Shetland Islands Council

Securing the best for Shetland

Annual Accounts 2016/17

Photograph by Kevin Jones

Contents

Management Commentary

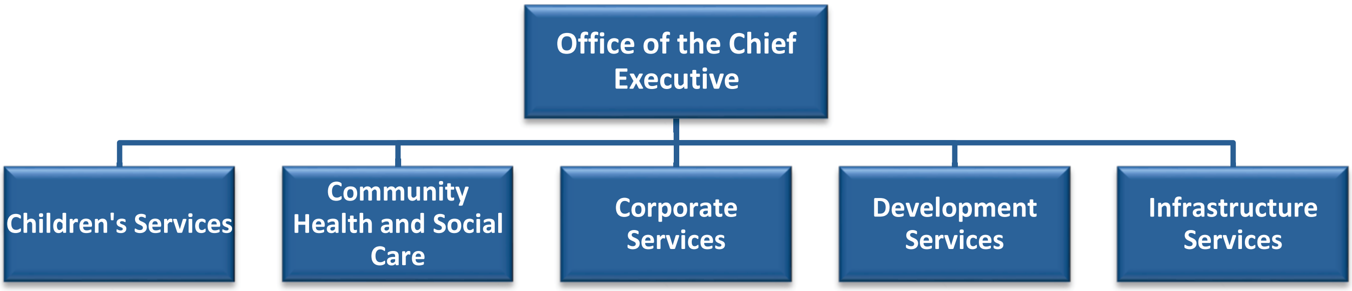
Introduction

This publication presents the financial statements of Shetland Islands Council for the year ended 31 March 2017.

The purpose of the Management Commentary is to present an overview of the Council's financial performance during the year 2016/17 and to help readers understand its financial position at 31 March 2017. 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 independent elected members serving a population of approximately 23,000 people. The Council is organised to provide and deliver its services as follows:



These directorates provide services to the public such as schools, public transport, economic development, social care, environmental health, housing, ports and harbours and roads. Full details on the services provided can be found on the Council's website: www.shetland.gov.uk

Strategy and Performance Management

Corporate Plan

During the year, Shetland Islands Council's corporate plan was refreshed. 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, as well as an annual update to elected members and the Corporate Management Team. The full plan 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;
- Increase the supply of affordable housing in Shetland;
- Improve high-speed broadband and mobile connections throughout Shetland;
- Provide quality transport services within Shetland, and push for improvements in services to and from Shetland Community Planning; and
- Support older people across Shetland so that they can get the services they need to help them live as independently as possible.

Community Planning

The Council is a 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 activity and priorities of the Shetland Partnership to deliver the Community Plan. The LOIP is drawn up between the partners and communities and is designed to bring together the efforts of the Community Planning partners to address inequality and resilience in surrounding communities.

Creating a LOIP for the local area is a responsibility that has been given to Community Planning Partnerships by the Community Empowerment (Scotland) Act 2015. This Act aims to empower community bodies through ownership or control of land and buildings, and by giving them more say in decisions about public services. The legislation has significant implications for the Shetland Partnership in helping to shape the development of the LOIP and guide the approach to securing community participation in Community Planning.

Using the five Community Planning themes the LOIP contains the following key outcomes:

- Shetland has sustainable economic growth and all our people have the chance to be part of island life;
- Shetland is the best place for children and young people to grow up;
- We live longer, healthier lives and people are supported to be active and independent throughout adulthood and in older age;
- Shetland is a safe place to live for all our people, and we have strong, resilient and supportive communities; and
- We deliver all our services in an environmentally sustainable manner to safeguard and enhance our outstanding environment which underpins all our actions and our economic and social well-being.

There are a number of indicators that the Partnership will use to monitor how well it is progressing towards delivering and achieving the above outcomes. These indicators will be monitored on a quarterly basis by the Shetland Partnership Performance Group and progress will be reviewed annually in order to redefine targets and actions where required.

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

Service Performance

The Council's service committees receive quarterly financial and service performance information from each of the directorates. The following table provides brief information on some of the achievements of the directorates during the year:

Directorate	Achievements during 2016/17
Children's Services	• New Anderson High School project progressed within budget and on time; • Funding secured for new posts under the Developing the Young Workforce initiative to provide opportunities for young people leaving school; • Collaborating with the Northern Alliance to progress improvement in literacy and numeracy to close the attainment gap.
Community Health and Social Care	• New Eric Gray Resource Centre build progressing well; • Significant progress made by the Intermediate Care Team towards shifting balance of care further to the home setting, where appropriate; • Continued decrease in delayed discharges during 2016/17 with length of any delays reducing; • Locality-based support procured for people diagnosed with dementia.
Development Services	• Led a public engagement process focusing on 'the place we live' and its effects on wellbeing, preparing a report on Shetland's Place Standard to inform a range of key Plans and Strategies, e.g. Local Development Plan; • Secured commitment from the Scottish Government for over £2.5m for investment in new affordable housing; • Developed and implemented a new commercial lending service, policy and fund; • Engaged, in conjunction with Orkney Islands Council, Transport Scotland and the Scottish Government on specification and fair funding requirements for the inter-island transport services; • Worked with colleagues from Orkney and Western Isles to develop a draft Islands Deal as part of the 'Our Islands Our Future' project; • Worked with Corporate Services to produce a planning brief for the Knab Site; • Delivered a programme of participatory budgeting and community choices projects, with engagement from more than 1,000 people.
Infrastructure Services	• Mill Brae, Scalloway footpath widened and improved using SUSTRANs funding to encourage active travel to Scalloway School; • External funding of almost £3m secured by the Energy Team for carbon reduction related projects to help alleviate fuel poverty for 150 households; • Fitted vehicle tracking system to 230 vehicles to improve the management of routes, lone worker and driver safety and reduce carbon emissions and fuel usage; • Completed ferry terminal upgrades, ensuring toilets and waiting rooms are more energy efficient, comfortable and accessible for disabled and elderly people.
Corporate Services	• Deployed business continuity plans to ensure that front-line and support services were operational within 24 hours of moving from 8 North Ness; • Continued to deliver strong and robust financial management arrangements across the organisation and completed a review of the medium and long-term financial planning assumptions; • Developed the Council's first set of Values and Behaviours and completed a corporate Viewpoint Plan in response to staff feedback; • Helped hundreds of people in financial hardship through the provision of benefits and supported those in immediate need with crisis and community care grants, benefiting the most vulnerable in the community; • Undertook the secretariat role for the three island authorities, working in partnership and assisting the development of legislation under the banner of 'Our Islands Our Future'; • Developed the Gateway Process for the management of capital projects using the 'Building Better Business Cases' methodology and supported capital projects, including the Anderson High School and Eric Gray Resource Centre.

More information can be found at:
http://www.shetland.gov.uk/about_performance/PerformanceReports.asp

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2017 and its cash flows. 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 auditor's certificate and opinion.

Financial Performance in 2016/17

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2016/17. This differs from the budgeted outturn position that was reported to the Policy & Resources Committee of the Council on 19 June 2017 and is available on the Council's website. For financial year 2016/17 the reasons 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 accounting 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 £14.4m, disclosed on the CIES, has been reconciled to the outturn used for management decision making of £2.6m in the Expenditure and Funding Analysis on page 28.

The CIES for 2015/16 has been restated to reflect new reporting requirements for 2016/17. These remove the need for service segments to be presented in line with the CIPFA Service Reporting Code of Practice and instead shows income and expenditure in the normal structure of the Council.

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 (classified as Other revenue / Statutory Funds on page 29). There is also a legal requirement to separately identify expenditure and income that relates to the operation of the Council 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 below shows that the draw on reserves, excluding accounting practice adjustments, was £5.8m for 2016/17.

As a result of underspending and applying the Council's carry-forward scheme, a sum of £7.6m was committed for use in 2017/18.

Budget v Expenditure draw from / (contribution to) Reserves 2016/17	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund	21.282	16.833	4.449	2.413	2.036
Revenue Spend to Save	1.000	0.000	1.000	0.250	0.750
Housing Revenue Account	(0.904)	(2.067)	1.163	0.000	1.163
Harbour Account	(11.025)	(12.118)	1.093	0.000	1.093
Total Revenue Draw	**10.353**	**2.648**	**7.705**	**2.663**	**5.042**
Capital Spend to Save	0.597	0.491	0.106	0.196	(0.090)
Asset Investment Plan	5.379	2.612	2.767	4.708	(1.941)
Total	**16.329**	**5.751**	**10.578**	**7.567**	**3.011**

A reconciliation between the revenue draw on reserves of £2.6m and the deficit in the CIES of £14.4m can be found in the Expenditure and Funding Analysis on page 28.

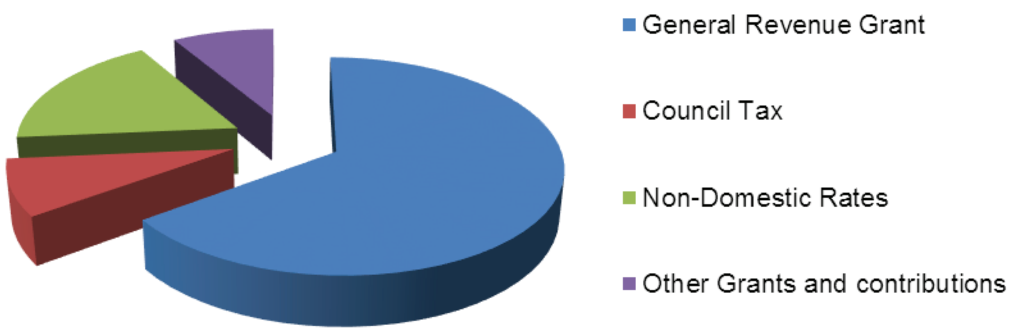
General Fund

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

The General Fund expenditure for 2016/17 was £108.1m, which represented 95.2% of the Council's annual budget, resulting in a net underspend of £5.4m. 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 2016/17 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. The total funding breakdown is shown below:

General Fund - Sources of Funding 2016/17



The collection of Council Tax represents 8.6% of the Council's overall funding and the Council has achieved an in-year collection rate of 97% during 2016/17. The Council Tax bandings are due to change at 1 April 2017 and 2016/17 was the last year in which the Band D annual charge was frozen at £1,053.

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 enabled the development and improvement of these services during 2016/17.

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 Reserve Fund. The Harbour Account budgeted for an £11.0m contribution to the Reserve Fund in 2016/17. The actual contribution was £12.1m; the increase being due to a delayed capital programme, the replacement of the VTS Radar in particular, and an increase in 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 £0.9m contribution to the HRA Reserve in 2016/17 which was exceeded by £1.2m, giving a total contribution of £2.1m 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 during the year, underpinned by a 30-year financial model to ensure affordability and sustainability over the long term.

At 31 March 2017 the HRA was responsible for 1,684 properties, a decrease of 41 since 31 March 2016. There has been a consistent reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme; however this scheme ended on 31 July 2016.

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

Asset Investment Plan

In 2016/17 Shetland Islands Council incurred capital expenditure of £20.9m against a budget of £31.7m representing an underspend of £10.8m in the year. The main reason for this underspend is a revision to the timing of construction in relation to the Anderson High School, Halls of Residence and Eric Gray Resource Centre as well as underspends and tendering delays on Ports and Harbours projects. £10.7m will be carried forward to future years to enable the work to be completed.

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 2017. When comparing the net worth of the Council at 31 March 2017 to that of 31 March 2016, there has been an overall decrease in the net worth of the Council of £29.2m. 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.

As at 31 March 2017 the Council had £333.8m, invested with three external fund managers, an increase of £47.2m 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 £20m from the investments to meet its cashflow requirements.

The Fund Management Annual Investment Report 2016/17 was presented to Council on 28 June 2017 and this summarised the performance of the Council's investments during the year. The report concluded that the Council's investments had strong returns of 22.9% during the year.

External Borrowing

External borrowing is covered by the Council's Borrowing Policy and Strategy 2013-18 which aims to secure Best Value in the financing of capital expenditure and maintain the level of reserves.

The Council's Capital Financing Requirement (CFR) is £33.7m as at 31 March 2017 and this 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 in advance of need).

As at 31 March 2017, external borrowing was £31.1m (£31.1m at 31 March 2016) and this is reflected on the Council's balance sheet on page 31.

Debt financing costs currently represent 2% of the Council's net revenue stream from general revenue grant (including NNDR), 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 2017/18 is 2% of net revenue stream.

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has prepared a separate set of annual accounts for 2016/17.

The impact of the Local Government Pension Scheme and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 22 and 23 to the accounts.

The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £229.7m as at 31 March 2017 (£143.1m at 31 March 2016). 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 2017.

During 2016/17, the net pension liability has increased by £86.5m 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 £73.5m. 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. The next triennial valuation of the Pension Fund (as at 31 March 2017) will be prepared in 2017/18.

Highways Network Assets

At its meeting on 8 March 2017, CIPFA / LASAAC decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. This means that there will be no change to accounting policy in respect of highways assets, as outlined in last year's Management Commentary.

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 2016/17, the Council contributed £19.6m to the IJB and received income from it of £20.4m, a result of some social care funding being channelled through the NHS Shetland financial settlement.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance at 1 April 2016 £m	Closing Balance at 31 March 2017 £m
General Fund Balance	(40,232)	(54,417)
Housing Revenue Account Balance	(13,143)	(15,614)
Harbour Reserve Funds	(61,622)	(63,518)
Capital Funds	(84,178)	(66,498)
Other Revenue / Statutory Funds	(43,054)	(44,378)
Total Usable Reserves	**(242,229)**	**(244,425)**

The overall level of usable reserves was £244.4m at 31 March 2017, an increase of £2.2m 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 29) and associated notes provide further detail.

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

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve has increased by £11.6m to £24.3m as at 31 March 2017 from the previous year (see page 44). The uncommitted balance represents 21.2% 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 the 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. 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. More information is outlined in the 'Long-Term Investments' section on page 6.

Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 interests in Orkney & Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board.

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 2016/17, as there is no financial impact and no qualitative benefit to readers.

2017/18 Budget and Medium-Term Financial Outlook

Medium-Term Financial Outlook

The Medium-Term Financial Plan (MTFP) 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 areas such as community care, where the IJB will direct service development and adapt to these demands.

The revised MTFP was approved by the Council on 8 March 2017, covers a five-year period to March 2022 and 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.

Community Choices

Community Choices is the new term for participatory budgeting, which is high on the Scottish Government's agenda for local authorities. It is expected that over the short to medium term, local authorities will allocate up to 1% of their annual budgets through community participation and decision-making. In 2016/17 a pilot scheme was undertaken by Shetland Islands Council that saw projects totalling £0.1m being chosen by the public through a process of online voting as well as in-person participation at a one-day market stall style event.

The pilot was successful, with around 5% of the population taking part. The Council is currently examining ways of 'mainstreaming' this approach to increase public participation in future budget setting and decision-making.

2017/18 Budget

The Council's 2017/18 budget is a tactical financial plan that complements the strategic Medium-Term Financial Plan, to ensure that the Council delivers its strategic financial objectives and achieves its target outcomes.

The 2017/18 budget was prepared in line with the budget targets set out in the Council's MTFP 2015-2020.

The comparative figures for the 2017/18 settlement are shown in the following table. Although the revenue funding in Scotland reduced by 0.7% for 2017/18, the impact on Shetland was a reduction of 2.8%; a significantly different outcome for Shetland than the average change.

Note that 2016/17 figures have been restated in line with revised information from the Scottish Government (Circular 1/2017).

Scotland	2017/18 £bn	2016/17 £bn	Movement £bn	Movement %
Revenue	9.639	9.708	(0.069)	-0.7%
Capital	0.787	0.607	0.180	29.7%
Total Scotland Funding	**10.426**	**10.315**	**0.111**	**1.1%**
Shetland	**£m**	**£m**	**£m**	**%**
Revenue	80.366	82.695	(2.329)	-2.8%
Capital	7.208	6.831	0.377	5.5%
Total Shetland Funding	**87.574**	**89.526**	**(1.952)**	**-2.2%**

In addition to having a lower level of funding there are certain conditions that local authorities must meet, which bring further financial pressures. These conditions are:

- Teacher: pupil ratios to be maintained at 2016/17 national levels;
- £120m funding to support closing the attainment gap to be paid directly to schools and used for specific purposes;
- A further £107m funding for social care, allocated to Health for Integration Joint Boards, to be used for specific purposes; and
- Council Tax increases capped at 3%.

Following the announcement of the financial settlement for 2017/18 the Corporate Management Team considered the detail and agreed a revised budget strategy that was discussed with Councillors in seminars held in January 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 drew upon funding that was allocated by the Scottish Government to the NHS and the IJB specifically for social care services and also took into account funding that was announced by the Scottish Government in early February 2017. This benefits Shetland to the value of £1.0m and means that an additional sum of £2.8m is to be drawn from reserves to balance the budget and support service delivery in 2017/18. The 2017/18 budget was formally approved by the Council on 15 February 2017.

Outlook - Projects and Initiatives

Business Transformation Programme

Shetland Islands Council approved its Business Transformation Programme as part of the budget setting process and adoption of the Corporate and Executive Services Directorate Plan 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. There are eight groups of subject areas, known as 'workstreams', as follows:

- **Customer Focus:** including a review of complaints procedures, performance reporting to the public and a new Customer Charter;
- **Commissioning / Procurement Framework:** including a revised strategy for 2017/18 and an online system for tenders;
- **Asset Strategy:** including the consideration of a long-term Asset Investment Plan;
- **Workforce Strategy:** incorporating themes of Right Shape, Right Skills and Right Culture;
- **Broadband and Connectivity:** including the development of a Digital Strategy and lobbying for 100% high-speed broadband and 4G mobile coverage;
- **Digital Service Delivery:** incorporating a review of the Council's website and consideration of self-service and open data;
- **Information Management & Improvement:** which considers information security, records management and business continuity; and
- **Paperless Council:** including a review of council meeting processes for officers and elected members.

Anderson High School

The Anderson High School project, which is substantially funded by the Scottish Government, reached financial close in July 2015, when all contracts and designs were completed and signed off. The project is being delivered by North Scotland Hub Co with the main contractor being Morrison Construction. The construction of both the school and halls of residence is progressing well and is due to be handed over in September 2017.

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 building is due to be completed in 2018/19.

College Integration

As part of the review of tertiary education in Shetland, an Interim Joint Principal of Shetland College, Train Shetland and NAFC Marine Centre was appointed in May 2016 with the aim of developing the joint academic approach to the tertiary sector, as well as preparing the business plan for the future delivery of tertiary education in Shetland.

Other aspects of the work are: to integrate the governance between the organisations and to improve collaboration to achieve shared objectives.

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 continues to push for the Scottish Government to deliver on its commitment for fair funding by providing the money that will support the revenue and capital requirements of the service on a permanent basis.

Workforce Management and Strategy

Workforce management priorities and performance are reported formally through a structured performance management framework that provides quarterly reporting to the Policy & Resources Committee.

The Council has continued to work on managing attendance, which has led to an improvement in our sickness absence figures:

Average days lost per	2016/17	2015/16
Local Government	9.0	10.7
Teachers	5.1	6.2

Outlook

In summary, the Council has had a financially successful year in 2016/17 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 newly elected Council in line with the revised Medium-Term Financial Plan.

Cecil Smith
Leader of the Council
20 September 2017

Mark Boden
Chief Executive
20 September 2017

Jonathan Belford CPFA
Executive Manager – Finance
20 September 2017

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 2017 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 2016/17, 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 **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- 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 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 Council has a newly appointed **external auditor** for 2016/17, 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 as specific areas of concern:

- inappropriate employment of relief workers and the processes surrounding the monitoring of hours worked by employees working in multiple locations within community care;
- corporate breaches of working time regulations and overtime requirements, inconsistencies and procedure not being followed in relation to preventing illegal working;
- recruitment process issues, including the appointment of candidates who have not met all of the essential criteria on the job specification and evidence of relevant qualifications not always being obtained;
- a lack of adequate control in the payment of adoption allowances;
- the lack of a Service Plan within Transport Planning; and
- procedural issues in relation to sales invoices, such as invoices not always being raised timeously or stating the quantity and unit costs accurately.

Follow-up work was carried out in relation to the issues highlighted in last year's Annual Governance Statement. 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 the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2016/17 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.

pp
....
Cecil Smith
Leader of the Council
20 September 2017

....
Mark Boden
Chief Executive
20 September 2017

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.

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.

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

Remuneration Arrangements of Senior Councillors

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

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

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415, which came into effect on 10 February 2009 (later amended by the 2013 and 2015 Regulations). For 2016/17 the level of remuneration (including expenses) was £28.9k for the Leader (£28.2k in 2015/16), and £21.4k for the Convener (£20.9k in 2015/16).

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 2016/17 (£169k in 2015/16).

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 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 2016/17 was £171.0k (£169.8k in 2015/16).

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.

The original policy, following the Regulations, which encompasses the salaries of all elected members, including the Convener, Leader and senior councillors, was agreed at a meeting of the Council on 8 February 2007 in a report entitled 'Review of Committee and Decision Making Structures'.

The Scheme was updated on 7 March 2011 to reflect amendments to the committee structure, including the positions that attract special responsibility allowances.

The Scheme was further updated at the Council meeting on 12 May 2011 with the new positions that attract those allowances, including the creation of the post of Leader, and the Council adopted the new political management framework with effect from 18 May 2011.

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. These changes will be reported in the Remuneration Report for the 2017/18 annual accounts.

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 in 2016/17 was also a senior councillor of Shetland Islands Council.

The Council is reimbursed by the Orkney and Shetland Valuation Joint Board for the additional remuneration paid to the councillor in their role of the Convener of the Joint Board.

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/148 sets the amount of salary for the Chief Executive of Shetland Islands Council for the period 2015 to 2017. 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. These arrangements were agreed through approval of Report CE-30-F 'Management Restructuring' at a meeting of the Council on 14 June 2011.

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.

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

Bands that do not appear in the table had nil employees in both 2016/17 and 2015/16.

	Number of Employees						
	As at 31 March 2016	As at 31 March 2017					
Remuneration Bands	Total	Children's Services	Infrastructure Services	Community Health and Social Care	Development Services	Corporate Services & Executive Services	Total
£50,000 - £54,999	51	21	34		2	1	58
£55,000 - £59,999	22	10	10	1	4	5	30
£60,000 - £64,999	18	6	8	2			16
£65,000 - £69,999	8	3	5		1		9
£70,000 - £74,999	5		7				7
£75,000 - £79,999	2	1	1			2	4
£80,000 - £84,999	1		1				1
£85,000 - £89,999	3	1	1		2	1	5
£90,000 - £94,999	0		1				1
£100,000 - £104,999	2					1	1
£105,000 - £109,999	0		1				1
£110,000 - £114,999	0		3				3
£115,000 - £119,999	1		1				1
£140,000 - £144,999	1		1				1
£150,000 - £154,999	1						0
£155,000 - £159,999	1						0
Total	**116**	**42**	**74**	**3**	**9**	**10**	**138**

The table above includes employees who terminated employment during 2015/16 and 2016/17. Some of the employees that left received remuneration packages that included compensation for loss of office (e.g. redundancy payment and/or enhanced pension payments), and, as a result, their total remuneration increased temporarily in those years.

Of the 42 staff (33 in 2015/16) in Children's Services noted above, 29 were head teachers or senior teaching staff (22 in 2015/16).

Of the 74 staff (62 in 2015/16) in Infrastructure Services noted above, 67 worked in Ports and Harbours Operations or Ferry Operations (56 in 2015/16).

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 2016/17 of £0.222m (£0.345m in 2015/16) in the table includes £0.032m (£0.161m in 2015/16) 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 £0.190m (£0.184m in 2015/16) for the capitalised cost of compensatory added years, agreed in 2016/17, 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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17 £000	2015/16 £000
£0 - £19,999	1	2	6	18	**7**	**20**	**18**	**81**
£20,000 - £39,999	0	0	2	1	**2**	**1**	**68**	**39**
£40,000 - £59,999	0	0	0	0	**0**	**0**	**0**	**0**
£60,000 - £79,999	0	0	0	0	**0**	**0**	**0**	**0**
£80,000 - £99,999	0	0	0	1	**0**	**1**	**0**	**90**
£100,000 - £149,999	0	0	1	1	**1**	**1**	**136**	**135**
Total	**1**	**2**	**9**	**21**	**10**	**23**	**222**	**345**

The table above details the number and cost of exit packages awarded in 2015/16 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;
- 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 2017.

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:

	2016/17 £000	2015/16 £000
Salaries	372	368
Allowances	34	34
Expenses	84	94
Total	**490**	**496**

The annual return of Councillors' salaries and expenses for 2016/17 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/.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2016/17			2015/16
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
M Bell	Convener	21,118	238	**21,356**	**20,909**
P Campbell	Chair - Shetland College Board	18,555	216	**18,771**	**18,371**
A Cooper	Chair - Development Committee	19,568	248	**19,816**	**19,374**
A Duncan	Chair - Audit Committee	18,555	150	**18,705**	**18,371**
A Manson	Chair - Harbour Board	18,555	0	**18,555**	**18,371**
G Robinson	Leader of the Council	28,157	763	**28,920**	**28,206**
F Robertson	Chair - Planning Committee	18,555	735	**19,290**	**18,853**
C Smith	Chair - Integration Joint Board	19,568	150	**19,718**	**19,374**
G Smith	Chair - Licensing Committee	18,555	0	**18,555**	**18,371**
M Stout	Chair - Environment & Transport Committee	19,568	128	**19,696**	**19,374**
V Wishart	Chair - Education & Families Committee	19,568	0	**19,568**	**19,374**

Note:

Taxable expenses include telephone line rental / broadband costs.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2016/17			2015/16	Notes
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £	
M Boden	Chief Executive	103,562	0	**103,562**	**102,510**	
H Budge	Director - Children's Services	86,315	0	**86,315**	**85,433**	
C Ferguson	Director - Corporate Services	86,315	455	**86,770**	**85,503**	
N Grant	Director - Development Services	86,315	0	**86,315**	**85,433**	
M Sandison	Director - Infrastructure Services	86,315	0	**86,315**	**84,549**	
J Belford	Executive Manager - Finance (Section 95 Officer)	75,548	0	**75,548**	**0**	e)
H Leslie	Executive Manager - Children & Families (Chief Social Work Officer)	0	0	**0**	**10,488**	f)
M Nicolson	Executive Manager - Children & Families (Chief Social Work Officer)	67,163	0	**67,163**	**54,387**	g)
J Riise	Executive Manager - Governance & Law (Monitoring Officer)	75,548	0	**75,548**	**74,854**	
W Cameron	Marine Pilot	111,056	512	**111,568**	**153,786**	h)
S Polson	Marine Pilot	107,869	457	**108,326**	**157,842**	h)

Notes:

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

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

c) In addition to the above, the Executive Manager - Governance & Law received a payment of £6.5k for his Returning Officer duties in respect of the Scottish Parliamentary election and Scottish independence referendum (£2.6k in 2015/16);

d) 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 2016/17 the Council paid £59k (£59k for 2015/16) to NHS Shetland in respect of this post and his remuneration is disclosed in the Remuneration Report of the Integration Joint Board;

e) The post of Executive Manager - Finance (Section 95 Officer) was held by S Whyte who was employed by Aberdeen City Council until 31 March 2016. In 2015/16 the Council paid £69k to Aberdeen City Council in respect of this post. J Belford commenced employment on 1 April 2016;

f) H Leslie left on 31 March 2015, however final payments of call-out / standby and holiday pay were not made until May 2015;

g) M Nicolson commenced employment on 29 June 2016. The full year equivalent remuneration for 2015/16 was £66,912;

h) Marine Pilot remuneration is inclusive of non-contractual overtime payments and compensation payments.

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.

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2017		Difference from 31 March 2016	
		31 March 2017 £000	31 March 2016 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	4	4	2	0	1	0
G Robinson	Leader of the Council	6	5	4	2	(1)	0
C Smith	Chair - Integration Joint Board	4	4	5	2	1	0
P Campbell	Chair - Shetland College Board	4	3	2	0	1	0
A Cooper	Chair - Development Committee	4	4	4	2	1	0
A Duncan	Chair - Audit Committee	4	3	4	1	0	0
M Stout	Chair - Environment & Transport Committee	4	4	2	0	1	0
G Smith	Chair - Licensing Committee	4	3	2	0	1	0
A Manson	Chair - Harbour Board	4	3	2	0	1	0

Notes:

The table excludes F Robertson, Chair of the Planning Committee and V Wishart, Chair of the Education & Families Committee, 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 2017		Difference from 31 March 2016	
		31 March 2017	31 March 2016	Pension	Lump Sum	Pension	Lump Sum
		£000	£000	£000	£000	£000	£000
M Boden	Chief Executive	20	19	8	0	2	0
H Budge	Director - Children's Services	15	14	27	80	2	5
C Ferguson	Director - Corporate Services	17	16	44	95	2	1
N Grant	Director - Development Services	17	16	19	20	2	0
M Sandison	Director - Infrastructure Services	17	16	27	44	2	0
J Belford	Executive Manager - Finance	15	0	27	50	27	50
M Nicolson	Executive Manager - Children & Families	13	10	21	35	1	(1)
J Riise	Executive Manager - Governance & Law	16	14	34	66	2	0
W Cameron	Marine Pilot	16	15	39	83	3	3
S Polson	Marine Pilot	16	15	22	33	2	1

Notes:

a) 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 £1.6k and £2.5k lump sum at 31 March 2017. In 2015/16, the comparative figures were £1.5k and £2.5k respectively;

b) 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;

c) The pension benefits of the Executive Manager – Finance (Section 95 Officer) in 2015/16 (S Whyte) were administered by Aberdeen City Council.

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:	2016/17 %
On earnings up to and including £20,500	5.50
On earnings above £20,500 and up to £25,000	7.25
On earnings above £25,000 and up to £34,400	8.50
On earnings above £34,400 and up to £45,800	9.50
On earnings above £45,800	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) pension for lump sum up to the limit set by 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.

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Cecil Smith
Leader of the Council
20 September 2017

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Mark Boden
Chief Executive
20 September 2017

Statement of Responsibilities for the Annual Accounts

The Council's Responsibility

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 20 September 2017.

Signed on behalf of Shetland Islands Council.

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Cecil Smith
Leader of the Council
20 September 2017

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 2017.

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Jonathan Belford
Executive Manager - Finance
20 September 2017

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

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.

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 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate 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 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the Shetland Islands Council as at 31 March 2017 and of its or deficit on the provision of services 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 2016/17 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 of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). 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 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 Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Executive Manager - Finance 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.

Auditor’s responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council’s Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation 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&I) 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.

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 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 in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.
In our opinion, the auditable 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 auditable 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.

P. Kenny

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

20 September 2017

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2017

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

The Net Cost of Services for 2015/16 has been restated to reflect the internal reporting structure of Shetland Islands Council in accordance with new reporting requirements for 2016/17.

2015/16 Net Expenditure £000		Notes	2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000
5,626	Chief Executive and Cost of Democracy		2,160	(5)	2,155
46,243	Children's Services		52,053	(4,216)	47,837
20,965	Community Care Services		48,029	(27,284)	20,745
5,610	Corporate Services		16,862	(5,549)	11,313
13,943	Development Services		21,958	(7,153)	14,805
31,706	Infrastructure Services		43,185	(16,119)	27,066
(1,043)	Housing Revenue Account		5,406	(6,767)	(1,361)
(2,355)	Harbour Account		19,203	(28,862)	(9,659)
120,695	**Net Cost of Services**		**208,856**	**(95,955)**	**112,901**
4,378	Other operating income and expenditure	7	0	(572)	(572)
2,527	Financing and investment income and expenditure	8	7,607	(9,447)	(1,840)
(103,601)	Taxation and non-specific grant income	9	0	(96,055)	(96,055)
23,999	**Deficit on Provision of Services**		**216,463**	**(202,029)**	**14,434**
	Items that will not be reclassified to the (surplus) or deficit on the provision of services				
3,322	(Surplus) / Deficit on revaluation of property, plant and equipment assets	10			(4,529)
(8,689)	Surplus on revaluation of available for sale financial assets	10			(61,891)
(49,419)	Remeasurement of the net defined benefit liability	10			79,290
(54,786)					**12,870**
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
15,441	Amounts recycled from the AFSFI reserve upon derecognition	10			1,868
(39,345)	**Other Comprehensive Income and Expenditure**				**14,738**
(15,346)	**Total Comprehensive Income and Expenditure**				**29,172**

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 authority (ie 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 by authorities 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.

2015/16					2016/17			
Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between the Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000		Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between the Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
2,266	(19)	3,379	5,626	Chief Executive and Cost of Democracy	1,754	(642)	1,043	2,155
41,295	(5,259)	10,207	46,243	Children's Services	39,954	(5,775)	13,658	47,837
19,274	(1,812)	3,503	20,965	Community Care Services	18,323	(1,470)	3,892	20,745
7,107	(9,238)	7,741	5,610	Corporate Services	10,562	(5,988)	6,739	11,313
13,411	(550)	1,082	13,943	Development Services	13,815	(1,623)	2,613	14,805
18,620	(12,440)	25,526	31,706	Infrastructure Services	19,725	(5,652)	12,993	27,066
(1,429)	(592)	978	(1,043)	Housing Revenue Account	(2,067)	(648)	1,354	(1,361)
(3,136)	14,945	(14,164)	(2,355)	Harbour Account	(12,118)	(2,468)	4,927	(9,659)
97,408	**(14,965)**	**38,252**	**120,695**	**Net Cost of Services**	**89,948**	**(24,266)**	**47,219**	**112,901**
(95,544)	(3,288)	2,136	(96,696)	Other income and expenditure	(87,300)	4,746	(15,913)	(98,467)
1,864	**(18,253)**	**40,388**	**23,999**	**(Surplus) or Deficit**	**2,648**	**(19,520)**	**31,306**	**14,434**
				General Fund and HRA balances				
52,067				**Opening balance at 1 April**	**53,375**			
1,864				Add Surplus in the year	2,648			
(556)				Add other items not charged to the Surplus / Deficit	14,008			
53,375				**Closing balance at 31 March**	**70,031**			

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 Balance and Housing Revenue Account Balance movements in the year following those adjustments.

Opening balances have been adjusted for the rationalisation / reclassification of usable reserves explained in Note 6: Transfers to / (from) Earmarked Reserves on page 44.

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	**(15,250)**	**0**	**(85,173)**	**(53)**	**(141,753)**	**(242,229)**	**(265,862)**	**(508,091)**
Restatement of opening balance	(24,982)	(13,143)	1,048	0	37,077	**0**	0	0
Balance at 1 April 2016	**(40,232)**	**(13,143)**	**(84,125)**	**(53)**	**(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	0	**14,434**	14,738	29,172
Adjustments between accounting basis & funding basis per regulations (Note 5)	(18,999)	(520)	1,562	7	0	(17,950)	17,950	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**(2,614)**	**(2,471)**	**1,562**	**7**	**0**	**(3,516)**	**32,688**	**29,172**
Net Transfers to/(from) Other Statutory Reserves	(11,571)	0	16,113	(2)	(3,220)	1,320	(1,320)	0
(Increase)/Decrease in year	**(14,185)**	**(2,471)**	**17,675**	**5**	**(3,220)**	**(2,196)**	**31,368**	**29,172**
Balance at 31 March 2017	**(54,417)**	**(15,614)**	**(66,450)**	**(48)**	**(107,896)**	**(244,425)**	**(234,494)**	**(478,919)**

Comparative movements in 2015/16	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2015	**(14,446)**	**0**	**(73,840)**	**(643)**	**(152,026)**	**(240,955)**	**(251,790)**	**(492,745)**
Movement in reserves during the year:								
(Surplus) or deficit on the provision of services	25,117	(1,118)	0	0	0	**23,999**	0	23,999
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	(39,345)	(39,345)
Total Comprehensive Income and Expenditure	**25,117**	**(1,118)**	**0**	**0**	**0**	**23,999**	**(39,345)**	**(15,346)**
Adjustments between accounting basis & funding basis per regulations (Note 5)	(17,661)	(592)	(7,610)	590	0	(25,273)	25,273	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**7,456**	**(1,710)**	**(7,610)**	**590**	**0**	**(1,274)**	**(14,072)**	**(15,346)**
Net Transfers to/(from) Other Statutory Reserves	(8,260)	1,710	(3,723)	0	10,273	0	0	0
(Increase)/Decrease in year	**(804)**	**0**	**(11,333)**	**590**	**10,273**	**(1,274)**	**(14,072)**	**(15,346)**
Balance at 31 March 2016	**(15,250)**	**0**	**(85,173)**	**(53)**	**(141,753)**	**(242,229)**	**(265,862)**	**(508,091)**

Balance Sheet as at 31 March 2017

This shows the value as at the Balance Sheet date of the assets and liabilities recognised 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 2016 £000		Notes	As at 31 March 2017 £000
374,296	Property, Plant and Equipment	12	371,052
4,925	Heritage Assets	13	4,854
19,043	Intangible Assets	14	25,114
286,632	Long-term Investments	15	333,784
5,680	Long-term Debtors	15	4,316
29	Other Long-term Debtors	17	77
690,605	**Long-Term Assets**		**739,197**
654	Assets held for Sale	18	1,355
4,564	Inventories	21	4,511
21,833	Short-term Debtors	17	37,869
2,520	Cash and Cash equivalents	19	3,909
29,571	**Current Assets**		**47,644**
(24,458)	Short-term Creditors	20	(39,453)
(6,177)	Short-term Provisions	22	(634)
(40)	Grant Receipts in Advance - Revenue	9	(24)
(30,675)	**Current Liabilities**		**(40,111)**
(31,093)	Long-term Borrowing	15	(31,075)
(143,129)	Pension Liability	24	(229,675)
(1,282)	Long-term Provisions	22	(1,230)
(5,906)	Other Long-term Liabilities	15	(5,831)
(181,410)	**Long-Term Liabilities**		**(267,811)**
508,091	**Net Assets**		**478,919**
(242,229)	Usable Reserves	29	(244,425)
(265,862)	Unusable Reserves	10	(234,494)
(508,091)	**Total Reserves**		**(478,919)**

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Jonathan Belford CPFA
Executive Manager – Finance
Shetland Islands Council
20 September 2017

Cash Flow Statement for year ended 31 March 2017

This statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2015/16 £000		2016/17 £000
	Operating activities	
23,999	Net deficit on the provision of services	14,434
(49,028)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 26)	(35,382)
17,073	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	8,959
(7,956)	**Net cash flows from Operating Activities**	**(11,989)**
8,204	Investing activities (Note 27)	10,488
55	Financing activities (Note 28)	112
303	**Net increase in cash and cash equivalents**	**(1,389)**
2,823	Cash and Cash Equivalents at 1 April	2,520
(303)	Net movement of Cash and Cash Equivalents during the year	1,389
2,520	**Cash & Cash Equivalents at 31 March**	**3,909**

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.

As the Movement on the HRA Statement incorporates the Surplus or Deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the annual accounts.

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

2015/16 £000		2016/17 £000
	Expenditure	
2,751	Repairs and maintenance	2,055
568	Supervision and management	670
2,220	Depreciation and impairment of non-current assets	2,395
32	Movement in the allowance for bad debts	48
137	Other expenditure	175
5,708	**Total expenditure**	**5,343**
	Income	
(6,534)	Dwelling rents	(6,552)
(187)	Non-Dwelling rents	(190)
(30)	Other Income	(25)
(6,751)	**Total income**	**(6,767)**
(1,043)	**Net income of HRA services as included in the CIES**	**(1,424)**
54	HRA services' share of Corporate and Democratic Core	63
(989)	**Net Income of HRA Services**	**(1,361)**
	HRA share of operating income and expenditure included in the CEIS	
0	Taxation and non-specific grant income	(128)
(581)	Gain on sale of HRA non-current assets	(766)
632	Interest payable and similar charges	624
(281)	Interest and investment income	(404)
101	Pension interest cost and expected return on pension assets	84
(129)	**Net HRA share of operating expenditure**	**(590)**
(1,118)	**Surplus for the year on HRA services**	**(1,951)**

Movement on the Housing Revenue Account Statement

2015/16 £000		2016/17 £000
0	**Balance on the HRA at 1 April**	0
	Transfer from Housing Repairs & Renewals Account	(13,143)
(1,118)	Surplus on the HRA Income and Expenditure Statement	(1,951)
(592)	Adjustment between accounting basis and funding basis under statute	(520)
(1,710)	**Decrease in year on the HRA**	**(2,471)**
1,710	Transfers to reserves	0
0	**Balance on the HRA at 31 March**	**(15,614)**

The adjustments between accounting basis and funding basis under regulations are shown in disclosure note 5 and transfers to or from other Statutory Reserves are shown in disclosure note 6.

Notes to the Housing Revenue Account

a) Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2015/16 Number	Housing Stock	2016/17 Number
104	1 Apartment	87
411	2 Apartment	407
533	3 Apartment	527
637	4 Apartment	626
37	5 Apartment	34
1	6 Apartment	1
2	8 Apartment	2
1,725	**Total**	**1,684**

b) 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.

2015/16 £000		2016/17 £000
221	Total value of rent arrears	227

2015/16		2016/17
437	Number of properties in arrears	547
25.3%	Properties in arrears as share of total stock (%)	32.5%
£506	Average amount per property in arrears (£)	£415

c) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2016/17:

2015/16 £000		2016/17 £000
(49)	**Balance as at 1 April**	**(39)**
31	Bad rent debt written off: Under £1,000	20
(18)	**Total bad debt written off**	**20**
11	Transfer of provision to cover general fund rents	14
(32)	Contribution to/(from) Housing Revenue Account	(48)
(39)	**Balance as at 31 March**	**(53)**

Council approval is required to write off bad debts with a value over £5k.

d) Void Rents

The following table summarises the income lost due to voids in 2016/17. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2015/16 £000		2016/17 £000
59	General needs void rents and charges	66
29	Sheltered housing void rents and charges	30
88	**Total**	**96**

Council Tax Income Account

Statutory Background

The Council Tax Income Account (Scotland) shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Account.

Council Tax is payable on any dwelling which is not an exempt dwelling (prescribed by an order made by the Scottish Government). The amount of Council Tax payable depends on the valuation band of the dwelling.

Council Tax Income Account

2015/16 £000		2016/17 £000
(10,333)	Gross Council Tax levied and contributions in lieu	(10,435)
616	Council Tax Reduction Scheme	623
1,167	Other discounts and reductions	1,208
32	Write-offs of uncollectable debts	35
26	Adjustment to previous years' Community Charge and Council Tax	27
(8,492)	**Transfer to General Fund**	**(8,542)**

a) Council Tax Base

Overleaf is the analysis of the Council Tax base used to set the 2016/17 charges. The 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.

b) Charge Setting

The analysis then sets out the tax yield and the charge per property in each band for the General Fund.

c) Deductions

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

- **Council Tax Reduction Scheme -** The Welfare Reform Act of 2012 abolished Council Tax Benefit with effect from 31 March 2013. In Scotland the Council Tax Reduction (Scotland) Regulations 2012 provide for a scheme to replace Council Tax Benefit with a Scotland wide scheme.
- **Exemptions -** Council Tax will be payable on almost all houses. A few, however, will be exempt. Houses where all the residents are students, or are under 18 years old, or are persons with a severe mental impairment, will be exempt. So will some classes of empty property, although in many cases only for a limited period.
- **Discounts -** Council Tax bills can be reduced by discounts for dwellings with fewer than two adults. If only one adult lives there, 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%. Certain persons will not be counted when establishing the number of residents, these being students, student nurses, apprentices, Youth Training trainees, persons with a severe mental impairment, adults for whom Child Benefit is still payable, people absent in nursing homes or hospitals, prisoners, care workers and members of religious communities.
- **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. A reduction is also available for properties in Band A.

Council Tax Valuation Bands 2016/17	Band A Subject to Disabled Relief	Band A £0 to £26,999	Band B £27,000 to £34,999	Band C £35,000 to £44,999	Band D £45,000 to £57,999	Band E £58,000 to £79,999	Band F £80,000 to £105,999	Band G £106,000 to £211,999	Band H £212,000 upwards	Total
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)	0	2,974	1,827	2,752	1,791	1,350	265	61	1	**11,021**
Gross Tax Base (Properties x Weighting)	0	17,844	12,789	22,016	16,119	14,850	3,445	915	18	**87,996**
Adjusted number of properties (Band D equivalents)	**0**	**1,988**	**1,417**	**2,432**	**1,765**	**1,622**	**373**	**98**	**2**	**9,697**
Number of vacant properties:										
Mandatory Standard Exemptions	0	(120)	(55)	(66)	(33)	(13)	(3)	(3)	(1)	**(294)**
Chargeable Dwellings subject to Disabled Reduction	0	(11)	(4)	(10)	(9)	(4)	(1)	(1)	0	**(40)**
Number of dwellings effectively subject to tax by virtue of:										
Disabled Relief (Number)	11	4	10	9	4	1	1	0	0	**40**
Class 18 (MoD) Dwellings (Number)	0	0	0	0	0	0	0	0	0	**0**
Total number of properties	**11**	**2,847**	**1,778**	**2,685**	**1,753**	**1,334**	**262**	**57**	**0**	**10,727**
Types of Property (Number):										
Single Discount (25%)	4	1,120	712	952	385	193	25	9	0	**3,400**
Double Discount (50%)	0	340	99	98	57	36	4	3	0	**637**
No Discount (0%)	7	1,387	967	1,635	1,311	1,105	233	45	0	**6,690**
Total number of properties	**11**	**2,847**	**1,778**	**2,685**	**1,753**	**1,334**	**262**	**57**	**0**	**10,727**
Properties Subject to Council Tax (Number)	10	2,397	1,551	2,398	1,628	1,268	254	53	0	**9,559**
Net Tax Base (Properties x Weighting)	50	14,382	10,857	19,184	14,652	13,948	3,302	795	0	**77,170**
Adjusted Properties (Band D Equivalents)	**6**	**1,598**	**1,206**	**2,132**	**1,628**	**1,550**	**367**	**88**	**0**	**8,575**
2015/16										
Properties Subject to Council Tax (Number)	12	2,405	1,546	2,369	1,602	1,248	245	53	0	**9,480**
Net Tax Base (Properties x Weighting)	60	14,430	10,822	18,952	14,418	13,728	3,185	795	0	**76,390**
Adjusted Properties (Band D Equivalents)	**7**	**1,603**	**1,202**	**2,106**	**1,602**	**1,525**	**354**	**88**	**0**	**8,487**

Non-Domestic Rate Income Account

Statutory Background

Occupiers of non-domestic property pay rates based on the valuation of property within the valuation roll for the area. The non-domestic rate poundage is determined by the Scottish Government.
The Non-Domestic Rate Account (Scotland) is an agent's 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

2015/16 £000		2016/17 £000
22,438	Gross rates levied and contributions in lieu	27,279
(4,901)	Reliefs and other deductions	(3,779)
(7)	Write-offs of uncollectable debts	1
17,530	**Net non-domestic rate income**	**23,501**
(76)	Adjustment to previous years' national non-domestic rates	(242)
17,454	**Contribution to non-domestic rate pool**	**23,259**
(16,882)	Distribution from non-domestic rate pool	(17,822)
(16,882)	**Transfer to Comprehensive Income & Expenditure Statement**	**(17,822)**

Analysis of Rateable Value

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

Category	Number of Subjects	Rateable Value £000
Commercial	564	7,538
Industrial	497	34,865
Other	937	13,090
Total	**1,998**	**55,493**

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 2016/17 is 48.4p (up from 48.0p in 2015/16) with a large business supplement of 2.6p (up from 1.3p in 2015/16) for all subjects with a rateable value above £35k.

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 £18k or less.

Notes to the Financial Statements

Note 1: 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 2017/18 Code:

- Amendment to the reporting of pension fund scheme transaction costs; and
- Amendment to the reporting of investment concentration.

The Code requires implementation in the accounts of pension funds from 1 April 2017 and there is therefore no impact on the Council's 2016/17 financial statements.

Note 2: Material Items of Income and Expenditure

The CIES includes an actuarial loss on pension liability of £79.2m (see Note 10: Unusable Reserves).

Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2017 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 a decrease in the pension liability of £73.5m; however, the assumptions interact in complex ways.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. The Council holds 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.

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2017, the Council had a balance on short-term sundry debtors of £5.4m. 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 £0.05m will eventually be written off from Council Tax charges of £8.5m levied during 2016/17.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in anticipated spending on repairs and maintenance may reduce the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation accelerates and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.6m for every year that useful lives were reduced.
Fishing Quota	Fishing quota held by the Council were valued at £24.150m by an independent broker at 31 March 2017. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market. There is a possibility, though this is currently uncertain, that Brexit will have an impact on the quantity of FQAs in the market.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.

Note 4: Expenditure and Income Analysed by Nature

This note details the subjective analysis of the gross income and expenditure reported in the CIES and, in conjunction with the new Expenditure and Funding Analysis and related note, replaces the previous 'Amounts Reported for Resource Allocation Decisions' note.

2015/16 £000	Expenditure and Income Analysed by Nature	2016/17 £000
	Expenditure	
94,228	Employee expenses	101,760
68,448	Other service expenses	92,679
26,555	Depreciation, amortisation and impairment	19,681
3,643	Interest payments	2,343
4,378	Loss on disposal of non-current assets	0
197,252	**Total Expenditure**	**216,463**
	Income	
(55,047)	Fees, charges & other service income	(86,824)
(7,036)	Interest and investment income	(9,447)
(8,492)	Income from Council Tax	(8,542)
(102,678)	Government grants and contributions	(96,644)
0	Gain on disposal of non-current assets	(572)
(173,253)	**Total Income**	**(202,029)**
23,999	**Deficit on the provision of services**	**14,434**

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

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

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

General Fund Balance

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 Balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council 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 Receipts Reserve

The Capital Receipts Reserve 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.

Capital Grants Unapplied

The Capital Grants Unapplied Account (reserve) 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 this can take place.

2016/17	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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	0	18,100
Revaluation losses on property, plant and equipment	(249)	(265)	0	0	514
Amortisation of intangible assets	(1,044)	(23)	0	0	1,067
Capital grants and contributions applied	4,652	128	0	45	(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	0	2,000
Capital repayment in respect of finance leases	94	0	0	0	(94)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment	244	1,086	0	0	(1,330)
Capital expenditure charged against the General Fund and HRA balances	1,512	45	0	0	(1,557)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	38	0	0	(38)	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	0	(2,572)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,562	0	(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	0	72
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(18,830)	(316)	0	0	19,146
Employer's pensions contributions and direct payments to pensioners payable in the year	11,717	173	0	0	(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	0	882
Total Adjustments	**(19,000)**	**(520)**	**1,562**	**7**	**17,951**

Comparative movements in:	Usable Reserves				
2015/16	**General Fund Balance £000**	**Housing Revenue Account £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the CIES:					
Charges for depreciation and impairment of non-current assets	(15,464)	(2,151)	0	0	17,615
Revaluation losses on property, plant and equipment	(7,768)	(44)	0	0	7,812
Amortisation of intangible assets	(1,103)	(25)	0	0	1,128
Capital grants and contributions applied	7,996	0	0	0	(7,996)
Income in relation to donated assets	0	0	0	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(12,451)	(1,093)	0	0	13,544
Capital repayment in respect of finance leases	89	0	0	0	(89)
Insertion of items not debited or credited to the CIES:					
Statutory provision for the financing of capital investment	11,542	1,200	0	0	(12,742)
Capital expenditure charged against the General Fund and HRA balances	0	0	0	0	0
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	45	0	0	(45)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	635	(635)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	7,492	1,674	(9,166)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,556	0	(1,556)
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	482	0	0	0	(482)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the CIES	(21,452)	(369)	0	0	21,821
Employer's pensions contributions and direct payments to pensioners payable in the year	12,471	198	0	0	(12,669)
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	460	18	0	0	(478)
Total Adjustments	**(17,661)**	**(592)**	**(7,610)**	**590**	**25,273**

Note 6: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2016/17.

	Balance at 31 March 2016 (restated) £000	Transfers out £000	Transfers in £000	Balance at 31 March 2017 £000
General Fund Balance	(12,718)	18,699	(30,267)	**(24,286)**
Council Tax Second Homes Receipts	(1,009)	0	(155)	**(1,164)**
Welfare Reform Fund	(202)	0	(6)	**(208)**
Hansel Funds	(153)	0	(8)	**(161)**
School Funds	(242)	0	(41)	**(283)**
Shetland College	(221)	156	(115)	**(180)**
Central Energy Efficiency Fund	(196)	79	0	**(117)**
Equalisation Fund	(15,587)	0	(480)	**(16,067)**
Community Care Funds	(510)	52	(34)	**(492)**
Local Investment Fund	(9,394)	0	(2,065)	**(11,459)**
Total General Fund Balance	**(40,232)**	**18,986**	**(33,171)**	**(54,417)**
Capital Fund	(84,178)	21,860	(4,180)	**(66,498)**
Repairs & Renewals Fund	(42,817)	0	(1,317)	**(44,134)**
Housing Revenue Account	(13,143)	0	(2,471)	**(15,614)**
Harbour Account Reserve Fund	(61,622)	12,117	(14,013)	**(63,518)**
Insurance Fund	(237)	0	(7)	**(244)**
Total Statutory Reserves	**(201,997)**	**33,977**	**(21,988)**	**(190,008)**
Total Usable Reserves	**(242,229)**	**52,963**	**(55,159)**	**(244,425)**

General Fund Reserves

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund. The **General Fund Balance** Reserve was established to defray General Fund expenditure. It now incorporates the former Financial Risk Reserve and Revenue Spend to Save reserve.

The **Council Tax Second Homes Receipts**, for the receipts from reducing the discount on second homes' Council Tax, was set up to fund affordable housing expenditure.

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

The **Hansel Funds** are held for the benefit of residents in care establishments.

The **School Fund** is an earmarked General Fund reserve set up to contribute to the good of the schools of Shetland or enhance educational or social activities for children.

The **Shetland College Reserve** is an earmarked General Fund reserve which holds the reserves relating to Shetland College.

The **Central Energy Efficiency Fund** was set up to fund the reduction in energy consumption and carbon emissions.

The **Equalisation Fund** was created to accumulate realised returns that exceed the long-term average rate of return, and these can be released in future years.

The **Community Care Fund** is an earmarked General Fund reserve which holds the balances relating to the Integrated Joint Board.

The **Local Investment Fund** has been set up to earmark 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 the principal of loans. 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 balances generated by the HRA and represents an uncommitted balance.

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

Note 7: Other Operating Income and Expenditure

2015/16 £000		2016/17 £000
4,378	(Gains)/losses on the disposal of non-current assets	(572)
4,378	**Total**	**(572)**

Note 8: Financing and Investment Income and Expenditure

2015/16 £000		2016/17 £000
3,643	Interest payable and similar charges	2,343
5,920	Pensions interest cost and expected return on pensions assets	5,264
(1,403)	Interest receivable and similar income	(2,361)
(2,821)	Other investment income	(2,749)
(2,329)	Realised gains in relation to available for sale financial assets	(3,739)
(483)	Income from transferred SDT financial instruments	(598)
2,527	**Total**	**(1,840)**

Note 9: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2016/17:

2015/16 £000		2016/17 £000
	Credited to Taxation and Non-Specific Grant Income	
(70,155)	Revenue Support Grant	(64,873)
(16,882)	Non-domestic Rates	(17,822)
(8,492)	Council Tax	(8,542)
(8,040)	Capital Grants and Contributions	(4,818)
(32)	Donated assets	0
(103,601)	**Total**	**(96,055)**
	Credited to Services	
(3,004)	Housing Benefit funding	(3,072)
(98)	Sports Development and Facilities funding	(2,051)
(2,059)	FE and HE funding	(1,653)
(331)	Criminal Justice grant	(352)
(353)	Skills Development Scotland	(350)
(263)	EU grants	(286)
(214)	Active Schools funding	(199)
0	Housing grants	(184)
(65)	Social Care funding	0
(80)	Fisheries funding	0
(99)	Department of Work and Pensions funding	(155)
(218)	Energy grants	(146)
(160)	NHS grants	(134)
(54)	Transport grants	(101)
(72)	Education Maintenance Allowance funding	(83)
(100)	Youth Music funding	(70)
(40)	Employability funding	(51)
(12)	Educational attainment / inequality funding	(50)
(67)	Electric Vehicle funding	(38)
(45)	Community development funding	(32)
(18)	Languages funding	(23)
(65)	Other grants and contributions	(22)
0	Self Directed Support	(20)
0	WW1 Battlefield funding	(17)
0	Youth Legacy Programme	(15)
(10)	Milk Subsidy	(17)
(10)	Duke of Edinburgh Programme	0
(132)	Training grants	(10)
(7,569)	**Total**	**(9,131)**

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

Note 10: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2015/16 £000		2016/17 £000
(91,109)	Revaluation Reserve	(89,850)
(38,677)	Available for Sale Financial Instruments Reserve	(98,700)
(2,001)	Financial Instruments Adjustment Account	(1,929)
143,129	Pensions Reserve	229,675
(279,503)	Capital Adjustment Account	(276,871)
2,299	Employee Statutory Adjustment Account	3,181
(265,862)	**Total Unusable Reserves**	**(234,494)**

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 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.

2015/16 £000		2016/17 £000
(100,372)	**Balance at 1 April**	**(91,109)**
3,322	(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(4,529)
	Amounts written off to the Capital Adjustment Account:	
5,023	Difference between fair value depreciation and historical cost depreciation	4,731
918	Assets sold or scrapped	1,057
(91,109)	**Balance at 31 March**	**(89,850)**

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.

2015/16 £000		2016/17 £000
(45,429)	**Balance at 1 April**	**(38,677)**
(8,689)	Revaluation of assets	(61,891)
15,441	Removal of previously unrealised gains in relation to assets sold	1,868
(38,677)	**Balance at 31 March**	**(98,700)**

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.

2015/16 £000		2016/17 £000
(1,519)	**Balance at 1 April**	**(2,001)**
(482)	Amount by which finance costs charged to the CIES are different from the finance costs chargeable in the year in accordance with statutory requirements	72
(2,001)	**Balance at 31 March**	**(1,929)**

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 benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £000		2016/17 £000
183,396	**Balance at 1 April**	**143,129**
(49,419)	Actuarial (gains) and losses on pensions assets and liabilities	79,290
21,821	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	19,146
(12,669)	Employer's pensions contributions and direct payments to pensioners payable in the year	(11,890)
143,129	**Balance at 31 March**	**229,675**

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.

2015/16 £000		2016/17 £000
2,777	**Balance at 1 April**	**2,299**
(2,777)	Settlement or cancellation of accrual made at the end of the preceding year	(2,299)
2,299	Amounts accrued at the end of the current year	3,181
2,299	**Balance at 31 March**	**3,181**

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.

2015/16 £000		2016/17 £000
(290,643)	**Balance at 1 April**	**(279,503)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
17,615	Charges for depreciation and impairment of non-current assets	18,100
7,812	Revaluation losses on property, plant and equipment	514
1,128	Amortisation of intangible assets	1,067
(89)	Repayment of capital on finance leases	(94)
12,626	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	2,000
0	Prior year disposal of asset transferred to stock	175
(5,023)	Adjustment amounts written out of the Revaluation Reserve	(5,787)
	Capital financing applied in the year:	
(1,556)	Use of the Capital Receipts Reserve to finance new capital expenditure	(4,134)
(7,996)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(4,780)
(635)	Application of grants to capital financing from the Capital Grants Unapplied Account	(1)
(12,742)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,330)
0	Capital expenditure charged against the General Fund and HRA balances	(1,557)
0	Capital Fund Reserve	(1,541)
(279,503)	**Balance at 31 March**	**(276,871)**

Note 11: Note to the Expenditure and Funding Analysis

The following note details material reconciling items in the adjustments between the accounting and funding basis shown on the face of the Expenditure and Funding Analysis:

2015/16				Adjustments from the General Fund and HRA to arrive at the CIES amounts	2016/17			
Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000		Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
(19)	0	0	(19)	Chief Executive and Cost of Democracy	(376)	(266)	0	(642)
(5,443)	191	(7)	(5,259)	Children's Services	(5,471)	102	(406)	(5,775)
(731)	(1,328)	247	(1,812)	Community Care Services	(410)	(928)	(132)	(1,470)
(3,083)	(6,150)	(5)	(9,238)	Corporate Services	(655)	(5,161)	(172)	(5,988)
(576)	(12)	38	(550)	Development Services	(1,429)	(148)	(46)	(1,623)
(12,300)	(327)	187	(12,440)	Infrastructure Services	(5,014)	(572)	(66)	(5,652)
(439)	(171)	18	(592)	Housing Revenue Account	(498)	(143)	(7)	(648)
16,300	(1,355)	0	14,945	Harbour Account	(2,275)	(140)	(53)	(2,468)
(6,291)	**(9,152)**	**478**	**(14,965)**	**Net Cost of Services**	**(16,128)**	**(7,256)**	**(882)**	**(24,266)**
(3,770)	0	482	(3,288)	Other income and expenditure	4,818	0	(72)	4,746
(10,061)	**(9,152)**	**960**	**(18,253)**	**Total adjustments between accounting basis and funding basis**	**(11,310)**	**(7,256)**	**(954)**	**(19,520)**

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
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
Donated assets	0	0	0	0	0	0	0	0
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)
Derecognition – other	0	0	0	0	0	0	0	0
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**	**(67,348)**
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
Derecognition – other	0	0	0	0	0	0	0	0
Assets reclassified (to)/ from Assets held for sale	0	0	0	0	0	0	0	0
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**

Movement in 2015/16 (restated)	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 2015	**71,630**	**155,096**	**49,838**	**161,719**	**6,921**	**1,689**	**8,596**	**455,489**
Additions	1,540	1,119	1,014	254	0	0	3,396	7,323
Donated assets	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,278)	(5,732)	(4,913)	0	0	(94)	0	(14,017)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(95)	(8,072)	(1,298)	0	0	(84)	0	(9,549)
Derecognition – disposals	(587)	(137)	(2,436)	(560)	(1)	0	0	(3,721)
Derecognition – other	0	(592)	0	0	0	0	0	(592)
Assets reclassified (to)/ from Assets held for sale	(201)	(156)	0	0	0	0	0	(357)
Other movements in cost or valuation	(3,238)	7,422	4,835	2,400	0	(1,260)	(3,091)	7,068
Closing Balance at 31 March 2016	**65,771**	**148,948**	**47,040**	**163,813**	**6,920**	**251**	**8,901**	**441,644**
Accumulated Depreciation and Impairment								
Opening Balance at 1 April 2015	**(29)**	**(2,903)**	**(19,402)**	**(42,647)**	**(8)**	**(32)**	**0**	**(65,021)**
Depreciation charge	(2,054)	(7,858)	(3,582)	(4,038)	0	(71)	0	(17,603)
Depreciation written out to the Revaluation Reserve	1,996	3,659	4,805	0	0	28	0	10,488
Depreciation written out to the Surplus/Deficit on the Provision of Services	51	724	957	0	0	5	0	1,737
Derecognition – disposals	16	8	2,418	506	0	0	0	2,948
Derecognition – other	0	103	0	0	0	0	0	103
Assets reclassified (to)/ from Assets held for sale	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	20	(59)	0	0	0	39	0	0
Closing Balance at 31 March 2016	**0**	**(6,326)**	**(14,804)**	**(46,179)**	**(8)**	**(31)**	**0**	**(67,348)**
Net Book Value								
As at 31 March 2016	**65,771**	**142,622**	**32,236**	**117,634**	**6,912**	**220**	**8,901**	**374,296**
As at 31 March 2015	**71,601**	**152,193**	**30,436**	**119,072**	**6,913**	**1,657**	**8,596**	**390,468**

Depreciation

The following useful lives have been used in the calculation of depreciation:

Type of Asset	Useful Life
Council Dwellings	30 years
Other Land and Buildings	1-120 years
Vehicles, Plant, Furniture & Equipment	1-50 years
Infrastructure	5-60 years

Community Assets

The Council held £6.919m of Community Assets at 31 March 2017. This is comprised of various land assets and therefore not subject to depreciation.

Capital Commitments

At 31 March 2017 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years, budgeted to cost £10.998m. Similar commitments at 31 March 2016 were £15.457m. The major commitments are:

- New Halls of Residence £4.331m
- Eric Gray Replacement £4.012m
- Town Hall Conservation £0.658m
- Housing Quality Standard £0.445m

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.

Revaluation Rolling Programme

This statement shows the annual asset valuations within the rolling programme. The Asset and Properties Unit carries out valuations for operational and non-operational land and building assets. Officers of the Council with relevant expertise carry out valuations for all other assets. The basis of valuation is set out in the statement of accounting policies.

	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
Carried at historic cost	-	-	-	163,813	6,920	-	8,901
Valued at fair value at:							
2016/17	-	54,125	399	-	-	-	-
2015/16	68,939	18,155	47,040	-	-	104	-
2014/15	-	75,092	-	-	-	965	-
2013/14	-	25,050	-	-	-	524	-
2012/13	-	14,486	-	-	-	70	-

Note 13: Heritage Assets

Net Value	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**
Depreciation	(14)	0	(1)	**(15)**
Other movements	0	0	(56)	**(56)**
Closing Balance at 31 March 2017	**1,585**	**3,269**	**0**	**4,854**

2015/16	Historic Buildings £000	Museum Collection £000	War Memorial £000	Total Assets £000
Opening Balance at 1 April 2015	**1,404**	**3,269**	**57**	**4,730**
Revaluations	207	0	0	**207**
Depreciation	(12)	0	0	**(12)**
Closing Balance at 31 March 2016	**1,599**	**3,269**	**57**	**4,925**

There were no purchases of heritage assets during the current or prior financial years. There were no donations, disposals, revaluations or impairments in the same period. The War Memorial asset has been written off in the current 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 is open for public viewing during the months of 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.

Note 14: Intangible Assets

The intangible assets included on the Balance Sheet are in respect of fishing quota, fishing licences and software.

A fishing quota is the right to fish species over a defined period, usually one year. Quotas are held by Government and distributed to the fishing industry through Producer Organisations. The Fishing Quota was originally purchased by the Shetland Development Trust to enable long-term access to a strategically important resource. The quota was transferred to the Council on 31 December 2014 as part of the wind up of the Shetland Development Trust. The market value at 31 March 2017 is £24.150m. 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 was a part-disposal in 2016/17 resulting in proceeds of £0.148m. The market value as at 31 March 2017 is £0.076m. 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 £1.067m was charged directly to the Net Cost of Services in the CIES for 2016/17.

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

Useful lives assigned to the major software suites used by the Council are:

Purchased Licences	Years
Webroster GIS Innogistic System Encryption/ Web Filter Software	3
Payroll/ HR/ Pension Systems Libraries Systems Building/ DLO Stores System Council Tax/ Housing Benefits/ Rents	5
Financial Management Systems Risk Assessment Software	10
Capita Open Housing Management	12
Occupational Therapy Stock Control Facility Management System Planning Systems Client Records System Microsoft Licenses	20

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

As at 31 March 2016 £000		As at 31 March 2017 £000
	Balance at 1 April:	
22,103	Gross carrying amounts	22,101
(1,930)	Accumulated amortisation	(3,058)
20,173	**Net carrying amount at start**	**19,043**
0	Purchases	295
(2)	Other disposals	(103)
(1,128)	Amortisation for the period	(1,067)
0	Other changes	6,946
19,043	**Net carrying amount at end**	**25,114**
	Comprising:	
22,101	Gross carrying amounts	29,239
(3,058)	Accumulated amortisation	(4,125)
19,043	**Balance at 31 March**	**25,114**

Note 15: Financial Instruments

Categories of Financial Instruments

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

As at 31 March 2016 (restated)			As at 31 March 2017	
Long-Term £000	Current £000		Long-Term £000	Current £000
		Financial Assets		
		Investments:		
286,632	0	Available for sale financial assets	333,784	0
286,632	**0**	**Total Investments**	**333,784**	**0**
		Debtors:		
5,680	779	Loans and receivables	4,316	581
5,680	**779**	**Total Debtors**	**4,316**	**581**
		Financial Liabilities		
		Borrowing:		
(31,093)	(18)	Financial liabilities at amortised cost	(31,075)	(18)
(31,093)	**(18)**	**Total Borrowing**	**(31,075)**	**(18)**
		Creditors:		
(5,906)	(94)	Financial liabilities at amortised cost	(5,831)	(99)
0	(402)	Accrued interest liability	0	(397)
(5,906)	**(496)**	**Total Creditors**	**(5,831)**	**(496)**
		Provisions:		
0	(139)	Financial guarantees	0	(116)
0	**(139)**	**Total Provisions**	**0**	**(116)**

Soft Loans

An interest-free loan of £0.060m was provided to support Community and Drugs and Alcohol Services Shetland in 2015/16 in support of the Council's corporate priorities relating to community strength, vulnerable and young people

The Community and Drugs and Alcohol Services Shetland went into liquidation and was wound up during 2016/17. The Council, as a secured debtor, received repayment of £0.059m. The balance of the loan, along with notional interest due for 2016/17 were written off in the year. The write-off amounted to £1,529.

As at 31 March 2016 £000		As at 31 March 2017 £000
0	**Balance at start of year:**	**57**
60	Nominal value of new loans granted in the year	0
(3)	Fair value adjustment in year	1
0	Loans repaid	(59)
0	Other adjustments	1
57	**Total Investments**	**0**

Income, Expense, Gains and Losses

As at 31 March 2016					As at 31 March 2017			
Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000		Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000
0	0	1,228	**1,228**	Interest expense	0	0	1,303	**1,303**
0	965	15	**980**	Fee expenses	0	1,040	0	**1,040**
0	**965**	**1,243**	**2,208**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**0**	**1,040**	**1,303**	**2,343**
(248)	(3,259)	0	**(3,507)**	Interest & dividend income	(306)	(5,402)	0	**(5,708)**
0	(2,329)	0	**(2,329)**	Gains on de-recognition	0	(3,739)	0	**(3,739)**
(248)	**(5,588)**	**0**	**(5,836)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(306)**	**(9,141)**	**0**	**(9,447)**
0	(8,689)	0	**(8,689)**	Gains on revaluation	0	(61,891)	0	**(61,891)**
0	15,441	0	**15,441**	Amounts recycled	0	1,868	0	**1,868**
0	**6,752**	**0**	**6,752**	**(Surplus)/Deficit arising on revaluation of financial assets in CIES**	**0**	**(60,023)**	**0**	**(60,023)**
(248)	**2,129**	**1,243**	**3,124**	**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 £61.9m as at 31 March 2017 (£8.7m at 31 March 2016) and therefore no impairment has been identified and the Council did not carry out an impairment review.

Fair Values of Assets and Liabilities

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

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

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

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

As at 31 March 2016			As at 31 March 2017	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
6,459	6,459	Loans and receivables	4,897	4,559
(37,110)	(41,260)	Financial liabilities at amortised cost	(37,023)	(43,549)

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 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 16: 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 also imposes a maximum sum to be invested with a financial institution. This 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 2016/17.

The Council has a policy of lending to local businesses to maximise the benefit to the economy and enhance future prosperity in Shetland. 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 £15m.

As at 31 March 2017, £4.6m of this balance was loaned to local businesses, leaving £10.4m available for future lending. The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default.

As at 31 March 2016 £000	Shetland Investment Fund	As at 31 March 2017 £000
6,459	Less than three months	4,559
6,459	**Total**	**4,559**

The following analysis summarises the Council's potential maximum exposure to credit risk at 31 March 2017, based on experience of default and uncollectability, adjusted to reflect current market conditions:

	Amount at 31 March 2017 (a) £000	Historical experience of default expressed as % of (a) 31 March 2017 (b) %	Historical experience adjusted for market conditions at 31 March 2017 (c) %	Estimated maximum exposure to default and uncollectability at 31 March 2017 (a) x (c) £000	Estimated maximum exposure at 31 March 2016 £000
Deposits with Banks	3,941	0%	0%	0	0
Shetland Investment Fund	4,559	1%	1%	32	71
Customers	256	25%	25%	64	36

No credit limits were exceeded during the reporting period, 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 £2.0m of the £5.4m balance of sums owing at 31 March 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 2016 £000	Customers	As at 31 March 2017 £000
610	Less than three months	505
543	Three to six months	523
188	Six months to one year	246
739	More than one year	744
2,080	**Total**	**2,018**

Liquidity Risk

The Council has external investments with fund managers amounting to £333.8m at 31 March 2017. 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 2017 the Council had fixed rate borrowings amounting to £31.0m from the Public Works Loan Board.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2016 (restated) £000		As at 31 March 2017 £000
23,110	10-20 years	23,093
7,000	20-30 years	7,000
1,000	Over 40 years	1,000
31,110	**Total borrowing**	**31,093**

Market Risk

a) 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 2017 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

A risk has been identified that 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 £1.2m for 2016/17.

The Council at 31 March 2017 had external fixed rate borrowing amounting to £31.1m 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 Capita Asset Services to advise on any borrowing requirements, including associated interest rate risks.

b) Price Risk

The Council had £333.8m of investments as at 31 March 2017 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 2016/17.

c) Foreign Exchange Risk

The Council has £184.3m 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 17: Debtors

As at 31 March 2016 £000		As at 31 March 2017 £000
1,702	Central Government Bodies	2,766
10,075	Other Local Authorities	23,347
152	NHS Bodies	379
1,198	Public Corporations and Trading Funds	1,227
8,706	Other Entities and Individuals	10,150
21,833	**Total short-term debtors**	**37,869**

29	**Total long-term debtors**	**77**

Long-term Debtors

In 2016/17 £77k of debtors has been classified as long-term debtors (£29k in 2015/16).

Movements in impairment allowance

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

2015/16 (restated) £000		2016/17 £000
(223)	**General Fund Balance at 1 April**	**(213)**
91	Miscellaneous Invoices written off	116
32	Council Tax written off	36
(11)	Transfer provision from HRA to cover General Fund rents	(14)
(102)	Change in General Fund Provision	(72)
(213)	**Balance at 31 March**	**(147)**
(49)	**Housing Revenue Account Balance at 1 April**	**(39)**
31	Rents written off	20
11	Transfer provision from HRA to cover General Fund rents	14
(32)	Change in HRA Provision	(48)
(39)	**Balance at 31 March**	**(53)**

Note 18: Assets Held for Sale

2015/16 £000		2016/17 £000
12,577	**Balance at 1 April 2016**	**654**
	Assets newly classified as held for sale:	
624	Property, plant and equipment	1,256
	Assets declassified as held for sale:	
(267)	Property, plant and equipment	0
(12,280)	**Assets sold**	(555)
654	**Balance at 31 March 2017**	**1,355**

Note 19: Cash and Cash Equivalents

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

2015/16 £000		2016/17 £000
34	Cash held by the Council	29
2,486	Bank current accounts	3,880
2,520	**Total**	**3,909**

Note 20: Short-Term Creditors

As at 31 March 2016 £000		As at 31 March 2017 £000
(3,607)	Central Government Bodies	(3,740)
(10,001)	Other Local Authorities	(20,516)
(99)	NHS Bodies	(108)
(679)	Public Corporations and Trading Funds	(872)
(10,072)	Other Entities and Individuals	(14,217)
(24,458)	**Total**	**(39,453)**

Note 21: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Balance at 1 April	**2,804**	**3,447**	**1,441**	**1,557**	**319**	**175**	**4,564**	**5,179**
Purchases	594	407	2,251	2,677	255	232	3,100	3,316
Recognised as an expense in the year	(528)	(1,050)	(2,293)	(2,784)	(332)	(88)	(3,153)	(3,922)
Balances written off	0	0	0	(9)	0	0	0	(9)
Balance at 31 March	**2,870**	**2,804**	**1,399**	**1,441**	**242**	**319**	**4,511**	**4,564**

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

Note 22: 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 for £1.2m is recognised for decommissioning costs that are expected to be incurred between 2017 and 2026. The provision is split between long and short-term provisions to recognise the estimated payment due in 2017/18. The provision is calculated at today's prices based on the estimated remaining useful life of the landfill site and its current usage. Total estimated costs will be adjusted in the year when events indicating a change become known.

A provision of £0.075m 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 is March 2018.

The Council is required to participate 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 the allowances required to meet the liability at 31 March 2017.

Shetland Islands Council requires 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 is based on the information available at 31 March 2017.

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 as at 31 March 2017.

A provision of £0.3m was recognised in 2015/16 in relation to holiday pay on non-contractual overtime, backdated to 1 January 2015.

This was paid out during 2016/17 and systems are now in place to compensate employees for paid leave at a rate that includes non-contractual overtime.

Long-term Provisions	Balance at 1 April	Amounts used in 2016/17	Unused amounts reversed	Additional provisions made	Transfer to Short-term Provisions	Transfer from Short-term Provisions	Balance at 31 March
Decommissioning	(1,282)	35	26	(67)	280	(222)	**(1,230)**
Total Long-term Provisions	**(1,282)**	**35**	**26**	**(67)**	**280**	**(222)**	**(1,230)**

Short-term Provisions	Balance at 1 April	Amounts used in 2016/17	Unused amounts reversed	Additional provisions made	Transfer to Long-term Provisions	Transfer from Long-term Provisions	Balance at 31 March
Carbon Reduction Commitment	(127)	127	0	(127)	0	0	**(127)**
Symbister Peerie Dock	(75)	0	0	0	0	0	**(75)**
Outstanding Legal Actions	(5,348)	5,021	10	0	0	0	**(317)**
Decommissioning	(188)	246	0	0	222	(280)	**0**
Financial Guarantees	(139)	24	0	0	0	0	**(115)**
Backdated Holiday Pay	(300)	300	0	0	0	0	**0**
Total Short-term Provisions	**(6,177)**	**5,718**	**10**	**(127)**	**222**	**(280)**	**(634)**

Note 23: 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 2016 £000		As at 31 March 2017 £000
6,713	Property, plant and equipment	6,507
6,713		6,507

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 minimum lease payments are made up of the following amounts:

As at 31 March 2016 £000	Finance lease liabilities (net present value of minimum lease payments):	As at 31 March 2017 £000
(75)	Current	(75)
(1,667)	Non-current	(1,592)
(2,825)	Finance costs payable in future years	(2,508)
(4,567)	**Minimum Lease Payments**	**(4,175)**

The minimum lease payments are payable over the following periods:

	Minimum Lease		Finance Lease Liabilities	
	As at 31 March 2017 £000	As at 31 March 2016 £000	As at 31 March 2017 £000	As at 31 March 2016 £000
Not later than one year	(364)	(393)	(75)	(75)
Later than one year and not later than five years	(1,204)	(1,300)	(300)	(300)
Later than five years	(2,607)	(2,874)	(1,292)	(1,367)
	(4,175)	**(4,567)**	**(1,667)**	**(1,742)**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were contingent rents of £10k payable in 2016/17 (£57k in 2015/16).

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 BP 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 2016 £000		As at 31 March 2017 £000
1,907	Not later than one year	2,209
6,614	Later than one year and not later than five years	7,482
8,725	Later than five years	6,780
17,246	**Total**	**16,471**

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

As at 31 March 2016 £000		As at 31 March 2017 £000
2,426	Minimum lease payments	2,512
(1,039)	Sub-lease payments receivable	(1,011)
1,387	**Total**	**1,501**

The Council as a Lessor

Finance Leases

During 2015/16 and 2016/17 the Council did not have any finance leases as lessor.

Operating Leases

The Council leases 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 2016 £000		As at 31 March 2017 £000
(972)	Not later than one year	(980)
(3,824)	Later than one year and not later than five years	(4,750)
(4,277)	Later than five years	(2,404)
(9,073)	**Total**	**(8,134)**

The total value of rental income, excluding sub-leases, recognised during the period was £1.7m (£0.8m in 2015/16).

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

As at 31 March 2016 £000		As at 31 March 2017 £000
(338)	Not later than one year	(1,085)
(1,231)	Later than one year and not later than five years	(4,273)
(4,293)	Later than five years	(12,723)
(5,862)	**Total**	**(18,081)**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 and 2016/17 no contingent rents were receivable by the Council.

Note 24: 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 two post-employment schemes:

1. The Local Government Pension Scheme, administered locally by Shetland Islands Council, 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) pension for lump sum up to the limit set by the Finance Act 2004. The Scheme's Normal Retirement Age is now linked to the members 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.

2. 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 The 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 accounting policies note.

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 Balance via the Movement in Reserves Statement during the year:

2015/16 £000	Local Government Pension Scheme	2016/17 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
15,678	Current service cost	13,882
223	Past service cost (including curtailments)	220
	Financing and Investment Income and Expenditure:	
5,920	Net interest expense	5,044
21,821	**Total Post-Employment Benefit charged to the Surplus or Deficit on the Provision of Services**	**19,146**
	Other Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement	
6,054	Return on plan assets (excluding the amount included in the net interest expense)	(55,844)
(49,254)	Actuarial (gains) and losses arising on changes in financial assumptions	133,459
(6,219)	Actuarial (gains) and losses arising from other experience	1,675
(27,598)	**Total Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**98,436**
	Movement in Reserves Statement	
(21,821)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(19,146)
12,669	Employer's contributions and direct payments to pensioners payable in the year	11,890

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

2015/16 £000		2016/17 £000
(479,250)	Present value of the defined benefit obligation	(635,789)
336,121	Fair value of assets in the Local Government Pension Scheme	406,114
(143,129)	**Net liability arising from Defined Benefit Obligation**	**(229,675)**
(113,671)	Local Government Pension Scheme	(196,052)
(13,633)	Unfunded liabilities for Pension Fund	(15,936)
(15,825)	Unfunded liabilities for Teachers	(17,687)
(143,129)	**Total**	**(229,675)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2015/16 £000		2016/17 £000
328,421	**Opening balance at 1 April**	**336,121**
10,560	Interest income	11,797
	Re-measurement gains and (losses):	
(6,054)	Return on assets excluding amounts included in net interest	55,844
12,669	Employer contributions	11,890
3,083	Contributions by scheme participants	3,239
(12,558)	Benefits paid	(12,777)
336,121	**Closing balance at 31 March**	**406,114**

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

2015/16 £000		2016/17 £000
511,817	**Opening balance at 1 April**	**479,250**
15,678	Current service cost	13,882
16,480	Interest cost	16,841
3,083	Contributions by scheme participants	3,239
	Remeasurement (gains) and losses:	
(49,254)	Actuarial (gains) and losses from changes in financial assumptions	133,459
(6,219)	Actuarial (gains) and losses from other experience	1,675
(12,558)	Benefits paid	(12,777)
223	Past service costs including curtailments	220
479,250	**Closing balance at 31 March**	**635,789**

Analysis of Pension Fund's Assets

Shetland Islands Council's share of the Pension Fund's assets at 31 March 2017 comprised:

2015/16 £000	Quoted Prices not in Active Markets	2016/17 £000
54	**Cash and cash equivalents**	**1,643**
	Property:	
32,578	UK property	42,306
2,208	Overseas property	1,321
34,786	**Sub-total Property**	**43,627**
	Investment Funds and Unit Trusts:	
203,512	Equities	256,211
32,478	Bonds	35,237
65,291	Other	69,396
301,281	**Sub-total Investment Funds and Unit Trusts**	**360,844**
336,121	**Total Assets**	**406,114**

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 2014, projected forward to 31 March 2017.

The principal assumptions used by the actuary have been:

2015/16		2016/17
	Long-term expected rate of return on assets in the Scheme:	
3.2%	Investment Funds and Unit Trusts	3.5%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.8	Men	22.8
23.8	Women	23.8
	Longevity at 65 for future pensioners (in years):	
24.9	Men	24.9
26.7	Women	26.7
3.2%	Rate of inflation	3.4%
4.2%	Rate of increase in salaries	4.4%
2.2%	Rate of increase in pensions	2.4%
3.5%	Rate for discounting scheme liabilities	2.6%
70.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	70.0%
85.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	85.0%

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 reporting period and assumes for each change that the assumption analysed changes, while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. 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.

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

Impact of changes in assumptions	2016/17	
	%	£000
0.5% decrease in real discount rate	12%	73,545
0.5% increase in the salary increase rate	4%	25,488
0.5% increase in the pension increase rate	7%	45,813

Impact on the Council's Cash Flows

The objectives of the Scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the Scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities. Employers' common contribution rate was set at 19.8% for 2016/17. The three years set out in the latest triennial valuation as at 31 March 2014 are as follows:

Year	Employer contributions
2015/16	18.70%
2016/17	19.80%
2017/18	20.80%

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2018 is £10.855m.

The weighted average duration of the defined benefit obligation for Scheme members is 19.6 years for 2016/17.

Note 25: 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 0.7% (0.7% for 2015/16).

In 2016/17, the Council paid £2.6m to the SPPA in respect of teachers' pension costs, representing 17.2% of pensionable pay (£2.4m and 14.9% for 2015/16). There were no contributions remaining payable at the year-end.

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 2016/17 these amounted to £0.9m, representing 5.2% of teachers' pensionable pay (£0.9m and 6.0% for 2015/16). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligations

Note 26: Cash Flow Statement – Operating Activities

Cash flows for operating activities include the following:

2015/16 £000		2016/17 £000
(966)	Interest received	(1,718)
2,687	Interest paid	2,266
0	Dividends received	(605)
1,721	**Total**	**(57)**

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

2015/16 £000		2016/17 £000
(25,427)	Depreciation, impairment and revaluations	(18,614)
(1,128)	Amortisation	(1,067)
22	Decrease in impairment for bad debts	52
(6,330)	Increase in creditors	(14,904)
1,767	Increase in debtors	14,620
(615)	Decrease in inventories	(53)
(9,152)	Movement in pension liability	(7,256)
(13,544)	Carrying amount of non-current assets sold or de-recognised	(2,000)
5,379	Other non-cash items charged to the net surplus or deficit on the provision of services	(6,160)
(49,028)	**Total**	**(35,382)**

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

2015/16 £000		2016/17 £000
9,166	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,134
7,907	Any other items for which the cash effects are investing or financing cash flows	4,825
17,073	**Total**	**8,959**

Note 27: Cash Flow Statement – Investing Activities

2015/16 £000		2016/17 £000
13,837	Purchase of property, plant and equipment, investment property and intangible assets	20,889
13,035	Purchase of short-term and long-term investments	700
(9,159)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,134)
(1,513)	Proceeds from short-term and long-term investments	(2,142)
(7,996)	Other receipts from investing activities	(4,825)
8,204	**Total**	**10,488**

Note 28: Cash Flow Statement – Financing Activities

2015/16 £000		2016/17 £000
(48)	Cash receipts of short and long-term borrowing	0
89	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	94
14	Repayments of short and long-term borrowing	18
55	**Total**	**112**

Note 29: Usable Reserves

The movements in the Council's usable and unusable reserves are detailed in the Movement in Reserves Statement.

Note 30: External Audit Costs

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

2015/16 £000		2016/17 £000
206	Fees payable to with regard to external audit services carried out by the appointed auditor for the year	218
206	**Total**	**218**

Note 31: Agency Services

The Council is required by legislation to provide a collection service for Scottish Water, involving the collection of around £2.9m of Scottish Water charges in 2016/17. The legislation stipulates a minimum amount that Scottish Water must pay in commission for this service.

Comparative figures for 2015/16 have been restated to remove non-material transactions.

2015/16 £000		2016/17 £000
32	Expenditure incurred in collection service for Scottish Water	35
(70)	Commission payable by Scottish Water	(73)
(38)	**Net surplus arising on the agency arrangements**	**(38)**

Note 32: Related Parties

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

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Details of all grants received from Central Government and other public bodies can be found on page 46.

Members

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. This is also available to view on the Council's website. The Register details the bodies where members are represented or for which they have declared an interest. The Council made payments totalling £6.1m in 2016/17 (£4.8m in 2015/16) 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 24: Defined Benefit Pension Schemes.

Integrated Joint Board

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. The IJB represents a Joint Venture between the two bodies.

In 2016/17, the Council contributed £19.6m towards the IJB and has received £20.4m in commissioning income.

The Council also provided support to the IJB in terms of back office functions. No charge was made for these services

Note 33: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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.

2015/16 (restated) £000		2016/17 £000
35,135	**Opening Capital**	**26,474**
	Capital investment:	
14,390	Property, plant and equipment	20,594
0	Intangible assets	295
55	Revenue Expenditure Funded from Capital	2,026
	Sources of finance:	
(1,556)	Capital receipts	(4,134)
(8,685)	Government grants and other contributions	(6,807)
(34)	Funding from reserves	(1,765)
	Sums set aside from revenue:	
0	Direct revenue contributions	(1,557)
(89)	Lease principal	(94)
(12,742)	Loans fund principal	(1,330)
26,474	**Closing Capital Financing**	**33,702**

Note 34: Contingent Liabilities

The Council operates in a legal environment that is extremely complex and as such risks action being raised against it. Any claims are contested and consequently, any financial liability cannot be quantified as at 31 March 2017.

Shetland Islands Council has one outstanding claim under the Equal Pay Act 1970 for past pay inequalities with male colleagues. The financial impact can only be determined when sufficient detail is available. It is therefore not 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 the 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 admitted bodies within Shetland Islands Council Pension Fund. If any of these bodies default on their obligations, the shortfall would likely have to be met by the Council over time and through an adjustment to employer contribution rates. The financial risk cannot be quantified until such circumstances arise.

Note 35: Trust Funds administered by the Council

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

2015/16 £000		2016/17 £000
(268)	Bare Trust (SDT)	(30)
(666)	Zetland Educational Trust	(667)
(3)	Others (3 Trusts)	(3)
(937)	**Total**	**(700)**

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 Trust Fund will be paid or delivered to SIC. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees.

The Zetland Educational Trust, with an income of £4k and expenditure of £2k, pays bursaries to university students, aids apprentices and supports educational trips.

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

Note 36: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 20 September 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 37: Group Interests

Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 (O&SVJB)

The O&SVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. The Council provides five members of the Board out of ten and contributed 49% of the Board's operating costs (48.7% in 2015/16).

The Council's share of the year-end net liability is £0.9m as at 31 March 2017 (£0.7m in 2015/16), which is considered not material for consolidation in group accounts.

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 93.5% of the Partnership's operating costs in 2016/17 (93.9% in 2015/16) and holds four out of six seats on the Partnership.

The Council's share of the net liability is nil at 31 March 2017 (nil in 2015/16) 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:

2015/16 £000	Zetland Transport Partnership	2016/17 £000
(2,022)	Gross Income	(2,031)
2,022	Gross Expenditure	2,031
0	**Net (Surplus) / Deficit**	**0**
2,022	Current Assets	2,031
(2,022)	Current Liabilities	(2,031)
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 42.8% of the Board's operating costs in 2016/17 (47.5% in 2015/16). It has three out of six voting members on the board.

The Council's share of the net assets and surplus of the Integration Joint Board was £0.06m as at 31 March 2017 (£0 in 2015/16), which is considered not material for consolidation in group accounts.

2015/16 £000	Integration Joint Board	2016/17 £000
(7,756)	Gross Income	(45,418)
7,756	Gross Expenditure	45,293
0	**Net (Surplus) / Deficit**	**(125)**
7,756	Current Assets	45,418
(7,756)	Current Liabilities	(45,293)
0	**Net Assets**	**125**

Entities previously consolidated

Shetland Charitable Trust (SCT)

The SCT is both a charity and a trust. The governing trust deed requires that the trustees act in the best interest of the inhabitants of Shetland. SCT carries out some charitable activities itself, but mostly achieves its objects by funding other charities in Shetland.

Shetland Islands Council does not contribute any funding to SCT and, as a result of an ongoing restructure of govenance arrangements, no longer has a significant influence (see third item in Note 38: Critical Judgements in Applying Accounting Policies below). As a result, SCT does not meet the accounting definition of a group entity.

Note 38: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 38, 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.

- The Council had seven members out of 15 on the board of the Shetland Charitable Trust in 2016/17. In June 2016, the Council agreed that its elected members would no longer be put forward to serve as trustees of the Shetland Charitable Trust. The Council is not an investor in the Shetland Charitable Trust, therefore it does not meet the accounting definition of a group entity.

- The Council has made an accrual for holiday pay owed to employees at 31 March 2017. The estimate is based on a sample of 6% of non-schools staff and 100% of school-based staff.

Note 39: Accounting Policies

General principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the annual accounts;
- making changes to reserves; and
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount (i.e. the one that best reflects the economic reality of a transaction or event) to be recognised in the accounts in the circumstances when the basis of measurement for the monetary amount cannot be applied with certainty (and the range of options is considered to be material).

Changes in accounting policies and estimates, errors and prior period adjustments

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. A change in accounting policy requires a prior period adjustment.

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.

Prior period adjustments arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Where a change in accounting policy 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.

Accounting conventions and concepts

The accounting convention adopted in the accounts is historical cost modified by the revaluation of certain categories of non-current assets, pension liability and financial instruments.

The concept of the Council operating as a going concern is based on the premise that sufficient funding is available so that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate in order to represent a true and fair view. It is a matter of professional judgement as to whether users of the accounts could come to different conclusions about the Council's standards of stewardship or make different economic decisions as a result of deviations from the provisions set out in the Code.

The accounting policies which have a significant effect on the amounts recognised in the financial statements of Shetland Islands Council are summarised below.

A Accruals of Income and Expenditure

Recognition of income and expenditure in the CIES

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 cash flows fixed or determined by the contract.

Recognition of debtors and creditors on the Balance Sheet

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.

B Cash and Cash Equivalents

In the Cash Flow Statement, cash (represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours) and cash equivalents (investments that mature in no more than 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) are shown net of bank overdrafts that are repayable on demand.

C 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 non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, amortisation, revaluation or impairment losses. However, it is required to make an annual contribution from revenue equal to loans fund principal charges.

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.

D Contingent Assets

Where 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. 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.

E 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.

F Employee Benefits

Accumulated absences

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences (holidays) 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.

Benefits payable during employment

Short-term employee benefits (i.e. those due to be 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 in which employees render service to the Council.

An accrual is made for the cost of holiday 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; and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs 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, however, mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The Scheme 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 seven components:

- **current service cost** – the increase in liabilities as a result of years of service earned this year which is 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 as part of Non Distributed Costs;

- **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;
- **remeasurements comprising:**
    - **return on scheme assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
    - **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the CIES; and
    - **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities which are not accounted for as an expense.
- **In relation to retirement benefits**, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the CIES.

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

Discretionary benefits

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

G Events after the Balance Sheet date

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

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period whereby the annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period whereby the annual accounts are not adjusted to reflect such events, but where a category of events would have a material effect and 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.

a) 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 Cost of Services 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.

However, the Council has made a loan to a local organisation at less than market rates (soft loans). When soft loans are 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.

b) 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.

Available-for-sale financial assets are shown in the Balance Sheet at fair value, which is based on the unit price provided by the Council's external fund providers.

The fund providers use the following principles when determining the unit price:

- instruments with quoted market prices – the market price; and
- investments with no quoted market prices – probable realisation value based on recent market transactions, reference to transactions that are substantially the same, and discounted cash flows.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instrument 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.

On derecognition, any balance on the Available-for-Sale Financial Instruments Reserve in relation to the assets sold are recycled through the Surplus or Deficit on the Provision of Services.

To ensure there is no mismatch between Other Comprehensive Income and Expenditure and the Movement in Reserves Statement, recycled amounts are also deducted as an additional item from the Other Comprehensive Income and Expenditure to avoid overstating gains for the year.

Where assets are identified as impaired because there is a significant or prolonged decline in the fair value below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. 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).

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.

The Council pays all Fund Manager fees on receipt of their invoices.

I Loans Fund

The Council operates a loans fund which covers the following areas:

- interest – includes all interest paid on external loans;
- expenses – includes all expenses incurred in the running of the Loans Fund, including a central support charge for staff costs and use of Council systems;
- principal – includes all capital advances to services; and
- borrowing – loans raised from external bodies, currently the Public Works Loan Board.

Each year the loans fund will identify the amount of capital interest it has to distribute and calculate the loans pool rate. This is then used to calculate the annual loan charges to Council services. The capital interest rate charged by the Council's loans fund in 2016/17 was 4.41%.

J Financing Costs

Financing costs comprise principal and interest. Repayment of debt to the loans fund is based on an equal instalment basis. Interest is allocated on the basis of the debt outstanding at the start of the financial year, with a proportionate adjustment in respect of borrowings or repayments during the financial year.

Interest is debited to the Financing and Investment Income and Expenditure section of the CIES, while the principal is debited to the General Fund through the Movement in Reserves Statement.

K 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 the Balance Sheet date. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

L 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.

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.

M 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. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available), and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised, nor expenditure on the development of websites if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are revalued annually where the fair value of the assets held by the Council can be determined by reference to an active market. Fishing quota and fishing licenses 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. The useful life and amortisation rate used in the calculation of amortisation is 3 to 20 years.

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.

N Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost (based on average prices) 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.

O Landfill Allowances Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA), are recognised as current assets and are initially measured at fair value. The Scheme has been placed under review in Scotland since 2008/09 as a result of the absence of an active market for the allowances and hence assets and liabilities have been measured at nil since 2010/11. Due to the inactive market, penalties have been suspended but not cancelled.

P Leases

a) 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.

b) Finance leases

The Council recognises a finance lease when the risks and rewards of the asset substantially lie with the Council. The accounting treatment of finance leases is to recognise the asset on the Council's Balance Sheet as well as a liability to represent future principal repayments. A depreciation charge is recognised in the CIES as well as an interest charge.

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.

Q Overheads and Support Services

The CIES no longer needs to be presented in line with the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP). This means that for services within the General Fund, the total cost principle, whereby all 'back office' functions are allocated to front-line services, no longer applies.

Where such services are provided to the Housing Revenue Account or Ports and Harbours, a charge has been made in the year, reported as income in the providing service and expenditure in the receiving services in the CIES.

R 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;
- 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.

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 not yet available for use (i.e. assets 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

Depreciation is applied in the year from 1 April based on asset valuations as at 31 March of the previous financial year, supported by exceptional calculations based on weighted averages for major acquisitions or disposals taking place towards the start or end of the year.

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 taken place if the asset had not been put into assets held for sale, and its recoverable amount at the date of the decision not to sell.

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. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

S Surplus Assets

Surplus assets are measured at fair value over a five-year rolling programme. Fair value is the price that would be received to sell an asset between market participants at the measurement date. The fair value measurement assumes that the transition to sell the asset takes place either in the principal market for the asset or in the absence of a principal market, in the most advantageous market for the asset.

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements 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; and
- Level 3 – unobservable inputs for the asset.

T 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 associations. Heritage assets include historical buildings and the museum collection.

As a general policy, 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 general 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.

U Carbon Reduction Commitment

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This Scheme is currently in its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used) a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

V Provisions

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

Provisions are charged as an expense to the appropriate service lines in the CIES in the year that the Council becomes aware of the obligation, 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 settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now 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.

W Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement, with the exception of the Reserve Fund. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

In addition, Shetland Islands Council operates a 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. This reserve is to fund Ports and Harbours' expenditure and may be applied to any expenditure that benefits the inhabitants of Shetland.

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.

X 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.

Y 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.