited. The project is progressing well and is expected to be completed in September 2018.

Kerbside Recycling

A new kerbside collection service is being rolled out on a phased basis across Shetland in 2018. At just 7.9%, Shetland Islands Council had the lowest recycling rate in Scotland in 2016/17 and the new scheme aims to address this. The first phase of the scheme launched in March 2018 collecting plastics and paper. The rollout will be complete by October 2018.

College Integration

A review of tertiary education in Shetland has moved forward to focus on addressing the unsustainable model currently in place and complex governance arrangements, with the aim of achieving growth in the sector and secure the benefits that the tertiary education, research and training sector delivers for the future.

A strategic outline business case was presented to the Council for consideration on 23 May 2018; it can be found here:

http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22485

The decision resulted in approval to prepare a full business case on a merger of tertiary education, research and training services. This work will be reported to the Council in the Autumn.

Inter-Island Transport Study

Shetland Islands Council, in partnership with ZetTrans, the Highlands and Islands Transport Partnership (HITRANS), Orkney Islands Council and Transport Scotland, undertook a network-wide study of inter-island transportation in each of the archipelagos, in order to assess the appropriateness of service needs to outer islands in applying national standards and methodology.

This work has been the foundation for engaging with Transport Scotland and the Scottish Government in relation to fair funding for these services.

Shetland Islands Council was awarded £5.0m revenue funding in its 2018/19 financial settlement to support the delivery of inter-island ferries, however this has so far been committed only for one year.

With the support of Scottish Government Ministers, a multi-agency Inter-Island Working Group has been working to resolve the funding of inter-island transport on a permanent basis. The Council will continue to lobby for revenue funding and capital investment for its ferry replacement programme, with analysis of priority routes expected to be carried out during 2018/19.

Making Places

The Council has been awarded national funding as part of the Making Places Initiative to develop design workshops that will encourage the community of Scalloway to take part in shaping their environment.

Consultants GL Hearn were appointed to lead workshops in May 2018.

Executive Manager - Finance

The unaudited annual accounts were signed by the then Executive Manager – Finance and Section 95 officer, Jonathan Belford, who took up a new post at Aberdeen City Council on 1 September 2018. Jamie Manson has been appointed as the new Executive Manager – Finance and will start on 24 September 2018. In the interim Hazel Tait, Acting s95 Officer, has been given delegated authority to sign the annual accounts.

Conclusion

In summary, the Council has had a financially successful year in 2017/18 and is moving forward with a number of exciting projects designed to improve its efficiency and effectiveness and to secure improved outcomes for the people of Shetland.

The continuing challenges that lie ahead will be addressed by the Council in line with the Medium-Term Financial Plan.

Maggie Sandison Chief Executive 19 September 2018	Steven Coutts Leader of the Council 19 September 2018	Hazel Tait CPFA Acting Section 95 Officer 19 September 2018

Annual Governance Statement

Scope of Responsibility

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

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

The Council approved and adopted its code of governance in 2012. It is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This statement explains how the Council has complied with the code.

The Governance Framework

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

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

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

The governance framework has been in place for the year ended 31 March 2018 and up to the date of approval of the annual accounts.

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

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

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

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the annual report of the Executive Manager – Audit, Risk & Improvement, and also by comments made by external auditors and other review agencies and inspectorates.

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

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2017/18, no areas of weakness or concern were raised.

- The Council's **financial management** arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The Council's **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The Council's **Constitution** promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.
- A significant **induction and training programme** for new and returning councillors is delivered after each local election, including the May 2017 election.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their **Audit Plan** during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's **external auditor** is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice.

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

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

Significant Governance Issues

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

The following issues and related action plans were highlighted in Internal Audit's Annual Report for 2017/18 as specific areas of concern:

- fire and other risk assessments either not being in place or out of date and inadequate health and safety monitoring;
- contractual and procurement issues identified in procurement reviews;
- operational grants processing and monitoring issues.

A mid-year progress report is presented to Audit Committee outlining any follow-up work carried out in relation to the issues highlighted in the annual reports. Reports can be viewed on the Council's website as follows:

- Annual Report – June 2018: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22649
- Progress Report - February 2018: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=21962
- Annual Report - June 2017: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=21055

Internal audit concluded that, aside from the areas still noted above, satisfactory progress had been made in addressing control weaknesses.

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

Conclusion

Overall, we consider that the governance and internal control environment operating in 2017/18 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

....
Steven Coutts
Leader of the Council
19 September 2018

....
Maggie Sandison
Chief Executive
19 September 2018

Remuneration Report

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

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

All information disclosed in the tables in this Remuneration Report has been audited by Deloitte LLP. The other sections of the Remuneration Report have been reviewed by Deloitte LLP to ensure that they are consistent with the financial statements.

Remuneration Arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 and the (Remuneration) Regulations 2007 (as amended) ("the Regulations"). 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 2017/18 the level of remuneration (including expenses) for the former Leaders was £3.6k (G Robinson) (£28.9k in 2016/17) and £35.1k (C Smith) and £36.4k for the Convener (£21.4k in 2016/17).

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 £171k in 2017/18 (£171k in 2016/17).

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

The senior councillor positions are:

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

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2017/18 was £171k (£171k in 2016/17).

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

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

Local government elections were held in May 2017, resulting in changes to senior councillor posts.

Remuneration of Conveners and Vice-Conveners for Joint Boards

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

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

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

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

Remuneration of Senior Employees

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

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/149 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2017/18.

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.

The current senior management structure is:

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

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

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

Allowances

Senior employees are entitled to a mobile phone and 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.

The following 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 2017/18 and 2016/17.

Number of Employees							
Total at 31 March 2017	Remuneration Bands	Children's Services	Infra-structure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2018
58	£50,000 - £54,999	23	33	0	1	1	58
30	£55,000 - £59,999	8	13	2	2	2	27
16	£60,000 - £64,999	7	7	1	2	2	19
9	£65,000 - £69,999	2	6	0	0	1	9
7	£70,000 - £74,999	0	11	0	0	0	11
4	£75,000 - £79,999	1	2	0	0	2	5
1	£80,000 - £84,999	0	0	0	0	0	0
5	£85,000 - £89,999	1	0	0	1	3	5
1	£90,000 - £94,999	0	1	0	0	0	1
1	£100,000 - £104,999	0	0	0	0	0	0
1	£105,000 - £109,999	0	0	0	0	0	0
3	£110,000 - £114,999	0	0	0	0	0	0
1	£115,000 - £119,999	0	1	0	0	0	1
0	£135,000 - £139,999	0	2	0	0	0	2
1	£140,000 - £144,999	0	1	0	0	0	1
0	£145,000 - £149,999	0	1	0	0	0	1
138	**Total**	**42**	**78**	**3**	**6**	**11**	**140**

Of the 42 staff (42 in 2016/17) in Children's Services noted above, 20 were head teachers or senior teaching staff (29 in 2016/17).

Of the 78 staff (74 in 2016/17) in Infrastructure Services noted above, 67 worked in Ports and Harbours Operations or Ferry Operations (67 in 2016/17).

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:

	2017/18 £000	2016/17 £000
Salaries	368	372
Expenses	59	84
Allowances	30	34
Total	**457**	**490**

The annual return of Councillors' salaries and expenses for 2017/18 is available for any member of the public to view at the Finance Service, Montfield, 28 Burgh Road, Lerwick during normal working hours or on the Council's website at http://www.shetland.gov.uk/

Summary of Remuneration paid to Employees

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

	2017/18 £000	2016/17 £000
Salaries	69,786	68,299
Overtime	3,207	2,968
Expenses	1,794	1,850
Allowances	626	622
Total	**75,413**	**73,739**

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

Exit Packages

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

The Regulations also require disclosure of the number of compulsory redundancies and other agreed departures. The cost of exit packages must pay back within three years, with ongoing salary savings realised thereafter.
The total cost for 2017/18 of £138k (£222k in 2016/17) in the table includes £40k (£32k in 2016/17) for termination benefits agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement (CIES) in the current year, comprising redundancy payments and pension strain costs.

In addition, the table includes £98k (£190k in 2016/17) for the capitalised cost of compensatory added years, agreed in 2017/18, that will be charged to the CIES in future years.

Exit package cost band (including special payments)	(a) Number of compulsory redundancies		(b) Number of other departures agreed		(a+b) Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 £000	2016/17 £000
£0 - £19,999	0	1	5	6	**5**	**7**	**32**	**18**
£20,000 - £39,999	0	0	0	2	**0**	**2**	**0**	**68**
£40,000 - £59,999	0	0	1	0	**1**	**0**	**45**	**0**
£60,000 - £79,999	0	0	1	0	**1**	**0**	**61**	**0**
£80,000 - £99,999	0	0	0	0	**0**	**0**	**0**	**0**
£100,000 - £149,999	0	0	0	1	**0**	**1**	**0**	**136**
Total	**0**	**1**	**7**	**9**	**7**	**10**	**138**	**222**

The table above details the number and cost of exit packages awarded in 2017/18 and 2016/17. Included in the cost of the exit packages are:

- Any termination payment, such as a redundancy payment;
- Strain on the Fund cost (the amount payable by the Council to the Pension Fund because the employee has retired before the assumed retirement age);
- Any enhanced payments, such as compensatory added years; and
- A capitalised value of the recurring compensatory added years payment. This is paid annually by the Council once an employee has left and is therefore a notional cost at 31 March 2018.

Disclosure of Remuneration for Senior Councillors

There was an election on 4 May 2017, which changed the senior post holders during the year. Prior year figures are shown only once per affected councillor.

Councillor Name	Designation	2017/18 Salary, Fees and Allowances £	2017/18 Taxable Expenses £	2017/18 Total Remuneration £	2016/17 Total Remuneration £
Until 3 May 2017					
G Robinson	Leader of the Council	2,546	70	**2,616**	**28,920**
F Robertson	Chair - Planning Committee	1,678	169	**1,847**	**19,290**
C Smith	Chair - Integration Joint Board	1,769	0	**1,769**	see below
G Smith	Chair - Licensing Committee	1,678	0	**1,678**	see below
M Stout	Chair - Environment & Transport Committee	1,769	121	**1,890**	**19,696**
V Wishart	Chair - Education & Families Committee	1,769	0	**1,769**	**19,568**
From 8 May 2017					
I Scott	Chair - Licensing Committee	16,657	120	**16,777**	**0**
C Smith (a)	Leader of the Council	24,302	125	**24,427**	**19,718**
G Smith	Chair - Education & Families Committee	17,539	98	**17,637**	**18,555**
T Smith (b)	Chair - Planning Committee	16,798	0	**16,798**	**16,893**
R Thomson	Chair - Environment & Transport Committee	17,539	133	**17,672**	**0**
Full year (excluding 4-7 May)					
M Bell	Convener	20,797	177	**20,974**	**21,356**
P Campbell	Chair - Shetland College Board	18,335	138	**18,473**	**18,771**
A Cooper	Chair - Development Committee	19,308	177	**19,485**	**19,816**
A Duncan	Chair - Audit Committee	19,216	125	**19,341**	**18,705**
A Manson	Chair - Harbour Board	18,335	98	**18,433**	**18,555**

Notes:

a) C Smith stepped down as Leader of the Council on 8 March 2018 and the post was held on an interim basis by the Depute Leader, S Coutts, until he was formally appointed as Leader on 9 May 2018.

b) T Smith received an allowance from the Orkney and Shetland Valuation Joint Board as Vice Convener and therefore did not receive additional remuneration for holding the Chair of Planning Committee post. He was not a senior councillor in 2016/17.

c) Taxable expenses include telephone line rental / broadband costs.

d) The chair of the Integration Joint Board from 8 May 2017 was appointed to a person not employed by Shetland Islands Council.

e) Due to the Local Election, there was a gap between 3 and 8 May 2017 where no councillor remuneration was paid.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2017/18 Salary, Fees and Allowances £	2017/18 Taxable Expenses £	2017/18 Total Remuneration £	2016/17 Total Remuneration £
M Boden (c)	Chief Executive	87,694	37	**87,731**	**103,562**
M Sandison	Chief Executive	8,888	0	**8,888**	**0**
M Sandison (d)	Director - Infrastructure Services	79,797	0	**79,797**	**86,315**
H Budge	Director - Children's Services	87,206	0	**87,206**	**86,315**
C Ferguson	Director - Corporate Services	87,206	337	**87,543**	**86,770**
N Grant (e)	Director - Development Services	88,542	0	**88,542**	**86,315**
J Belford	Executive Manager - Finance (Section 95 Officer)	76,331	0	**76,331**	**75,548**
J Riise (f)	Executive Manager - Governance & Law (Monitoring Officer)	76,331	23	**76,354**	**75,548**
M Nicolson	Executive Manager - Children & Families (Chief Social Work Officer)	68,729	0	**68,729**	**67,163**

Notes:

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

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

c) M Boden retired from the post of Chief Executive during 2017/18. Remuneration is shown up to his retirement date of 31 January 2018. The full-time equivalent remuneration for the post of Chief Executive in 2017/18 was £104,648.

d) M Sandison held the post of Director of Infrastructure Services until her appointment as Chief Executive, which commenced on 19 March 2018. The full-time equivalent remuneration for the post of Director of Infrastructure Services in 2017/18 was £87,229. The post remained vacant until 18 May 2018.

e) From 1 February 2018 to 28 February 2018, N Grant, Director of Development Services held the position of Interim Chief Executive; the remuneration above includes £1.3k in addition to his Director salary.

f) In addition to the above, the Executive Manager - Governance & Law received a payment of £3.2k for his Returning Officer duties in respect of the local and general elections in 2017 (£6.5k in 2016/17);

g) The post of Director of Community Health & Social Care is held by S Boker-Ingram, who is employed by NHS Shetland; 50% of the cost of this post is funded by the Council. In 2017/18 the Council paid £60k (£59k for 2016/17) to NHS Shetland in respect of this post and his remuneration is disclosed in the Remuneration Report of the Integration Joint Board.

Pension Benefits – Senior Councillors

The pension entitlements for senior councillors are shown in the table below, together with the contribution made by the Council to each senior councillor during the year.

There was an election on 4 May 2017, which changed the senior post holders 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. Some senior councillors who were re-elected took advantage of these Scheme conditions.

Name of Councillor	Designation	In-Year Employer Pension		Accrued Pension Benefits			
				As at 31 March 2018		Difference from 31 March 2017	
		31 March 2018 £000	31 March 2017 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	4	4	2	0	0	0
G Robinson	Leader of the Council	1	6	6	2	2	0
C Smith (a)	Leader of the Council	5	4	4	20	(1)	18
P Campbell	Chair - Shetland College Board	4	4	3	0	1	0
A Cooper	Chair - Development Committee	4	4	0	0	(4)	(2)
A Duncan	Chair - Audit Committee	4	4	0	0	(4)	(1)
A Manson	Chair - Harbour Board	4	4	2	0	0	0
I Scott	Chair - Licensing Committee	3	n/a	0	0	n/a	n/a
G Smith	Chair - Education & Families Committee	4	4	2	0	0	0
T Smith	Chair - Planning Committee	4	3	0	0	0	0
M Stout	Chair - Environment & Transport Committee	0	4	2	0	0	0

Notes:

a) C Smith stepped down as Leader of the Council on 8 March 2018 and the post was held on an interim basis by the Depute Leader, S Coutts, until he was formally appointed as Leader on 9 May 2018.

b) The table excludes F Robertson, Chair of the Planning Committee until 3 May 2017, V Wishart, Chair of the Education & Families Committee until 3 May 2017 and R Thomson, Chair of the Environment & Transport Committee from 8 May 2017, as they are not members of the Local Government Pension Scheme.

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer		Accrued Pension Benefits			
				As at 31 March 2018		Difference from 31 March 2017	
		31 March 2018 £000	31 March 2017 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Boden (a)	Chief Executive	18	20	8	0	0	0
M Sandison (b)	Chief Executive Director - Infrastructure Services	18	17	30	46	3	2
H Budge	Director - Children's Services	15	15	28	84	1	4
C Ferguson	Director - Corporate Services	18	17	46	96	2	1
N Grant	Director - Development Services	18	17	21	21	2	1
J Belford	Executive Manager - Finance	16	15	29	51	2	1
M Nicolson	Executive Manager - Children & Families	14	13	23	36	2	1
J Riise (c)	Executive Manager - Governance & Law	17	16	36	67	2	1

Notes:

a) M Boden figures for 2017/18 are reported up to the retirement date of 31 January 2018.

b) M Sandison held the post of Director of Infrastructure Services until her appointment as Chief Executive, which commenced on 19 March 2018.

c) The Executive Manager - Governance & Law also has pension benefits arising from Returning Officer (RO) duties in respect of Local Government, Scottish and European Parliamentary elections. A single disclosure of the pension benefits is detailed above and includes RO accrued pension benefits of £1.8k and £2.7k lump sum at 31 March 2018. In 2016/17, the comparative figures were £1.6k and £2.5k respectively;

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

Pension Benefits

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

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

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

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

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

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

Tiered contribution rates on whole time pay are as follows:	2017/18 %
On earnings up to and including £20,700	5.50
On earnings above £20,700 and up to £25,300	7.25
On earnings above £25,300 and up to £34,700	8.50
On earnings above £34,700 and up to £46,300	9.50
On earnings above £46,300	12.00

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

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

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

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

Trade Union Facility Time Report 2017/18

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

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

Facility Time Publication Requirements 2017/18	Central Function Employees	Education Function Employees
Table 1 - What was the total number of your employees who were relevant union officials during the relevant period?		
Number of employees	25	8
Full-time equivalent employee number	23.2	5.9
Table 2 - How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?		
Percentage of time	**Number of employees**	**Number of employees**
0%	5	0
1-50%	20	8
51-99%	0	0
100%	0	0
Table 3 - Percentage of pay bill spent on facility time: Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.		
	£000	**£000**
Total cost of facility time (A)	10	25
Total pay bill (B)	91,710	19,415
Percentage of the total pay bill spent on facility time (A ÷ B)	0.01%	0.13%
Table 4 - Paid trade union activities: As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?		
	%	**%**
Total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ Total paid facility time hours x 100	18.69%	0%

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Steven Coutts
Leader of the Council
19 September 2018

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Maggie Sandison
Chief Executive
19 September 2018

Statement of Responsibilities for the Annual Accounts

The Council's Responsibilities

The Council is required to:

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

I can confirm that these annual accounts were approved for signature by the Council on 19 September 2018.

Signed on behalf of Shetland Islands Council.

The Executive Manager - Finance's Responsibilities

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

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

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

The Executive Manager - Finance has also:

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

I certify that the annual accounts give a true and fair view of the financial position of the Council at the reporting date and the transactions of the Council for the year ended 31 March 2018.

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Steven Coutts
Leader of the Council
19 September 2018

....

Hazel Tait CPFA
Acting Section 95 Officer
19 September 2018

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Shetland Islands Council for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, Housing Revenue Account, Council Tax Income Account, and the Non-domestic Rate Income Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Shetland Islands Council as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Other information in the annual accounts

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

P. Kenny

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

19 September 2018

Comprehensive Income and Expenditure Statement for year ended 31 March 2018

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 on page 31 and in Note 1: Expenditure and Funding Analysis on page 38.

2016/17 Net Expenditure £000		Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
2,155	Chief Executive and Cost of Democracy		6,181	(6,104)	77
47,837	Children's Services		62,835	(8,267)	54,568
20,745	Community Care Services		56,036	(30,695)	25,341
11,313	Corporate Services		19,071	(12,701)	6,370
14,805	Development Services		27,875	(10,486)	17,389
27,066	Infrastructure Services		48,938	(19,777)	29,161
(1,361)	Housing Revenue Account		5,828	(7,141)	(1,313)
(9,659)	Harbour Account		20,290	(28,759)	(8,469)
112,901	**Cost of Services**		**247,054**	**(123,930)**	**123,124**
0	Removal of internal recharges		(38,377)	38,377	0
112,901	**Net Cost of Services**		**208,677**	**(85,553)**	**123,124**
(572)	Other operating income and expenditure	7	3,357	0	3,357
(1,840)	Financing and investment income and expenditure	8	10,025	(13,644)	(3,619)
(96,055)	Taxation and non-specific grant income	9	0	(97,371)	(97,371)
14,434	**Deficit on Provision of Services**		**222,059**	**(196,568)**	**25,491**
	Items that will not be reclassified to the (surplus) or deficit on the provision of services			**Notes**	
(4,529)	Surplus on revaluation of non-current assets			10	(10,305)
(61,891)	Surplus on revaluation of available for sale financial assets			10	(57,555)
79,290	Remeasurement of the net defined benefit liability			10	(78,203)
12,870					**(146,063)**
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
1,868	Amounts recycled from the AFSFI reserve upon derecognition			10	47,791
14,738	**Other Comprehensive Income and Expenditure**				**(98,272)**
29,172	**Total Comprehensive Income and Expenditure**				**(72,781)**

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.

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

Comparative movements in 2016/17 (restated)	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1 April 2016	**(40,232)**	**(13,143)**	**(84,178)**	**(104,676)**	**(242,229)**	**(265,862)**	**(508,091)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	16,385	(1,951)	0	0	**14,434**	14,738	**29,172**
Removal of IJB surplus (Note 2)	125	0	0	0	**125**	0	**125**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(18,999)	(520)	1,569	0	**(17,950)**	17,950	**0**
Net (Increase)/Decrease before transfers	**(2,489)**	**(2,471)**	**1,569**	**0**	**(3,391)**	**32,688**	**29,297**
Net Transfers to/(from) Other Statutory Reserves	(11,571)	0	16,111	(3,220)	**1,320**	(1,320)	**0**
(Increase)/Decrease in year	**(14,060)**	**(2,471)**	**17,680**	**(3,220)**	**(2,071)**	**31,368**	**29,297**
Balance at 31 March 2017	**(54,292)**	**(15,614)**	**(66,498)**	**(107,896)**	**(244,300)**	**(234,494)**	**(478,794)**

Balance Sheet as at 31 March 2018

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

Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use 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 2017 (restated) £000		Notes	As at 31 March 2018 £000
371,052	Property, Plant and Equipment	12	423,052
4,854	Heritage Assets	14	4,853
25,114	Intangible Assets	15	27,160
333,784	Long-term Investments	17	345,392
4,393	Long-term Debtors	22	1,911
739,197	**Long-Term Assets**		**802,368**
1,355	Assets held for Sale	20	557
4,511	Inventories	24	4,704
16,293	Short-term Debtors	21	16,876
3,909	Cash and Cash equivalents	19	4,002
26,068	**Current Assets**		**26,139**
(18,002)	Short-term Creditors	23	(18,620)
(634)	Short-term Provisions	25	(1,378)
(24)	Grant Receipts in Advance - Revenue	10	(197)
(18,660)	**Current Liabilities**		**(20,195)**
(31,075)	Long-term Borrowing	17	(41,202)
(229,675)	Pension Liability	27	(165,171)
(1,230)	Long-term Provisions	25	(579)
0	Deferred Liabilities	17	(44,321)
(5,831)	Other Long-term Liabilities	17	(5,702)
(267,811)	**Long-Term Liabilities**		**(256,975)**
478,794	**Net Assets**		**551,337**
(244,300)	Usable Reserves	7	(249,797)
(234,494)	Unusable Reserves	11	(301,540)
(478,794)	**Total Reserves**		**(551,337)**

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Hazel Tait CPFA
Acting Section 95 Officer
19 September 2018

Cash Flow Statement for year ended 31 March 2018

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 cashflows as operating, investing and financing activities.

The amount of net cashflows 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.

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

2016/17 £000		Notes	2017/18 £000
	Operating activities		
14,434	Net deficit on the provision of services		25,491
(35,382)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	30	(52,886)
8,959	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	30	9,738
(11,989)	**Net cash flows from Operating Activities**		**(17,657)**
10,488	Investing activities	31	27,088
112	Financing activities	32	(9,524)
(1,389)	**Net increase in cash and cash equivalents**		**(93)**
2,520	Opening Cash and Cash Equivalents		3,909
1,389	Net movement of Cash and Cash Equivalents during the year		93
3,909	**Closing Cash & Cash Equivalents**		**4,002**

Housing Revenue Account

Introduction and Statutory Background

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

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

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

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

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

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

The HRA Income and Expenditure Statement

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

Housing Revenue Account Income and Expenditure Statement

2016/17 £000		2017/18 £000
	Expenditure	
2,055	Repairs and maintenance	2,368
670	Supervision and management	592
2,395	Depreciation and impairment of non-current assets	2,235
48	Movement in the allowance for bad debts	60
175	Other expenditure	206
5,343	**Total expenditure**	**5,461**
	Income	
(6,552)	Dwelling rents	(6,577)
(190)	Non-Dwelling rents	(221)
(25)	Other Income	(22)
(6,767)	**Total income**	**(6,820)**
(1,424)	**Net income of HRA services as included in the CIES**	**(1,359)**
63	HRA services' share of Corporate and Democratic Core	89
(1,361)	**Net Income of HRA Services**	**(1,270)**
	HRA share of operating income and expenditure included in the CIES	
(128)	Taxation and non-specific grant income	(114)
(766)	Gain on sale of HRA non-current assets	1,764
624	Interest payable and similar charges	497
(404)	Interest and investment income	(836)
84	Pension interest cost and expected return on pension assets	99
(590)	**Net HRA share of operating expenditure**	**1,410**
(1,951)	**(Surplus) / Deficit for the year on HRA services**	**140**

Movement on the Housing Revenue Account Statement

2016/17 £000		2017/18 £000
0	**Opening balance on the HRA**	(15,614)
(13,143)	Transfer from Housing Repairs & Renewals Account	0
(1,951)	(Surplus) / Deficit on the HRA Income and Expenditure Statement	140
(520)	Adjustment between accounting basis and funding basis under statute	(2,023)
(15,614)	**Increase in year on the HRA**	**(1,883)**
0	Transfers to reserves	162
(15,614)	**Closing balance on the HRA**	**(17,335)**

The adjustments between accounting basis and funding basis for the HRA are shown in disclosure Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations on page 42 and transfers to or reserves are shown in Note 7: Transfers to / (from) Earmarked Reserves on page 45.

Further information on HRA activities can be found in Note 13: Notes to the Housing Revenue Account on page 54.

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

2016/17 £000		2017/18 £000
(10,435)	Gross Council Tax levied and contributions in lieu	(11,056)
623	Council Tax Reduction Scheme	625
1,208	Other discounts and reductions	1,299
35	Write-offs of uncollectable debts	51
27	Adjustment to previous years' Community Charge and Council Tax	39
(8,542)	**Transfer to General Fund**	**(9,042)**

Council Tax Base

The table below shows the Council Tax base used to set the 2017/18 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.

2017/18	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2017/18 Band D equivalents	**2016/17 Band D equivalents
Band A*			11	(1)	(3)	7	0.56	4	3
Band A	2,954	(124)	4	(453)	(299)	2,082	0.67	1,388	1,401
Band B	1,825	(63)	8	(230)	(173)	1,367	0.78	1,063	1,069
Band C	2,774	(71)	11	(301)	(216)	2,197	0.89	1,953	1,953
Band D	1,801	(33)	5	(133)	(41)	1,599	1.00	1,599	1,584
Band E	1,377	(15)	1	(65)	(12)	1,286	1.31	1,685	1,533
Band F	272	(2)	1	(7)	(1)	263	1.63	429	365
Band G	64	(2)	0	(4)	(1)	57	1.96	112	88
Band H	1	(1)	0	0	0	0	2.45	0	0
Sub-total								**8,232**	**7,996**
Less Bad Debt provision at 3%								(247)	(240)
Council Tax Base								**7,985**	**7,756**

** Relates to Band A properties subject to disabled relief ** The 2016/17 figure has been adjusted for Council Tax Reduction*

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

2016/17 £000		2017/18 £000
27,279	Gross rates levied and contributions in lieu	29,875
(3,779)	Reliefs and other deductions	(4,569)
1	Write-offs of uncollectable debts	(16)
23,501	**Net non-domestic rate income**	**25,290**
(242)	Adjustment to previous years' national non-domestic rates	(409)
23,259	**Contribution to non-domestic rate pool**	**24,881**
(17,822)	Distribution from non-domestic rate pool	(23,240)
(17,822)	**Transfer to Comprehensive Income & Expenditure Statement**	**(23,240)**

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 2017/18 is 46.6p (48.4p in 2016/17) with a large business supplement of 2.6p (2.6p in 2016/17) for all subjects with a rateable value above £51,000 (£35,000 in 2016/17).

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

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

Rateable values at 1 April 2017	Number of Subjects	Rateable Value £000
Commercial	561	8,589
Industrial	486	37,058
Other	1,009	15,149
Total	**2,056**	**60,796**

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.

2017/18	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,706	198	(1,827)	77
Children's Services	40,417	10,127	4,024	54,568
Community Care Services	19,229	3,021	3,091	25,341
Corporate Services	9,411	1,870	(4,911)	6,370
Development Services	13,997	2,309	1,083	17,389
Infrastructure Services	24,426	7,935	(3,200)	29,161
Housing Revenue Account	(1,048)	274	(539)	(1,313)
Harbour Account	(11,324)	3,127	(272)	(8,469)
Net Cost of Services	**96,814**	**28,861**	**(2,551)**	**123,124**
Other income and expenditure	(89,841)	3,686	(11,478)	(97,633)
(Surplus) or Deficit	**6,973**	**32,547**	**(14,029)**	**25,491**
Opening General Fund and HRA balance*		**70,031**		
Add (Surplus) / Deficit in the year		6,973		
Add other items not charged to the (Surplus) / Deficit		649		
Closing General Fund and HRA balance		**77,653**		

2016/17	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,754	642	(241)	2,155
Children's Services	39,954	5,775	2,108	47,837
Community Care Services	18,323	1,470	952	20,745
Corporate Services	10,562	5,988	(5,237)	11,313
Development Services	13,815	1,623	(633)	14,805
Infrastructure Services	19,725	5,652	1,689	27,066
Housing Revenue Account	(2,067)	648	58	(1,361)
Harbour Account	(12,118)	2,468	(9)	(9,659)
Net Cost of Services	**89,948**	**24,266**	**(1,313)**	**112,901**
Other income and expenditure	(87,300)	(4,746)	(6,421)	(98,467)
(Surplus) or Deficit	**2,648**	**19,520**	**(7,734)**	**14,434**
Opening General Fund and HRA balance*		**53,375**		
Add (Surplus) / Deficit in the year		2,648		
Add other items not charged to the (Surplus) / Deficit		13,883		
Closing General Fund and HRA balance		**69,906**		

**For a split between General Fund and HRA balances, see the Movement in Reserves Statement on page 31.*

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

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

2016/17	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	376	266	0	642
Children's Services	5,471	(102)	406	5,775
Community Care Services	410	928	132	1,470
Corporate Services	655	5,161	172	5,988
Development Services	1,429	148	46	1,623
Infrastructure Services	5,014	572	66	5,652
Housing Revenue Account	498	143	7	648
Harbour Account	2,275	140	53	2,468
Net Cost of Services	**16,128**	**7,256**	**882**	**24,266**
Other income and expenditure	(4,818)	0	72	(4,746)
Total adjustments between accounting basis and funding basis	**11,310**	**7,256**	**954**	**19,520**

Capital Adjustments

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

Pensions Adjustments

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

Other Adjustments

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

Presentational Adjustments

Further adjusting differences between amounts charged to the CIES and amounts reported internally to management include year-end internal recharges. These are removed from Gross Expenditure and Gross Income in the CIES and net to nil overall; i.e. income to one service line is a cost to another. Some items of investment income and expenditure are not reported internally and therefore must also be presented here.

Note 2: Change in Accounting Policy

The Council reported debtor and creditor balances in its unaudited accounts relating to amounts owed from and owing to Zetland Transport Partnership and the Shetland Islands Integration Joint Board (IJB). In line with presentation in those bodies' accounts, the accounting policy has been changed so that only the net amount outstanding is shown in the balance sheet.

In addition, £0.363m has been removed from Usable Reserves (Community Care Fund) because this is cash held on behalf of the IJB which cannot be spent by the Council alone.

The impact on the primary statements is as follows:

Effect on Balance Sheet as at 31 March 2018	As Originally Stated £000	As Restated £000	Restatement £000
Short-term Debtors	40,848	16,876	(23,972)
Short-term Creditors	(42,229)	(18,620)	23,609
Usable Reserves	(250,160)	(249,797)	363

Effect on Balance Sheet as at 31 March 2017	As Originally Stated £000	As Restated £000	Restatement £000
Short-term Debtors	37,869	16,293	(21,576)
Short-term Creditors	(39,453)	(18,002)	21,451
Usable Reserves	(244,425)	(244,300)	125

Note 3: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

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

The Code requires implementation in the accounts from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements, neither will there be retrospective restatement of the 2017/18 year in next year's accounts upon implementation of the two new standards. Instead, opening balances at 1 April 2018 will be adjusted.

The new standards are expected to have negligible impact on the Council's financial statements, except for IFRS 9: Financial Instruments. Under this new accounting standard, the classification of 'Available for Sale' financial assets disappears and, due to the nature of investments held by the Council, any unrealised gains and losses may require to be accounted for as income through the CIES.

The value of the Council's accumulated unrealised gains in Available for Sale financial assets at 31 March 2018 was £108.5m (see Note 11: Unusable Reserves on page 48).

Note 4: Material Items of Income and Expenditure

The CIES includes an actuarial gain on the pension liability of £78.2m (see Note 11: Unusable Reserves).

Note 5: Assumptions and Major 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties	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. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £58.3m; 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 (ie 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 Available-for-Sale financial assets (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.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in anticipated spending on repairs and maintenance may reduce the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation accelerates and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £1.0m for every year that useful lives were reduced.
Arrears	At 31 March 2018, the Council had a balance on short-term sundry debtors of £5.8m. A review of significant balances suggested that an allowance for impairment of doubtful debts of £0.2m is appropriate in the current economic climate. Council Tax collection does not impose a significant impairment risk as historically, less than 0.5% of charges levied are ever written off.	If sundry debtor collection rates were to deteriorate, for example if the amount of doubtful debts doubled, an additional £0.2m would require to be set aside as an allowance. It is estimated that no more than £0.1m will eventually be written off from Council Tax charges of £9.0m levied during 2017/18.
Fishing Quota	Fishing quota held by the Council were valued at £26.3m by an independent broker at 31 March 2018. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market. It is highly probable that Brexit will have a long-term impact on the quantity of FQAs in the market, however the transitional period to 31 December 2020 provides some short-term assurance.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.

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

This note details the adjustments that are made to the CIES, recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.
The following sets out a description of the reserves that the adjustments are made against:

General Fund

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

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

Housing Revenue Account

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

Capital Usable Reserves

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

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

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

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

2017/18	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(14,901)	(2,059)	0	**(16,960)**	16,960
Charges for impairment of non-current assets	(6,987)	(153)	0	**(7,140)**	7,140
Amortisation of intangible assets	(1,332)	(23)	0	**(1,355)**	1,355
Capital grants and contributions applied	7,537	114	8	**7,659**	(7,659)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,008)	(3,421)	0	**(5,429)**	5,429
Capital repayment in respect of finance leases	99	0	0	**99**	(99)
Insertion of items not charged to the CIES:				**0**	0
Statutory provision for the financing of capital investment (principal repayments)	968	827	0	**1,795**	(1,795)
Capital expenditure charged against the General Fund and HRA balances	268	1,260	0	**1,528**	(1,528)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	10	0	(10)	**0**	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	103	**103**	(103)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	422	1,657	0	**2,079**	(2,079)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,221	**1,221**	(1,221)
Adjustments involving the Financial Instruments Adjustment Account:					
Transfer of former Shetland Development Trust balances to the Local Investment Fund	(1,929)	0	0	**(1,929)**	1,929
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(26,009)	(429)	0	**(26,438)**	26,438
Employer's pensions contributions and direct payments to pensioners payable in the year	12,556	183	0	**12,739**	(12,739)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	782	21	0	**803**	(803)
Total Adjustments	**(30,524)**	**(2,023)**	**1,322**	**(31,225)**	**31,225**

2016/17	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation and impairment of non-current assets	(15,993)	(2,107)	0	**(18,100)**	18,100
Revaluation losses on property, plant and equipment	(249)	(265)	0	**(514)**	514
Amortisation of intangible assets	(1,044)	(23)	0	**(1,067)**	1,067
Capital grants and contributions applied	4,652	128	45	**4,825**	(4,825)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(538)	(1,462)	0	**(2,000)**	2,000
Capital repayment in respect of finance leases	94	0	0	**94**	(94)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	244	1,086	0	**1,330**	(1,330)
Capital expenditure charged against the General Fund and HRA balances	1,512	45	0	**1,557**	(1,557)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	38	0	(38)	**0**	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	**0**	0
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	344	2,228	0	**2,572**	(2,572)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,562	**1,562**	(1,562)
Adjustments primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(72)	0	0	**(72)**	72
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(18,830)	(316)	0	**(19,146)**	19,146
Employer's pensions contributions and direct payments to pensioners payable in the year	11,717	173	0	**11,890**	(11,890)
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	(875)	(7)	0	**(882)**	882
Total Adjustments	**(19,000)**	**(520)**	**1,569**	**(17,951)**	**17,951**

Note 7: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2017/18.

	Balance at 31 March 2017 (restated) £000	Transfers out £000	Transfers in £000	Balance at 31 March 2018 £000
General Fund Balance (unearmarked)	(24,284)	20,439	(19,033)	**(22,878)**
Equalisation Fund (unearmarked)	(16,067)	0	(861)	**(16,928)**
Revenue Spend to Save Fund	(2)	0	(2,009)	**(2,011)**
Council Tax Second Homes Receipts	(1,164)	0	(164)	**(1,328)**
Welfare Reform Fund	(208)	0	(11)	**(219)**
Hansel Funds	(161)	1	0	**(160)**
School Funds	(283)	48	0	**(235)**
Shetland College	(180)	180	0	**0**
Central Energy Efficiency Fund	(117)	41	0	**(76)**
Community Care Fund	(367)	403	(265)	**(229)**
Local Investment Fund	(11,459)	0	(4,795)	**(16,254)**
Total General Fund	**(54,292)**	**21,112**	**(27,138)**	**(60,318)**
Capital Fund	(66,498)	3,332	(3,164)	**(66,330)**
Repairs & Renewals Fund	(44,134)	5,805	(2,364)	**(40,693)**
Housing Revenue Account	(15,614)	162	(1,883)	**(17,335)**
Harbour Reserve Fund	(63,518)	11,715	(11,418)	**(63,221)**
Insurance Fund	(244)	0	(1,656)	**(1,900)**
Total Statutory Reserves	**(190,008)**	**21,014**	**(20,485)**	**(189,479)**
Total Usable Reserves	**(244,300)**	**42,126**	**(47,623)**	**(249,797)**

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.

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.

Shetland College Reserve: previously held funds relating to Shetland College; now transferred to the General Fund Balance.

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

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

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

Other Statutory Reserves

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

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

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

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

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

Note 8: Other Operating Income and Expenditure

2016/17 £000		2017/18 £000
(572)	(Gains)/losses on the disposal of non-current assets	3,357
(572)	**Total**	**3,357**

Note 9: Financing and Investment Income and Expenditure

2016/17 £000		2017/18 £000
2,343	Interest payable and similar charges	3,959
5,264	Pensions interest cost and expected return on pensions assets	6,066
(2,361)	Interest receivable and similar income	(2,312)
(2,749)	Other investment income	(3,401)
(3,739)	Realised gains in relation to available for sale	(7,854)
(598)	Income from transferred SDT financial instruments	(77)
(1,840)	**Total**	**(3,619)**

Note 10: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2017/18:

2016/17 £000		2017/18 £000
	Credited to Taxation and Non-Specific Grant Income	
(64,873)	Revenue Support Grant	(57,428)
(17,822)	Non-domestic Rates	(23,240)
(8,542)	Council Tax	(9,042)
(4,818)	Capital Grants and Contributions	(7,648)
0	Donated Assets	(13)
(96,055)	**Total**	**(97,371)**
	Credited to Services	
(3,072)	Housing Benefit funding	(3,134)
(1,653)	Further Education and Higher Education funding	(2,752)
0	Scottish Government PFI Support	(1,601)
(286)	EU grants	(527)
0	Household Recycling Charter grant	(515)
(350)	Skills Development Scotland funding	(360)
(352)	Criminal Justice grant	(336)
(134)	NHS grants	(336)
(2,051)	Sports Development and Facilities funding	(312)
(50)	Educational Attainment / Pupil equity funding	(187)
(199)	Active Schools funding	(186)
0	Expansion of Early Learning and Childcare funding	(184)
(146)	Energy grants	(157)
(10)	Training grants	(98)
(83)	Education Maintenance Allowance funding	(88)
(51)	Employability funding	(82)
(70)	Youth Music funding	(78)
(155)	Department of Work and Pensions funding	(71)
(38)	Electric Vehicle funding	(62)
0	Empowering Communities funding	(50)
0	Smarter Choices Smarter Places funding	(49)
(23)	Languages funding	(39)
(101)	Transport grants	(25)
(15)	Youth Legacy / Year of Young People	(19)
(32)	Community Development funding	(12)
(184)	Housing grants	(10)
0	Athlete Support Programme funding	(10)
(17)	Milk Subsidy	(8)
(20)	Self Directed Support funding	0
(39)	Other grants and contributions	(50)
(9,131)	**Total**	**(11,338)**

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

Note 11: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2016/17 £000		2017/18 £000
(89,850)	Revaluation Reserve	(96,359)
(98,700)	Available for Sale Financial Instruments Reserve	(108,464)
(1,929)	Financial Instruments Adjustment Account	0
229,675	Pensions Reserve	165,171
(276,871)	Capital Adjustment Account	(264,267)
3,181	Employee Statutory Adjustment Account	2,379
(234,494)	**Total Unusable Reserves**	**(301,540)**

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.

2016/17 £000		2017/18 £000
(91,109)	**Opening balance**	**(89,850)**
(4,529)	Surplus on revaluation of non-current assets	(10,305)
	Amounts written off to the Capital Adjustment Account:	
4,731	Difference between fair value depreciation and historical cost depreciation	2,672
1,057	Assets sold or scrapped	1,124
(89,850)	**Closing balance**	**(96,359)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised.

2016/17 £000		2017/18 £000
(38,677)	**Opening balance**	**(98,700)**
(61,891)	Surplus on revaluation of available for sale financial assets	(57,555)
1,868	Removal of previously unrealised gains in relation to assets sold	47,791
(98,700)	**Closing balance**	**(108,464)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The value of investment assets transferred from Shetland Development Trust in 2014/15 have been transferred to the Local Investment Fund.

2016/17 £000		2017/18 £000
(2,001)	**Opening balance**	**(1,929)**
72	Amount by which finance costs charged to the CIES are different from the finance costs chargeable in the year in accordance with statutory requirements	0
0	Amounts written out to Usable Reserves	1,929
(1,929)	**Closing balance**	**0**

Pensions Reserve

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

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

2016/17 £000		2017/18 £000
143,129	**Opening balance**	**229,675**
79,290	Actuarial (gains) and losses on pensions assets and liabilities	(78,203)
19,146	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	26,438
(11,890)	Employer's pensions contributions and direct payments to pensioners payable in the year	(12,739)
229,675	**Closing balance**	**165,171**

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.

2016/17 £000		2017/18 £000
2,299	**Opening balance**	**3,181**
(2,299)	Settlement or cancellation of accrual made at the end of the preceding year	(3,181)
3,181	Amounts accrued at the end of the current year	2,379
3,181	**Closing balance**	**2,379**

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.

2016/17 £000		2017/18 £000
(279,503)	**Opening balance**	**(276,871)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
18,100	Charges for depreciation of non-current assets	16,960
514	Charges for impairment of non-current assets	7,140
1,067	Amortisation of intangible assets	1,355
(94)	Repayment of capital on finance leases	(99)
0	Repayment of capital on PFI contract	(514)
2,000	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	5,429
175	Prior year disposal of asset transferred to stock	0
(5,787)	Adjustment amounts written out of the Revaluation Reserve	(3,796)
	Capital financing applied in the year:	
(4,134)	Use of the Capital Receipts Reserve to finance new capital expenditure	(3,300)
(4,780)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(7,651)
(1)	Application of grants to capital financing from the Capital Grants Unapplied Account	(8)
(1,330)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,281)
(1,557)	Capital expenditure charged against the General Fund and HRA balances	(1,528)
(1,541)	Capital Fund Reserve	(103)
(276,871)	**Closing balance**	**(264,267)**

Note 12: Property, Plant and Equipment

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

Movements in 2016/17	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
Cost or Valuation								
Opening Balance at 1 April 2016	**65,771**	**148,948**	**47,040**	**163,813**	**6,920**	**251**	**8,901**	**441,644**
Additions	2,507	2,731	3,518	2,478	0	0	9,372	20,606
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(4,494)	(4,065)	(707)	0	0	(62)	0	(9,328)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(302)	(5,751)	(140)	0	0	(39)	0	(6,232)
Derecognition – disposals	(787)	(469)	(274)	(67)	(1)	0	0	(1,598)
Assets reclassified (to)/ from Assets Held for Sale	(399)	(538)	(300)	0	0	(19)	0	(1,256)
Other movements in cost or valuation	(137)	3,406	(1,434)	1,214	0	124	(3,174)	(1)
Closing Balance at 31 March 2017	**62,159**	**144,262**	**47,703**	**167,438**	**6,919**	**255**	**15,099**	**443,835**
Accumulated Depreciation and Impairment								
Opening Balance at 1 April 2016	**0**	**(6,326)**	**(14,804)**	**(46,179)**	**(8)**	**(31)**	**0**	**(65,021)**
Depreciation charge	(2,040)	(7,362)	(4,715)	(3,967)	8	(9)	0	(18,085)
Depreciation written out to the Revaluation Reserve	1,962	3,892	770	0	0	7	0	6,631
Depreciation written out to the Surplus/Deficit on the Provision of Services	49	5,533	118	0	0	19	0	5,719
Derecognition – disposals	24	25	241	22	0	0	0	312
Other movements in depreciation or impairment	5	(561)	(747)	1,299	0	(8)	0	(12)
Closing Balance at 31 March 2017	**0**	**(4,799)**	**(19,137)**	**(48,825)**	**0**	**(22)**	**0**	**(72,783)**
Net Book Value								
As at 31 March 2017	**62,159**	**139,463**	**28,566**	**118,613**	**6,919**	**233**	**15,099**	**371,052**
As at 31 March 2016	**65,771**	**142,622**	**32,236**	**117,634**	**6,912**	**220**	**8,901**	**374,296**

Capital Commitments

At 31 March 2018 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 £3.3m. Similar commitments at 31 March 2017 were £11.0m.

Major commitments at 31 March	£m
Eric Gray Replacement	1.110
New Halls of Residence	0.576
Housing Quality Standard	0.498
Heating Replacement Programme	0.483

Revaluations

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

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

The significant assumptions applied in estimating the fair values are:

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

The following table shows useful lives have been used in the calculation of depreciation and also details of revaluation programmes. The basis of valuation is set out in Note 40: Accounting Policies on page 82.

Category of Asset	Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2014
Other Land and Buildings (including PFI Assets)	1-120 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Valued on 5-year rolling programme
Vehicles, Furniture, Plant & Equipment	1-32 years	Operational Manager	Existing Use Value	31 March 2016
Infrastructure Assets	2-47 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	2-20 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	Historical Cost	n/a

Note 13: Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2016/17 Number	Housing Stock	2017/18 Number
87	1 Apartment	78
407	2 Apartment	412
527	3 Apartment	521
626	4 Apartment	615
34	5 Apartment	33
1	6 Apartment	1
2	8 Apartment	2
1,684	**Total**	**1,662**

Amount of Rent Arrears

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

2016/17 £000		2017/18 £000
227	Total value of rent arrears	232

2016/17		2017/18
547	Number of properties in arrears	520
32.5%	Properties in arrears as share of total stock (%)	31.3%
£415	Average amount per property in arrears (£)	£446

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The movements on the HRA bad debt provision during 2017/18 are detailed in Note 21: Short-term Debtors on page 61.

Void Rents

The following table summarises the income lost due to voids in 2017/18. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2016/17 £000		2017/18 £000
66	General needs void rents and charges	68
30	Sheltered housing void rents and charges	45
96	**Total**	**113**

Note 14: Heritage Assets

Net Value	Historic Buildings £000	Museum Collection £000	War Memorial £000	Total Assets £000
Opening Balance at 1 April 2017	**1,585**	**3,269**	**0**	**4,854**
Additions	0	13	0	**13**
Depreciation	(14)	0	0	**(14)**
Closing Balance at 31 March 2018	**1,571**	**3,282**	**0**	**4,853**

2016/17	Historic Buildings £000	Museum Collection £000	War Memorial £000	Total Assets £000
Opening Balance at 1 April 2016	**1,599**	**3,269**	**57**	**4,925**
Other movements	0	0	(56)	**(56)**
Depreciation	(14)	0	(1)	**(15)**
Closing Balance at 31 March 2017	**1,585**	**3,269**	**0**	**4,854**

Additions in the year comprised of the restoration of a lifeboat from the liner "Oceanic" as well as three paintings, as follows:

- 'Sea eagle at North Roe, Shetland' by George Lodge (1915)
- 'The Skerries, Shetland' by Albert Dunnington (1880); and
- Portrait of Charles Ogilvy and Margaret Fea (c1830)

There were no disposals, revaluations or impairments during 2017/18.

The War Memorial asset was written off in the previous year, as it is not a Council asset.

Historic Buildings

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

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

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

Museum Collection

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

Note 15: Intangible Assets

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

A fishing quota is the right to fish species over a defined period, usually one year. Quota are held by Government and distributed to the fishing industry through Producer Organisations. The Fishing Quota was originally purchased by the Shetland Development Trust to enable long-term access to a strategically important resource. The quota was transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. The market value at 31 March 2018 is £26.3m. This is amortised on a straight-line basis over a 20-year period.

Fishing licences provide authority for a registered fishing vessel to fish for sea fish, subject to limitations stated in the licence. The licences were transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. There were no disposals in 2017/18 (£0.2m in 2016/17). The market value as at 31 March 2018 was £0.1m (£0.1m in 2016/17). This is amortised on a straight-line basis over a 10-year period.

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

The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £1.4m was charged directly to the Net Cost of Services in the CIES for 2017/18 (£1.1m in 2016/17).

The movement on Intangible Asset balances during the year is as follows:

As at 31 March 2017 £000		As at 31 March 2018 £000
	Balance at 1 April:	
22,101	Gross carrying amounts	27,301
(3,058)	Accumulated amortisation	(2,187)
19,043	**Net carrying amount at start of year**	**25,114**
295	Purchases	14
(129)	Disposals	0
26	Disposal amortisation	0
5,034	Revaluation increases	2,180
1,912	Revaluation amortisation	1,207
(1,067)	Amortisation for the period	(1,355)
25,114	**Net carrying amount at end of year**	**27,160**
	Comprising:	
27,301	Gross carrying amounts	29,495
(2,187)	Accumulated amortisation	(2,335)
25,114	**Balance at 31 March**	**27,160**

NB: - Improved analysis has led to 2016/17 information being reclassified.

Note 16: Private Finance Initiatives and similar contracts

Anderson High School contract

On 6 October 2017, the Council entered into a 25-year contract for the construction, maintenance and operation of the Anderson High School in Lerwick. 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 2018 (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 2018/19	248	1,165	2,296	51	**3,760**
Payable within 2 to 5 years	1,288	5,101	8,551	282	**15,222**
Payable within 6 to 10 years	2,864	7,174	9,110	331	**19,479**
Payable within 11 to 15 years	3,303	9,158	7,070	510	**20,041**
Payable within 16 to 20 years	6,021	10,406	4,516	(267)	**20,676**
Payable within 21 to 25 years	4,533	12,482	1,493	441	**18,949**
Total	**18,257**	**45,486**	**33,036**	**1,348**	**98,127**

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

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

	2017/18 £000	2016/17 £000
Opening balance	**0**	**0**
Addition - asset brought into use	46,000	0
Capital payments incurred in the year	(514)	0
Closing balance	**45,486**	**0**

Note 17: Financial Instruments

Categories of Financial Instruments

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

As at 31 March 2017			As at 31 March 2018	
Long-Term £000	Current £000		Long-Term £000	Current £000
		Investments:		
333,784	0	Available for sale financial assets	345,392	0
0	3,909	Cash and cash equivalents	0	4,002
		Debtors:		
4,316	581	Loans	1,867	438
0	15,712	Trade receivables	44	16,438
338,100	**20,202**	**Total Financial Assets**	**347,303**	**20,878**
		Borrowing:		
(31,075)	(18)	External borrowing: principal sums	(41,202)	(27)
0	(397)	External borrowing: accrued interest	0	(502)
0	0	Deferred Liabilities (PFI)	(44,321)	(1,165)
		Creditors:		
(5,831)	(99)	Finance lease liabilities	(5,702)	(105)
0	(17,488)	Trade payables	0	(16,821)
0	**(116)**	**Financial guarantees**	**0**	**(108)**
(36,906)	**(18,118)**	**Total Financial Liabilities**	**(91,225)**	**(18,728)**

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 cashflows 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 2017			As at 31 March 2018	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
4,897	4,559	Loans and receivables	2,305	2,310
(37,420)	(43,549)	Financial liabilities at amortised cost	(93,024)	(106,059)

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

Income, Expense, Gains and Losses

Year ending 31 March 2018	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000
Interest expense	0	0	3,054	**3,054**
Fee expenses	0	1,014	0	**1,014**
Total expense in (Surplus)/Deficit on the Provision of Services	**0**	**1,014**	**3,054**	**4,068**
Interest & dividend income	(195)	(5,704)	0	**(5,899)**
Gains on de-recognition	0	(7,854)	0	**(7,854)**
Total income in (Surplus)/Deficit on the Provision of Services	**(195)**	**(13,558)**	**0**	**(13,753)**
Gains on revaluation	0	(57,555)	0	**(57,555)**
Amounts recycled	0	47,791	0	**47,791**
(Surplus)/Deficit arising on revaluation of financial assets in CIES	**0**	**(9,764)**	**0**	**(9,764)**
Net (Gain)/Loss for the year	**(195)**	**(22,308)**	**3,054**	**(19,449)**

Year ending 31 March 2017	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000
Interest expense	0	0	1,303	**1,303**
Fee expenses	0	1,040	0	**1,040**
Total expense in (Surplus)/Deficit on the Provision of Services	**0**	**1,040**	**1,303**	**2,343**
Interest & dividend income	(306)	(5,402)	0	**(5,708)**
Gains on de-recognition	0	(3,739)	0	**(3,739)**
Total income in (Surplus)/Deficit on the Provision of Services	**(306)**	**(9,141)**	**0**	**(9,447)**
Gains on revaluation	0	(61,891)	0	**(61,891)**
Amounts recycled	0	1,868	0	**1,868**
(Surplus)/Deficit arising on revaluation of financial assets in CIES	**0**	**(60,023)**	**0**	**(60,023)**
Net (Gain)/Loss for the year	**(306)**	**(68,124)**	**1,303**	**(67,127)**

There were gains for available-for-sale financial assets on revaluation of £57.6m as at 31 March 2018 (£61.9m at 31 March 2017) and no other indicators of impairment have been identified.

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 Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet one of the following categories:

- a bank or building society with at least an A- long-term Fitch IBCA rating;
- Bank of Scotland – Council's own bank;
- any bank which is a wholly owned subsidiary of the above; or
- any local authority.

The 'A-' long-term rating is defined by Fitch IBCA (International Bank Credit Association) as: "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong".

The Annual Investment Strategy states that the Council cannot lend more than £3.0m of its surplus balances to any single organisation at any one time, apart from the Council's own bank. No deposits were placed with any financial institutions outwith the Council's own bank during the financial year 2017/18.

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 2018, £2.0m of this balance was loaned to local businesses, leaving £13.0m available for future lending.

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

As at 31 March 2017 £000	Shetland Investment Fund	As at 31 March 2018 £000
611	Less than 1 year	439
1,624	2-5 years	883
1,011	6-10 years	591
1,313	Over 10 years	54
4,559	**Total**	**1,967**

The following analysis summarises the Council's potential maximum exposure to credit risk at 31 March 2018, based on experience of default and uncollectability, adjusted to reflect current market conditions:

Estimated maximum exposure to default and uncollectability at 31 March 2018		Deposits with Banks	Shetland Investment Fund	Customers
Balance at 31 March 2018	(a)	5,579	1,967	185
Historical experience of default expressed as % of (a)	(b)	0%	0%	25%
Historical experience adjusted for market conditions	(c)	0%	0%	25%
Estimated maximum exposure	**(a) x (c)**	**0**	**0**	**46**
Estimated maximum exposure at 31 March 2017		**0**	**32**	**64**

No credit limits were exceeded during the financial year and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and local authorities.

The Council does not generally allow credit for customers, such that £2.7m of the £5.4m balance of sums owing at 31 March 2018 is past its due date for payment.

The past due, but not impaired, amount can be analysed by age as follows:

As at 31 March 2017 £000	Customers	As at 31 March 2018 £000
505	Less than 3 months	1,178
523	3-6 months	274
246	7-12 months	251
744	Over 12 months	950
2,018	**Total**	**2,653**

Liquidity Risk

The Council has external investments with Fund Managers amounting to £345.4m at 31 March 2018. 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 2018 the Council had fixed rate borrowings amounting to £41.0m from the Public Works Loan Board. The balance of £0.2m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2017 £000	Borrowing	As at 31 March 2018 £000
0	Less than 10 years	11,229
23,093	10-20 years	18,000
7,000	20-30 years	7,000
1,000	Over 40 years	5,000
31,093	**Total**	**41,229**

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 2018 the composition of these funds was diversified between the following asset classes:

- UK Equities
- Overseas Equities
- Diversified Growth Fund
- Emerging Market Equities
- UK Index Linked Gilts
- UK Corporate Bonds
- Other Bonds
- 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 the Global Equity Fund and a risk assessment of a general shift of +/-1% in the Fund would have resulted in a gain or loss in the region of £1.5m for 2017/18. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 17: Financial Instruments.

At 31 March 2018, the Council had external fixed rate borrowing amounting to £41.2m and no variable rate borrowing. Borrowings are not valued at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

Price Risk

The Council had £345.4m of investments as at 31 March 2018 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external Fund Managers, asset classes, investment guidelines and benchmarks.

The Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the CIES. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £11.5m gain or loss being recognised in the CIES for 2017/18.

Foreign Exchange Risk

The Council has £179.5m 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 £000		As at 31 March £000
29	Cash held by the Council	54
3,880	Bank current accounts	3,948
3,909	**Total**	**4,002**

Note 20: Assets Held for Sale

2016/17 £000		2017/18 £000
654	**Balance at 1 April 2017**	**1,355**
	Assets newly classified as held for sale:	
1,256	Property, plant and equipment	428
	Assets declassified as held for sale:	
0	Property, plant and equipment	(10)
(555)	**Assets sold**	(1,216)
1,355	**Balance at 31 March 2018**	**557**

Note 21: Short-term Debtors

As at 31 March 2017 (restated)* £000		As at 31 March 2018 £000
2,766	Central Government Bodies	3,366
3,670	Other Local Authorities	2,403
379	NHS Bodies	590
1,227	Public Corporations and Trading Funds	1,176
8,251	Other Entities and Individuals	9,341
16,293	**Total**	**16,876**

* see Note 2: Change in Accounting Policy on page 40 for details.

Movements in impairment allowance

The Council has made allowance for the risk of incurring bad debts on its General Fund and Housing Revenue Account. Debtor figures in the Balance Sheet are shown net of this allowance and the movement is shown in the tables below:

2016/17 £000	General Fund	2017/18 £000
(213)	**Opening balance**	**(147)**
66	Movement in year	34
(147)	**Closing balance**	**(113)**

2016/17 £000	HRA	2017/18 £000
(39)	**Opening balance**	**(53)**
(14)	Movement in year	(18)
(53)	**Closing balance**	**(71)**

Note 22: Long-term Debtors

As at 31 March 2017 £000		As at 31 March 2018 £000
343	Long-term loans (PFI)	343
3,973	Development loans	1,524
77	Other long-term debtors	44
4,393	**Total**	**1,911**

Note 23: Short-term Creditors

As at 31 March 2017 (restated)* £000		As at 31 March 2018 £000
(3,740)	Central Government Bodies	(4,708)
(964)	Other Local Authorities	(2,254)
(108)	NHS Bodies	(238)
(872)	Public Corporations and Trading Funds	(781)
(12,318)	Other Entities and Individuals	(10,639)
(18,002)	**Total**	**(18,620)**

* see Note 2: Change in Accounting Policy on page 40 for details.

Note 24: Inventories

Balance at 31 March 2017 £000		Purchases £000	Recognised as an expense in the year £000	Balances written off £000	Balance at 31 March 2018 £000
2,870	Ports & Harbours stocks	894	(785)	0	2,979
1,399	Infrastructure stocks	2,618	(2,526)	(1)	1,490
242	ICT equipment	186	(193)	0	235
4,511	**Total**	**3,698**	**(3,504)**	**(1)**	**4,704**

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

Note 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.

A provision is recognised for decommissioning costs that are expected to be incurred between 2018 and 2027. The short-term provision of £0.8m recognises the estimated payment due in 2018/19. The provision is calculated at today's prices based on the estimated remaining useful lives of the energy recovery plant and landfill site and current usage. £0.6m is expected to be required beyond 2018/19. Total estimated costs are adjusted in the year when events indicating a change become known.

A provision of £0.1m was recognised in 2014/15 in relation to a grant payment for works at Symbister Peerie Dock. The grant will only be paid out if certain conditions are met. The deadline for the drawdown of the grant has been extended to March 2020.

The Council participates in the Carbon Reduction Commitment Energy Efficiency Scheme where it is required to purchase and surrender allowances, currently retrospectively, on the basis of carbon emissions. As carbon dioxide is emitted (i.e.as energy is used), a liability is recognised and then discharged by surrendering allowances. A provision of £0.1m is recognised, calculated on the basis of the current market price of allowances needed to meet the Council's liability at 31 March 2018.

Shetland Islands Council is required to respond to legal claims raised against it. The potential liabilities that arise from this consist of an estimate of legal fees and an estimate of the settlement of any actions. The provision of £0.3m is based on information available at 31 March 2018.

A number of financial guarantees transferred to the Council as part of the wind-up of the Shetland Development Trust. The likelihood of these guarantees being called has been assessed and a provision of £0.1m has been recognised at 31 March 2018.

Long-term Provisions	Balance at 1 April 2017 £000	Amounts used in 2017/18 £000	Unused amounts reversed £000	Additional provisions made £000	Transfer from Short-term Provisions £000	Transfer to Short-term Provisions £000	Balance at 31 March 2018 £000
Decommissioning	(1,230)	0	9	(146)	0	788	**(579)**
Total	**(1,230)**	**0**	**9**	**(146)**	**0**	**788**	**(579)**

Short-term Provisions	Balance at 1 April 2017 £000	Amounts used in 2017/18 £000	Unused amounts reversed £000	Additional provisions made £000	Transfer to Long-term Provisions £000	Transfer from Long-term Provisions £000	Balance at 31 March 2018 £000
Decommissioning	0	2	0	0	0	(788)	**(786)**
Carbon Reduction Commitment	(127)	127	0	(119)	0	0	**(119)**
Symbister Peerie Dock	(75)	0	0	0	0	0	**(75)**
Outstanding Legal Actions	(317)	0	27	0	0	0	**(290)**
Financial Guarantees	(115)	0	7	0	0	0	**(108)**
Total	**(634)**	**129**	**34**	**(119)**	**0**	**(788)**	**(1,378)**

Note 26: Leases

The Council as a Lessee

Finance Leases

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

As at 31 March 2017 £000		As at 31 March 2018 £000
6,507	Property, plant and equipment	7,102
6,507		**7,102**

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 2017 £000		As at 31 March 2018 £000
(75)	Current	(75)
(1,592)	Non-current	(1,516)
(2,508)	Finance costs payable in future years	(2,221)
(4,175)		**(3,812)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2018 £000	As at 31 March 2017 £000	As at 31 March 2018 £000	As at 31 March 2017 £000
Not later than one year	(337)	(364)	(75)	(75)
Later than one year and not later than five years	(1,117)	(1,204)	(300)	(300)
Later than five years	(2,358)	(2,607)	(1,216)	(1,292)
	(3,812)	**(4,175)**	**(1,591)**	**(1,667)**

Operating Leases

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

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

As at 31 March 2017 £000		As at 31 March 2018 £000
2,209	Not later than one year	3,097
7,482	Later than one year and not later than five years	6,840
6,780	Later than five years	5,627
16,471	**Total**	**15,564**

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

As at 31 March 2017 £000		As at 31 March 2018 £000
2,512	Minimum lease payments	2,310
(1,011)	Sub-lease payments receivable	(1,033)
1,501	**Total**	**1,277**

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

As at 31 March 2017 £000		As at 31 March 2018 £000
(980)	Not later than one year	(1,001)
(4,750)	Later than one year and not later than five years	(4,709)
(2,404)	Later than five years	(2,404)
(8,134)	**Total**	**(8,114)**

The total value of rental income, excluding sub-leases, recognised in 2017/18 was £1.4m (£1.7m in 2016/17).

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

As at 31 March 2017 £000		As at 31 March 2018 £000
(1,085)	Not later than one year	(904)
(4,273)	Later than one year and not later than five years	(4,197)
(12,723)	Later than five years	(12,127)
(18,081)	**Total**	**(17,228)**

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

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

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

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

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

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

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

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

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

These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the Note 40: Accounting Policies on page 74.

Transactions Relating to Post-Employment Benefits

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

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

2016/17 £000	Local Government Pension Scheme	2017/18 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
13,882	Current service cost	20,157
220	Past service cost (including curtailments)	215
	Financing and Investment Income and Expenditure:	
5,044	Net interest expense	6,066
19,146	**Total pension benefit charged to the Surplus/Deficit on the Provision of Services**	**26,438**
	Other pension benefit charged to the CIES	
(55,844)	Return on plan assets (excluding the amount included in the net interest expense)	13,741
0	Actuarial (gains) and losses arising from changes in demographic assumptions	1,200
133,459	Actuarial (gains) and losses arising on changes in financial assumptions	(43,830)
1,675	Actuarial (gains) and losses arising from other experience	(49,314)
98,436	**Total pension benefit charged to the CIES**	**(51,765)**
	Movement in Reserves Statement	
(19,146)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(26,438)
11,890	Employer's contributions and direct payments to pensioners payable in the year	12,739

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

2016/17 £000		2017/18 £000
(635,789)	Present value of the defined benefit obligation	(570,338)
406,114	Fair value of assets in the Local Government Pension Scheme	405,167
(229,675)	**Net liability arising from Defined Benefit Obligation**	**(165,171)**
(196,052)	Local Government Pension Scheme	(133,233)
(15,936)	Unfunded liabilities for Pension Fund	(14,998)
(17,687)	Unfunded liabilities for Teachers	(16,940)
(229,675)	**Total**	**(165,171)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2016/17 £000		2017/18 £000
336,121	**Opening balance**	**406,114**
11,797	Interest income	10,580
	Re-measurement gains and (losses):	
55,844	Return on assets excluding amounts included in net interest	(13,741)
11,890	Employer contributions	12,739
3,239	Contributions by scheme participants	3,310
(12,777)	Benefits paid	(13,835)
406,114	**Closing balance**	**405,167**

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

2016/17 £000		2017/18 £000
479,250	**Opening balance**	**635,789**
13,882	Current service cost	20,157
16,841	Interest cost	16,646
3,239	Contributions by scheme participants	3,310
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	1,200
133,459	Actuarial (gains) and losses from changes in financial assumptions	(43,830)
1,675	Actuarial (gains) and losses from other experience	(49,314)
(12,777)	Benefits paid	(13,835)
220	Past service costs including curtailments	215
635,789	**Closing balance**	**570,338**

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2018 comprised:

2016/17 £000	Quoted Prices not in Active Markets	2017/18 £000
1,643	**Cash and cash equivalents**	**2,021**
	Property:	
42,306	UK property	47,120
1,321	Overseas property	440
43,627	**Sub-total Property**	**47,560**
	Investment Funds and Unit Trusts:	
256,211	Equities	254,562
35,237	Bonds	34,563
69,396	Other	66,461
360,844	**Sub-total Investment Funds and Unit Trusts**	**355,586**
406,114	**Total Assets**	**405,167**

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 2017, projected forward to 31 March 2018.

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

The principal assumptions used by the actuary have been:

2016/17		2017/18
	Long-term expected rate of return on assets in the Scheme:	
3.5%	Investment Funds and Unit Trusts	2.6%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.8	Men	22.1
23.8	Women	24.0
	Longevity at 65 for future pensioners (in years):	
24.9	Men	23.9
26.7	Women	26.1
3.4%	Rate of inflation	3.4%
4.4%	Rate of increase in salaries	3.0%
2.4%	Rate of increase in pensions	2.4%
2.6%	Rate for discounting scheme liabilities	2.7%
70.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.0%
85.0%	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	2017/18	
	%	£000
0.5% decrease in real discount rate	10%	58,281
0.5% increase in the salary increase rate	2%	11,057
0.5% increase in the pension increase rate	8%	46,318

Impact on the Council's Cashflows

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

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

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

The employers' common contribution rate was set at 20.8% for 2017/18. Rates for the next three years, set out in the latest triennial valuation as at 31 March 2017, are as follows:

Year	Employer contributions
2018/19	20.80%
2019/20	20.80%
2020/21	20.80%

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2019 is £11.2m.

The weighted average duration of the defined benefit obligation for Scheme members is 20.6 years for 2017/18.

Note 28: Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the SPPA uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities.

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

As a proportion of the total contributions into the Teachers' Pension Scheme, the Council's own contributions equated to approximately 0.6% (0.7% for 2016/17).
In 2017/18, the Council paid £2.6m to the SPPA in respect of teachers' pension costs, representing 17.2% of pensionable pay (£2.6m and 17.2% for 2016/17). There were no contributions remaining payable at the year-end. The estimated contribution for 2018/19 is £2.5m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2017/18 these amounted to £0.9m, representing 5.7% of teachers' pensionable pay (£0.9m and 5.2% for 2016/17). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 29: External Audit Costs

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

2016/17 £000		2017/18 £000
218	Fees payable with regard to external audit services carried out by the appointed auditor for the year	212
218	**Total**	**212**

Note 30: Cash Flow Statement – Operating Activities

Cashflows for operating activities include the following:

2016/17 £000		2017/18 £000
(1,718)	Interest received	(2,437)
2,266	Interest paid	4,068
(605)	Dividends received	(3,456)
(57)	**Total**	**(1,825)**

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

2016/17 £000		2017/18 £000
(18,614)	Depreciation, impairment and revaluations	(24,100)
(1,067)	Amortisation	(1,355)
52	Decrease in impairment for bad debts	16
(14,904)	Increase in creditors	(2,792)
14,620	Increase in debtors	2,711
(53)	Decrease in inventories	193
(7,256)	Movement in pension liability	(13,699)
(2,000)	Carrying amount of non-current assets sold or de-recognised	(5,429)
(6,160)	Other non-cash items charged to the net surplus or deficit on the provision of services	(8,431)
(35,382)	**Total**	**(52,886)**

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

2016/17 £000		2017/18 £000
4,134	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,079
4,825	Any other items for which the cash effects are investing or financing cash flows	7,659
8,959	**Total**	**9,738**

Note 31: Cash Flow Statement – Investing Activities

2016/17 £000		2017/18 £000
20,889	Purchase of property, plant and equipment, investment property and intangible assets	27,775
700	Purchase of short-term and long-term investments	11,608
(4,134)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,079)
(2,142)	Proceeds from short-term and long-term investments	(2,557)
(4,825)	Other receipts from investing activities	(7,659)
10,488	**Total**	**27,088**

Note 32: Cash Flow Statement – Financing Activities

2016/17 £000		2017/18 £000
0	Cash receipts of short and long-term borrowing	(10,155)
94	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	613
18	Repayments of short and long-term borrowing	18
112	**Total**	**(9,524)**

Note 33: Related Parties

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

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits). Details of all grants received from Central Government and other public bodies can be found on page 47.

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, Montfield, 28 Burgh Road, Lerwick, during office hours. It is also available to view on the Council's website by inspecting each individual Member at https://www.shetland.gov.uk/coins/allMembers.asp?sort=0. The Register details the bodies where Members are represented or for which they have declared an interest. The Council made payments totalling £6.0m in 2017/18 (£6.1m in 2016/17) to these bodies.

Officers

At the end of the financial year all senior managers were required to disclose any involvement with related parties of the Council. No significant items were reported.

Local Government Pension Scheme

The Local Government Pension Scheme is administered locally by Shetland Islands Council for the benefit of employees. The Council has made payments to the Local Government Pension Scheme as detailed in Note 27: Defined Benefit Pension Schemes.

Group Entities

The Integration Joint Board (IJB) is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board; it is a Joint Venture between the two bodies.

Zetland Transport Partnership is a Regional Transport Partnership set up to deliver transport services for Shetland. It is an associate of the Council and is deficit funded by them.

The Orkney and Shetland Valuation Joint Board provides the valuation service for Orkney and Shetland and is funded by both Councils.

For details of members' influence on these three bodies and the transactions between them and the Council, please refer to Note 38: Group Interests on page 73.

Note 34: Capital Expenditure and Capital Financing

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

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

2016/17 £000		2017/18 £000
26,474	**Opening Capital Financing Requirement**	**33,702**
	Capital investment:	
20,594	Property, plant and equipment	73,761
295	Intangible assets	14
2,026	Revenue Expenditure Funded from Capital	0
	Sources of finance:	
(4,134)	Capital receipts	(3,300)
(6,807)	Government grants and other contributions	(7,659)
(1,765)	Funding from reserves	(103)
	Sums set aside from revenue:	
(1,557)	Direct revenue contributions	(1,528)
(94)	Lease principal	(99)
0	PFI contract principal repayments	(514)
(1,330)	Loans fund principal	(1,281)
33,702	**Closing Capital Financing Requirement**	**92,993**
	Explanation of movements in year:	
7,546	Increase/(decrease) in underlying need to borrow	13,899
(94)	Assets acquired under finance leases	(99)
0	Assets acquired under PFI contracts	45,487
(224)	Assets acquired under Decommissioning Obligations	4
7,228	**Increase/(Decrease) in Capital Financing Requirement**	**59,291**

Note 35: Contingent Liabilities

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

There is a developing line of case law around the pay and grading structures that organisations currently have in place. The most significant issues for the Council are out of hours allowances and pay grade changes required in response to the implementation of the Living Wage. The Council is unable to fully quantify the financial liability until the position has been fully reviewed.

There are a number of current legal claims against the Council that are being contested. Any potential financial liability cannot be assessed until these cases are finalised.

Note 36: Trust Funds administered by the Council

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

As at 31 March 2017 £000	Trust Balances	As at 31 March 2018 £000
(30)	Bare Trust	(30)
(667)	Zetland Educational Trust	(673)
(3)	Others	(3)
(700)	**Total**	**(706)**

The Bare Trust was set up following the cessation of the Shetland Development Trust on 28 February 2015. It holds a number of loans and equity investments which were not considered to be cost effective to transfer to the Council on the winding up of the Development Trust. All assets and income arising from the Bare Trust will be paid or delivered to Shetland Islands Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees.

Assets held in the Bare Trust had an estimated market value at 31 March 2018 of £0.638m.

The Zetland Educational Trust, with an income of £0.022m and expenditure of £0.016m, pays bursaries to university students, aids apprentices and supports educational trips.
The other trusts are essentially dormant due to their low annual income.

Note 37: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 19 September 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 38: Group Interests

Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 does not have any subsidiaries that meet this definition.

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The Shetland Health and Social Care Partnership (IJB) meets the definition of a joint venture.

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
- Zetland Transport Partnership (ZetTrans)

Materiality

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

Orkney and Shetland Valuation Joint Board (OSVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2017/18, the Council held five Board places out of ten and contributed 49.2% of the Board's operating costs (49.0% in 2016/17).

The Council's share of the year-end net liability is £1.0m as at 31 March 2018 (£1.0m at 31 March 2017), 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:

2016/17 (restated) £000	Orkney and Shetland Valuation Joint Board	2017/18 £000
351	Gross Income	373
(335)	Gross Expenditure	(339)
16	**Net (Surplus) / Deficit**	**34**
22	Current Assets	24
(24)	Current Liabilities	(26)
(989)	Non-current Liabilities	(967)
991	Capital and Reserves	969
0	**Net Assets**	**0**

Zetland Transport Partnership (ZetTrans)

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

The Council contributed 93.7% of the Partnership's operating costs in 2017/18 (93.5% in 2016/17) and holds four out of six seats on the Partnership.

The Council's share of the net liability is nil at 31 March 2018 (nil at 31 March 2017) and is therefore considered not material for consolidation in group accounts.

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

2016/17 (restated) £000	Zetland Transport Partnership	2017/18 £000
(1,354)	Gross Income	(1,839)
1,354	Gross Expenditure	1,839
0	**Net (Surplus) / Deficit**	**0**
88	Current Assets	128
(88)	Current Liabilities	(128)
0	**Net Assets**	**0**

Integration Joint Board (IJB)

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

The Council contributed 46.1% of the Board's operating costs in 2017/18 (42.8% in 2016/17). It has three out of six voting members on the board.

The Council's share of the net surplus of the Integration Joint Board was £0.12m as at 31 March 2018 (£0.06m at 31 March 2017), 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:

2016/17 (restated) £000	Integration Joint Board	2017/18 £000
(22,709)	Gross Income	(23,665)
22,647	Gross Expenditure	23,545
(62)	**Net (Surplus) / Deficit**	**(120)**
63	Current Assets	182
0	Current Liabilities	0
63	**Net Assets**	**182**

Note 39: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 40, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the Annual Accounts are:

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

Note 40: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18, 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 the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- 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 internal borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cashflows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

D Cash and Cash Equivalents

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

E Charges to Revenue for Non-Current Assets

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

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

- amortisation of intangible assets attributable to the service.

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

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

F Employee Benefits

Benefits payable during employment

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

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

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

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

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

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

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

Discretionary benefits

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

G Events after the Balance Sheet date

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

Two types of events can be identified:

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

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

H Financial Instruments

Financial liabilities

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

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

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

Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available-for-sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables 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. 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 this Council it 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.

On an annual basis loans and receivables are assessed for impairment. Events that provide objective evidence of impairment include significant financial difficulties of the counterparty, or a breach of contract. Impairment losses and gains or losses on derecognition are taken to the Cost of Services in the CIES.

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.

Available-for-sale assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, which initially is measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

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

- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

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.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instrument (AFSFI) Reserve and the gain / loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets in the Other Comprehensive Income and Expenditure section of the CIES.

The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the AFSFI reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cashflows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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, along with any accumulated gains or losses previously recognised in the AFSFI reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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

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

I Foreign Currency Translation

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

J Government Grants and Contributions

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

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

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

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

K Heritage Assets

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

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

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

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

Historical buildings

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

Museum collection

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

L Intangible Assets

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

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

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

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

M Inventories and Long-term Contracts

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

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

N 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.

O Overheads and Support Services

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

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 - 50 years
- infrastructure: 5 - 60 years

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

Q Fair Value Measurement

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

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

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

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

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

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 Revenue Expenditure funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of Council Tax.

V 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.