Unaudited Annual Accounts 2025/26

SHETLAND ISLANDS COUNCIL

Contents

Management Commentary

The purpose of the Management Commentary is to help readers understand our priorities and objectives, to provide an overview of our financial and non-financial performance during the year and to help readers understand our financial position as at 31 March 2026. It also sets out the main risks and uncertainties we are likely to face in the future.

Our Council Area

Councillors:

23 Elected Members:

- 21 Independent
- 1 Green Party
- 1 SNP

Population:

23,190

(mid-2024 population estimate NRS)

Ages 0-15: 17%
Ages 16-65: 62%
Ages 66+: 21%

Economy:

£855m

Gross Value Added
(ONS data for 2023)

Original 2025/26 Budget:

£178.4m net revenue

£54.2m capital

Council Workforce:

3,258

(Count of employees – snapshot at 31st March 2026)

71% female **29%** male

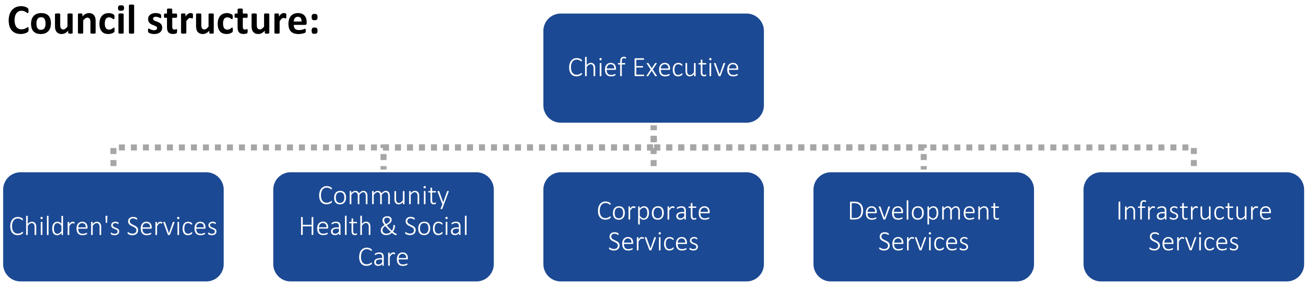
Infrastructure & Assets:

- 240 Council buildings
- 1,056 km road network
- 1,664 Council houses

Land area: **1,466 km^2**

Coastline: **2,731 km**

Council structure:



Our Priorities

Our Ambition sets out our strategic political objectives and provides direction to help us focus on the things that can make the most difference in achieving long-term sustainability for Shetland. It sets out the priorities that we will work towards over a five-year period, up to 2026. Our Ambition is based on a vision of working together to create a positive, confident and sustainable future for Shetland, where the community's opportunities attract people of all ages to live, work, study and invest in Shetland. This includes an aim for more young people to remain in or relocate to Shetland to live, work, study and raise families, and to sustain current jobs and create new ones. The sustainability themes are:

- Community
- Environment
- Workforce
- Finance

Our Medium-Term Financial Plan, our Asset Investment Plan and our Workforce Plan align with Our Ambition to ensure the longer-term sustainability of Shetland Islands Council whilst delivering organizational and community priorities to improve outcomes.

The Council's Change Programme ensures the co-ordination and oversight of the projects supporting community and organisational sustainability which have been prioritised in Our Ambition.

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

- Participation
- People
- Place
- Money.

Our Change Programme

A Change Programme Framework was approved on 13 April 2021, which identified the key policies and strategic plans that collectively set out the context and drivers for the Change Programme, starting with Our Ambition 2021-2026. The Change Programme is designed to be a key enabler for the delivery of Our Ambition, through a continuous cycle of resourcing, delivering and reviewing. The Change Programme is managed by the Council's Directors, reporting to the Chief Executive as Change Programme Sponsor.

We acknowledge the scale of change that lies ahead, and we are mindful that we cannot deliver everything at the same time within the confines of limited resources, both from a financial and workforce perspective. Details of the work programmes and projects to achieve Our Ambition are included in Directorate and Service Plans with progress reported to the Council's Committees quarterly.

A 'Programme Management Office' (PMO) has been established within the Corporate Services Department. The PMO oversees the Change Programme, supports standard methodologies, and facilitates best practices. It provides progress summaries to the Chief Executive and the Council's Corporate Management Team, which meets quarterly as the Change Programme Board.

This enables more regular reporting of progress against our stated objectives and priorities and creates clear linkages to the refreshed Medium-Term Financial Plan (MTFP), which sits alongside the Change Programme Policy Framework 2021.

The approved Workforce Plan outlines how we will develop our workforce to ensure they have the right skills, environment, and values to deliver Our Ambition. The Workforce Strategy complements the Change Programme Framework and Medium-Term Financial Plan. Planning has begun for a new strategic workforce plan, which will be finalised following the rollout of the new SIC corporate plan.

Our Performance

Partnership performance

We regularly assess our progress in delivering the Shetland Partnership Plan and the latest Annual Report was published in September 2025, which documents what has been achieved in the past year and what activities we will focus on in the next year. The Annual Report also includes updated indicator information, which allows us to compare long-term outcome measures against the baseline indicators that were established in 2017.

Service Performance

We regularly report Directorate and Service performance to each of our functional committees: Education & Families, Development, Environment & Transport and Policy & Resources. Each committee receives a quarterly performance report, in which we summarise the performance of services during the previous quarter. Quarterly performance reports can be found on our Council Committee Information pages (COINS) and a recording of meetings is available to view on the Council's website.

How do we compare against other Councils?

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

The latest LGBF data relates to 2024/25 and was published in January 2026. The following table contains information from the latest set of data on how the Council has performed. The national dataset can be found here.

Directorate	Shetland 2023/24	Shetland 2024/25	Shetland % change	Scottish average 2024/25	
Children's Services					
Cost per secondary school pupil	£13,865	£14,294	3.10%	£9,338	The cost per pupil in Shetland continues to rise. It is higher than the national average. The cost per pupil is influenced by the rurality of our schools, the pupil roll and the application of the national pay award.
Cost per primary school pupil	£11,270	£12,405	10.07%	£7,606	
Cost per pre-school pupil	£15,716	£17,133	9.02%	£12,055	
Teacher sickness absence (working days)	8.10	7.42	-8.33%	7.78	
Corporate Services					
Cost per home of Council Tax collection	£16.76	£18.06	7.74%	£5.98	The cost of Council Tax collection has increased due to a restructure of Revenues and Benefits resulting in changes to recharges.
Council Tax collection rate	97.3%	97.0%	-0.31%	95.45%	The Council achieved its target collection rate of 97.0% during the year. However, the contiuning impact of cost of living pressures may present challenges in maintaining this performance in future years.
Employee Sickness absence (working days)	12.86	14.15	10.06%	14.54	There as been an increase in days lost due to musculoskeletal, infectious and respiratory conditions. There are a number of long absences due to long term conditions where individuals are waiting on treatment and surgeries.
Community Care Services					
Cost of residential care for older people (per person, per week)	£2,661	£2,588	-2.75%	£725	The cost of both residential care and care at home is affected by the higher cost of living in Shetland and staff costs, which are consistently higher than the national average. In addition, when providing home support, the overall time per client is impacted by geography, travel time and the complexity of need.
Cost of providing care to support older people to live at home (£ per hour)	£84.77	£79.11	-6.68%	£32.37	
What proportion of social care funding is allocated using personalised managed budgets	7.9%	7.5%	-4.68%	9.4%	The aim for personalised managed budgets is to increase the percentage to the national average.

Directorate	Shetland 2023/24	Shetland 2024/25	Shetland % change	Scottish average 2024/25	
Development Services					
% of procurement spent on local small/medium enterprises	48.9%	27.2%	-44.33%	31.5%	The Council continues to have the highest percentage of procurement spend with local enterprises. This reflects the Council's position of engaging with local business as far as practical for both the council and the businesses concerned.
Number of weeks to deliver commercial planning application decision (on average)	10.6	19.1	80.38%	14.3	
Cost per planning application	£13,423	£13,057	-2.73%	£6,938	The cost of a planning application is dependent on the size and nature of development. The fees are set nationally and are a fraction of the costs incurred.
Infrastructure Services					
Cost per premises on refuse collection	£111.36	£113.59	2.00%	£77.26	Costs for fuel has increased and the number of premises collected from has reduced, increasing the overall cost per premises of refuse collection.
Quantity of household waste recycled	21%	21%	-2.38%	44%	It is anticipated that the expansion of recycling to include pots, tubs and trays will improve the percentage of recycling of household waste.
Cost of providing environmental health (£ per 1,000 people)	£43,565	£41,613	-4.48%	£14,469	The Environmental Health function in Shetland supports various activities not found within comparable Environmental Health services elsewhere in Scotland. This includes the Animal Health Scheme, Scheme of Assistance Grants for disabled adaptions, Antisocial Behaviour services, including community mediation, Port Health and alcohol licencing. The cost of these services amount to over 50% of the Environmental Health budget. These services normally sit elsewhere in other local authorities.

Highlights and Challenges

Connecting Scotland

Shetland Library ran a two-year project with Connecting Scotland which provide Chromebooks and Mi-Fi units for the Library. These were for lending to customers and expanded the service's existing device lending collection of tablets and audiovisual equipment. By the end of the project in January 2026, the project had provided 89 individual users with 221 loans of devices and data. Mi-Fi units, including free data SIMs, provided particularly popular during Shetland's two lengthy cable breaks in 2025. The Library retained the hardware at the end of the project, and have applied to become a National Databank, to continue to supply customers with free data SIMs.

Outdoor Learning

The Council is two years into a five-year Outdoor Learning project, with a budget of £100,000. Mossbank, Nesting, Lunnasting and Dunrossness Primary Schools along with Baltasound Junior High School, have all benefited from this funding.

At Mossbank a traversing wall and a treehouse were installed. Dunrossness and Lunnasting have also had traversing walls installed, with Lunnasting additionally receiving a sandpit and swing. Nesting has had access paths installed while Baltasound has benefitted from new play equipment and a secure fence.

The budget for the coming year will be spent mainly on outside storage for Mid Yell Junior High School and further investment in the outdoor learning area at Dunrossness.

Transitions Policy

Shetland Islands Council and the Health and Social Care Partnership developed and approved the Getting Transitions Right policy. This policy provides a rights based framework and aligns local practice with national legislation and the Scottish Government's National Transitions into Adulthood Strategy 2025-2030. The aim of the policy is to improve post-school transitions for young people with additional support needs aged 14-25.

The policy strengthens multi-agency planning between education, children's and adult services. There was extensive engagement with young people, families and professionals to inform the policy, with a series of engagement sessions held in various locations along with individual sessions. From these sessions, clear themes emerged around the need for earlier planning, improved co-ordination, clearer roles and responsibilities and a consistent point of contact for families.

Further work is planned to develop supporting operational guidance and embed the policy across services, with a focus on implementation, monitoring impact and ensuring that transitions planning is effective and equitable for young people living across all island communities.

Delayed discharge

Delayed discharges during 2025/26 show the sustained pressure the Council's Health & Social Care service face, from increasing frailty, complexity of need, workforce constraints and housing challenges.

A significant amount of work has been undertaken to increase resilience in the system and to work in partnership to improve the capacity and discharge planning.

System pressures reduce the ability to respond quickly when discharge ready patients require packages of care or onward placements. Many delays were not easily resolved, even when services were actively engaged, as the patient may require individual tailored care packages rather than standard care packages. There have also been times where individuals have been delayed due to waiting for suitable housing.

The teams continue to work in partnership and there is a focus on preventing admissions through early intervention and prevention work.

New vessel procurement

Following Councillors approval of the Outline Business Case for a new relief ferry on 15 September 2025, the tender has been published, inviting expressions of interest from companies to build the vessel. The new 33-metre Class B Ro-Ro passenger vessel will be a maximum of 500 gross tonnes and built to meet Maritime and Coastguard agency standards. It will be capable of operating on any of the current inter-island ferry routes, except Foula, using existing terminals, and can be operated by current crews without the need for additional certification.

Workforce

Shetland Islands Council is "committed to ensuring we have a sustainable, well skilled inclusive workforce for the future" (Workforce Strategy 2021 – 2026). Developing career pathways and succession plans are integral in delivering that commitment and "Grow our Own" is a key tool used to address recruitment and retention challenges in professional roles. There is a grow your own programme for social workers with two distance learning degree places offered each year. A grow your own programme for teachers has been successfully implemented. Staff within Children's Services who hold a relevant degree level qualification can apply for the supported route (part time PDGE programme) to become a teacher. This is a two-year university programme with a guaranteed probationary year in Shetland. Staff are paid their current salary while undertaking the training.

The Council is continuing to review and grow the Graduate Apprenticeship offer to existing employees with all directorates being made aware of the scheme. Graduate Apprenticeships enable employees to continue in their roles while working towards a degree over a period of up to four years. Apprentices apply their learning directly to real workplace challenges. The course fees are fully funded and apprenticeships delivered in partnership with Scottish Funding Council and Skills Development Scotland. This includes areas such as Early Learning and Childcare, Business and Project Management and Business Management.

The Council has developed a pilot project to establish whether taking a values-based approach to attraction, selection and induction will improve recruitment, retention and performance. The pilot began in June 2025 and is running in three care settings delivering services for older people, adults and children. It is scheduled to run for a year, when it will be reviewed to see if the success measures are met. These include increased applications, reductions in recruitment timelines and reducing the number of hours covered by agency staff in the pilot areas.

National Pensions Dashboard

The Pensions Dashboard is a UK government initiative aimed at helping individuals access all their pension information in one secure, digital platform for free. The primary objective of the Pensions Dashboard is to make it easier for people to track and understand their various pension pots, including state pensions, workplace pensions, like the Local Government Pension Scheme, and private pensions, which can be scattered across multiple providers. The statutory deadline for all pension schemes to connect to the dashboard is 31 October 2026.

Internal systems improvements

The Council's Finance department has undertaken various upgrades to computer packages during the year. The overall Finance system, Integra, was upgraded during 2025/26, following work by the project team in the form of testing which has been formally documented to create a valuable point of reference for future system upgrades.

Major works have been undertaken to upgrade the Open Revenues system, the Council Tax and Housing Benefits system. This work involved migrating to new servers and decommissioning an outdated web server.

The Council's income management system has been migrated to being cloud based, from servers previously housed at the Garthspool data centre. This was essential to allow the Council to maintain mandatory PCI-DSS accreditation.

The Council has increased the number of invoices received directly into Integra, without the need for manual keying, from 862 in 2020/21 to 1,404 in 2025/26. This is expected to increase to around 3,000 for 2026/27. Legislation announced in the November 2025 budget should see all suppliers producing e-invoice compatible invoices by 1 April 2029.

Mid-Market rent

The creation of Shetland Mid-Market Homes LLP represents a significant step forward in diversifying local housing options for Shetland by addressing the growing gap between social rent and open market ownership or private rent. Key highlights include the ability to target households priced out of the market who would not qualify for traditional social housing. By providing new tenure options between social housing and the open market, it helps people stay in Shetland who might otherwise have to leave, supporting population retention and future growth. While there are challenges, particularly around build costs and getting developments off the ground, the financial position is becoming clearer. Balancing affordability with long term sustainability, alongside planning, delivery capacity and managing expectations in a high demand, low supply housing market, will be critical to its success.

With strong demand and a clear local need, the outlook for mid-market homes is encouraging, offering a sustainable way to deliver more housing options for Shetland in the years ahead.

Inter-island transport connectivity programme

This Programme will deliver a robust network strategy Strategic Business Case, Outline Business Case and Implementation Route Map, upon which decisions can be taken on the future of inter-island connectivity options to Shetland's islands

Work on the Fixed Link Model Study continues. This study is designed to examine the fixed link tunnel possibilities, including design, buildability, future operations and maintenance of tunnels, together with a commercial and financial model. Findings from the study will contribute to the development of the Network Strategy OBC, which is scheduled to be presented to Shetland Islands Council in June 2026. The Programme Board, Partnership Sounding Board and Community Stakeholder/User Group will all continue to meet, as appropriate.

Islands Growth Deal

The Islands Growth Deal Full Deal Agreement was signed by both UK and Scottish Governments in January 2023. The 10-year investment programme sees Shetland projects receiving approximately £33.3m investment across that period. One of the Shetland projects, Shell-volution is now in delivery and the other four continue to progress Business Cases. As this is a 10-year programme, projects will come forward at different times. The two Council led projects are the Knab Site Redevelopment and the ICNZ Shetland Programme (Islands Centre for Net Zero).

Climate Change

SIC Climate Change Programme

Shetland Islands Council acknowledged a Climate Emergency in January 2020. In response the Climate Change Programme was established, with the purpose to minimise the risks of climate change, and to make the transition to net zero as beneficial as possible to the Shetland community.

The approach of the Climate Change Programme is to:

- Be proactive in addressing Climate Change mitigation and adaption in Shetland.
- Progress a range of immediate actions and priority areas.
- Act in partnership with other agencies, business and communities.

The objectives of the Climate Change Programme are:

- Development of the strategy, governance arrangements, target development and action planning required to adapt to, and mitigate, climate change in Shetland.
- Contribute to an effective Scotland, UK and international response.
- Inform the identification of issues and options.
- Assist in evidence-based planning and decision making so that environmental, economic and social needs are recognised, balanced and met.

Shetland Islands Council's Climate Change Strategy and Action Plan was approved in December 2023. The strategy and action plan were co-developed across all Council service areas and built upon data gained in the SIC Net Zero Route Map development, and best practice from Scottish Government, Audit Scotland, Sustainable Scotland Network and Climate Emergency UK. All Climate Change Actions identify a lead with responsibility and have a timeline, with progress monitored and reported quarterly to Environment and Transport Committee.

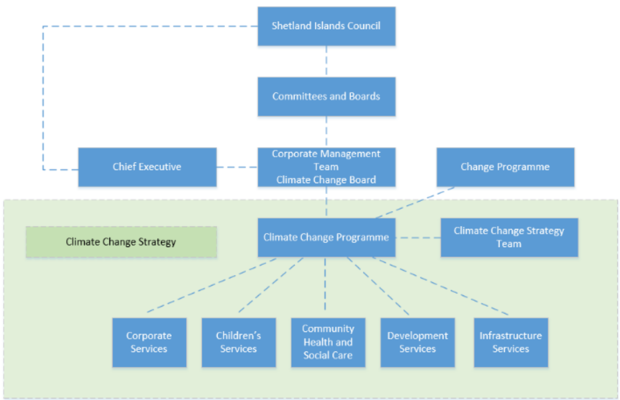
The SIC Climate Change Programme Performance Report can be accessed at the following link, which is refreshed weekly to ensure the most up to date information is available: reportdoc.

During the development of the Shetland Islands Council Climate Change Strategy extensive stakeholder engagement took place, both across internal services and key external stakeholders. This led to the identification of the following Climate Change Programme aims:

- We are an organisation and community that is resilient to our changing climate.
- We are a net zero organisation and community.
- Equality and fairness are at the heart of the transition to net zero.
- Opportunities to maximise the social, economic and environmental benefit to the community are optimised.

Following development of the SIC Climate Change Strategy, it was recognised that to effectively address climate change, an agreed framework for the management of climate change is required, within which governance, roles and responsibilities are clearly defined, policy, strategy, objectives and processes are set out and channels and timescales for reporting are agreed.

The following governance structure for the management of climate change was agreed to provide a framework for delivering, developing, maintaining and governing climate change management throughout the organisation.



SIC Climate Change Annual Report 2024/25

The 2024/25 SIC Annual Climate Change Report is the second annual progress report following the development and approval of the Council's Net Zero Route Map, Climate Change Strategy and Action Plan. It details how the Council has progressed towards the climate targets set within the Net Zero Route Map, how the Council has progressed activity set out in the action plan within the report year, and assesses the progress made towards the recommendations included in the 2023/24 SIC Annual Climate Change Report. It also sets out the priority areas for climate related activity for the following report year, 2025/26.

Follow the links below to read or download the 2024/25 SIC Annual Climate Change Report and Appendices.

- SIC Annual Climate Change Progress Report 2024/25
- Appendix A.1 – Climate Change Programme Priorities for 2025/26
- Appendix A.2 – Progress Report – CCS Action Plan – Sept 2025
- Appendix B.1 – Emissions Breakdown – Data Source
- Appendix B.2 – Emissions Breakdown – Emissions Factors
- Appendix B.3 – Emissions Breakdown – Calculated Emissions

Following the end of the 2025/26 financial year, work will begin on collating and analysing data on progress made towards climate targets. The 2025/26 SIC Annual Climate Change Report will be published in autumn 2026.

SIC Climate Change Programme Priorities for 2026/27

Within the SIC Climate Change Programme, priority areas of action have been set out for 2026/27, which is contributed to from across the Council. The SIC Climate Change Programme 2026/27 document details this.

Shetland Climate Change Strategy

Building from the Shetland Net Zero Route Map momentum, a Climate Change Strategy and Action Plan for Shetland has been developed. The Shetland Climate Change Steering Group was established to deliver on development and implementation, which sits under the Shetland Partnership. The group has membership from SIC, NHS, Highlands and Islands Enterprise, Nature Scot, Visit Scotland and University Highlands and Islands.

What we want to achieve:

- Accelerate climate action
- Increased collaboration across organisations
- Increased efficiencies across organisations
- Reduced duplication of effort
- Stimulate increased investment
- Implement projects that improve social, economic and environmental benefits to the Shetland community.

An annual progress report will be produced and published for the Shetland Climate Change Strategy and Implementation Plan. This will include a progress update on the Implementation Plan and Key Performance Indicators.

Climate Action Highlights from 2025/26

There have been a number of areas where Climate action has progressed across the year, including within leadership and governance, communications and engagement, energy, transport and buildings. Some of the highlights are listed below:

- SIC Climate Change Programme
- Climate Change Impact Assessments
- Shetland Climate Festival 2025 – with a new performance zone, a repair café and series of workshops and talks. The performance zone will include poetry readings, cookery demonstrations and a woodland walk exhibition
- Schools Climate Roadshow 2025
- Climate Yarns
- Climate Emergency Training
- Shetland Energy Strategy
- ICNZ Shetland Project
- Estate Decarbonisation Project
- SIC Car Club Project
- Shetland Public Transport Network Review
- Inter-Islands Transport Connectivity Programme
- Knab Redevelopment Project
- Fair Isle Ferry and Terminal Replacement Project
- Waste vehicle HVO (hydrotreated vegetable oil) Trial
- LiDAR (Light Detection and Ranging) Data Project
- Rural Energy Hub Project - Brae Hub building refurbishment, integrating transport and services, car club project and rapid car charging installation, Provision of E-bikes, Electric bus trial and Brae District Heating Feasibility/Outline Business Case.

A detailed update on each of these highlights will be provided within the SIC Annual Climate Change report 2025/26.

Employment of disabled persons

Shetland Islands Council is a Disability Confident employer and supports employability programmes to support people into achieving employment. There is a guaranteed interview scheme for applicants with disabilities, provided the essential qualifications and experience requirements for the post are met. The Council has a duty to make reasonable adjustments to ensure disabled candidates can fully engage in the interview process and any associated tasks. The Council has a number of policies to support continuing employment for employees who become disabled during the course of their employment, including the maximising attendance and mental health and wellbeing policies which outline the requirement for reasonable adjustments. The Council has a Workplace Wellbeing Officer in place to support employees and engages with the local Occupational Health team as and when required to ensure that staff are fully supported. The Council is also committed to equality, diversity and inclusion. The Council's Equal Pay Statement for 2025-29, found on the Council's Diversity and Inclusion webpage, was approved in March 2025, sets out the commitment to "eliminate discrimination and encourage a culture that values and promotes equality and diversity across the organisation". This is supported by the Council's values of Excellent Service, Personal Responsibility and Working Well Together.

The Council must publish information on occupational segregation alongside its Equal Pay statement, and this includes the concentration in particular grades and in particular occupations of people who are disabled and people who are not. The data published shows the numbers of employees who identify as having a disability, split into broad categories of roles, and across the whole Council. This data shows the trends over 3 reporting periods. The occupational segregation data published in 2025 includes analysis by quartile in relation to disability. This showed a greater proportion of employees with disabilities in the lower and lower middle quartiles. As this was the first time quartiles have been calculated for disabilities it was not possible to make a comparison with earlier periods. The Council also published Disability Pay Gap for the first time. This showed a mean pay gap (the average) of 4.55% in favour of those who do not have a disability while the median (middle) pay gap was 3.13%.

The Council promotes the importance of equality monitoring to help us assess and improve our performance around equality and diversity with the aim of a more inclusive working environment and provide opportunities to hear from the lived experience of employees in policy development.

Employee involvement

The Employees Joint Consultative Committee (EJCC) meets four times a year, giving employee representatives an opportunity to discuss staffing matters. A Human Resources Partnership Group (HRPG) meets monthly, with Union representatives, HR and Managers, to discuss staffing matters. The Council undertakes a Viewpoint survey every three years, which allows all employees the opportunity to express their views on various aspects of working for the Council. The Viewpoint survey is followed up by Improvement Actions and monitoring by the Corporate Management Team and good practice is shared at various forums including the Management Network. The Council's Communications Team keep staff informed of what's going on in the Council via email. For those staff who do not have access to email, the information is displayed on Interact as well. Interact is the Council's "homepage" for staff and can be accessed via work devices or on an app on personal devices. The Council regularly have various focus groups, involving staff. For example, across the summer focus groups were arranged to review the Maximising Attendance policy, these included groups of staff representatives, union representatives and managerial representatives.

Financial Performance

We reported our draft revenue and capital outturn report to the Policy and Resources committee on 24 June 2026. This report summarises the interim end of year outturn for the Council for the year ended 31 March 2026. It sets out the overall level of revenue and capital expenditure incurred by services funded through the General Fund, Housing Revenue Account and Harbour Account.

The Council continues to operate in an environment of:

- increased demand for services,
- difficulties in recruitment due to a competitive local labour market and over-heated contractor market, and
- the impact of rising costs of goods and services and pay awards.

Both the service and financial performance have been affected as a result of these factors, with the end of year outturn position in particular areas resulting in either greater or less spending depending on the issues affecting parts of the budget. For example, slippage in capital but increased spend in some areas of revenue where inflation and staffing issues impact. It is inevitable that there will be a difference to the budget set in March 2025.

Overall, the Council has spent less than anticipated on both revenue service delivery and capital expenditure, with an overall underspend of £8.7m.

On revenue, the General Fund underspent against budget by £1.4m, and on capital by £5.6m. The Harbour Account was higher than budgetary expectations and generated an increased surplus of £1.1m. The Housing Revenue Account underspent against its budget by £0.6m.

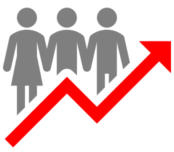
Total capital expenditure across the General Fund, Harbour Account and HRA totals £47.6m against an approved budget of £54.3m, representing an underspend of £6.7m. The underspend was largely as a result of slippage on projects, caused by a combination of lack of contractors, tendering timescales etc. Works will continue into 2026/27 and £4.6m is required to be carried forward in order to finance the continuation of these works.

Further information about our financial performance during 2025/26, including details of variances between actual expenditure and approved budgets, can be found in our draft revenue and capital outturn report.

Key Risks and Uncertainties

The Council maintains a Corporate Risk register and provides update reports on a regular basis to the Policy & Resources Committee. The latest report was presented on 24 June 2026 and can be found here: Risk Register update.

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

Risk / Uncertainty		Mitigating actions
	**Climate Change**	The Council recognises the critical importance of Climate Change and have introduced a specific section in this commentary, highlighting our progress in this area. The level of investment required for the Council to reach net-zero is currently unquantifiable but significant.
	**Health & Safety**	The Council employs over 3,000 people to deliver services across the length and breadth of Shetland, including education, social care and the operation and maintenance of critical infrastructure such as inter-island ferries. Failure to maintain effective health and safety arrangements, including the reporting, investigation and resolution of incidents, could result in avoidable harm to employees, service users and members of the public, with potentially significant consequences for both individuals and the Council. To mitigate this risk, the Council has a Health and Safety Strategy supported by a comprehensive framework of policies and procedures. A network of Health and Safety forums meets regularly and reports through to the Central Safety Consultative Committee, which meets quarterly, while Corporate Management Team receives quarterly health and safety reports on incidents, trends and required actions, with further follow-up reporting commissioned where necessary.
	**Staffing**	The Council is facing a shortage of key staff and skills. Posts are remaining unfilled due to failure to recruit. The Council's Workforce Strategy provides a framework to focus attention and prioritise work streams that identify and develop talent as well as increase the number of ways young people can join the organisation. The Workforce Plan sets out the actions that will deliver progress against the Workforce Strategy. Attracting and retaining staff is a priority in the Workforce Plan as well as exploring new ways to develop career pathways and create a talent pipeline that encourages staff development and progression.
	**Investment in Shetland's Infrastructure**	Shetland's infrastructure was invested heavily in when the oil industry was taking off using income generated from the oil industry. The infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this. The cost of construction work is escalating and there is also a lack of labour available, which makes programmes of work challenging to deliver. An ongoing review is being undertaken of surplus assets, looking at disposal where no longer required to reduce the Council's asset base.

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2026 and its cash flows for the year then ended. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

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

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

From 1 April 2025, the Code requirements changed in respect of revaluations of property, plant and equipment. For assets subject to indexation, the Council revalues these assets every five years with annual indexation applied during the four intervening years. Where an appropriate index is not available, the Council revalues the assets using a desktop revaluation in year three.

The option to measure intangible assets using the revaluation method has been withdrawn. From 1 April 2025 these assets are to be measured at historical cost. The carrying values as at 31 March 2025 will be considered historical cost.

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2025/26. This differs from our draft revenue and capital outturn report which was reported to the Policy & Resources Committee on 24 June 2026.

The reasons for this difference are as follows:

- The application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts, as these costs are required to be met from local taxation; and
- The CIES includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers.
- The final reporting position reflects only those costs that are required to be met from local taxation. Therefore, the difference between the CIES and the actual outturn position is as a result of necessary accounting adjustments.

The Gain on Provision of Services of £37.5m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £35.6m in the Expenditure and Funding Analysis (page 53).

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

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

The table that follows shows an overall budget underspend of £8.7m. To meet existing obligations, £5.2m is required to be carried forward into 2026/27 which effectively means the Council incurred an underspend of £3.5m in 2025/26.

Revised Budget v Actual Expenditure 2025/26	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund Revenue	179.502	178.124	1.378	0.597	0.781
General Fund Capital	48.483	42.848	5.635	4.387	1.248
Housing Revenue Account (Revenue & Capital)	2.168	1.570	0.598	0.035	0.563
Harbour Account (Revenue & Capital)	(4.759)	(5.839)	1.080	0.189	0.891
Total	**225.394**	**216.703**	**8.691**	**5.208**	**3.483**

General Fund

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

General Fund net revenue expenditure for 2025/26 totalled £178.1m (£163.6m 2024/25) against an approved budget of £179.5m. There are a variety of reasons behind the differences in actual and budgeted expenditure which are summarised in our draft revenue and capital outturn report.

In 2025/26 the Council's General Fund received the majority of its funding from the Scottish Government, which is made up of General Revenue Grant and National Non-Domestic Rates (NDR).

Funding of Net General Fund Expenditure	2025/26 £m	%
General Revenue Grant	96	54.8%
Non-Domestic Rates	26	14.8%
Specific Grants	1	0.4%
Council Tax	13	7.2%
Draw on Reserves*	40	22.8%

**Includes General Fund*

Council Tax represents 7.2% of the Council's overall annual external revenue funding. During 2025/26, the Council collected 97.0% (97.0% 2024/25) of the total billable Council Tax.

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

Harbour Account

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Harbour Reserve Fund. The Harbour Account budgeted for a surplus of £4.7m in 2025/26 (£10.2m in 2024/25), to be returned to the Harbour Reserve Fund. The actual surplus generated was £5.8m (£7.9m 2024/25).

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate ring-fenced account within the Council. The HRA budget for 2025/26 anticipated a requirement to utilise £2.1m from its reserves to achieve financial balance (£4.1m 2024/25). A total of £1.6m is required from reserves to balance the account.

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

The Business Plan for 2026 – 2031 was reported to the Policy and Resources Committee on 1 December 2025.

A Strategic Housing Investment Plan (SHIP) was approved in November 2025. Subject to constraints and challenges being mitigated, the plan looks to deliver up to 209 affordable homes by 2031. This is a combination of affordable rent through new-builds, mid-market rent, major refurbishment and open market acquisition.

At 31 March 2026, the HRA was responsible for managing 1,664 properties. The Council continues to work in partnership with Hjaltland Housing Association in its building programme to secure increased provision of affordable housing through the Strategic Housing Investment Plan (SHIP).

Asset Investment Plan

In 2025/26 Shetland Islands Council incurred total capital expenditure (across General Fund, Housing Revenue Account and Harbour Account) of £47.6m (£22.3m 2024/25) against a budget of £54.2m (£27.1m 2024/25) representing an underspend of £6.6m (£4.8m 2024/25), however, £4.6m will be carried forward into 2025/26 to enable delayed works to be completed.

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

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

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the position as at 31 March 2026. When comparing this to the position as at 31 March 2025, there has been an overall increase in the net worth of the Council of £57.9m.

This figure reconciles to the total figure in the Comprehensive Income and Expenditure Statement of £57.9m, which captures all transactions during the financial year that led to the movement in the Council's net worth.

Material Transactions

Long-Term Investments

The long-term financial investments are covered by the Council's Investment Strategy 2024/25 – 2029/30, which sets out the overarching investment approach to complement the Council's MTFP. The strategy aims to achieve investment returns that are sufficient to enable an annual sum to be withdrawn to support the revenue budget, while protecting the capital from the impact of inflation. The strategy also mitigates investment risk by the diversification of asset classes, global investment coverage and investing with four fund managers.

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

As at 31 March 2026 the Council had £371.0m invested with four external Fund Managers (£371.0m at 31 March 2025). The Council's investments had the same value at the end of 2025/26 as at the end of 2024/25. During 2025/26 the Council had withdrawals of £46.7m (£24.0m in 2024/25) to meet its cashflow requirements, and an investment return of £46.7m (£8.1m in 2024/25). The positive investment return was due to a change in US policy pausing certain tariff increases, improving inflation figures, interest rate cuts in some of the major economies and strong corporate earnings. Gains were reduced later in the financial year as conflict in the Middle East affected global energy supplies, creating inflationary pressures.

The Fund Management Annual Investment Report 2025/26 will be presented to the full Council on 1 July 2026 which summarises the performance of the Council's investments during the year.

External Borrowing

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

The Council's Capital Financing Requirement (CFR) is £89.7m as at 31 March 2026 (£90.9m at 31 March 2025), of which £46.0m (£49.0m in 2024/25) relates to external borrowing. It represents the capital expenditure to be funded from borrowing. Whilst the CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need). More information is provided in Note 33: Capital Expenditure and Capital Financing.

Debt financing costs currently represent 2.6% of the Council's net revenue stream (2.8% 2024/25) from General Revenue Grant (including NDR), Council Tax, housing rents and harbour income. This provides an indication on the affordability of the Council's debt in terms of how much income can be directed to provide front-line service delivery rather than funding capital expenditure costs. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels and the estimated cost of debt for 2026/27 is 3.6% of the net revenue stream.

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The Pension Fund's Annual Report and Accounts for 2025/26 was presented to the Pension Fund Committee on 22 June 2026.

The impact of the Local Government Pension Scheme (LGPS) and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 28 and 29 to the accounts.

Health and Social Care Partnership

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

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

In 2025/26, the Council contributed £40.6m (£37.0m 2024/25) to the IJB and received income of £41.9m (£38.2m 2024/25) from the IJB.

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

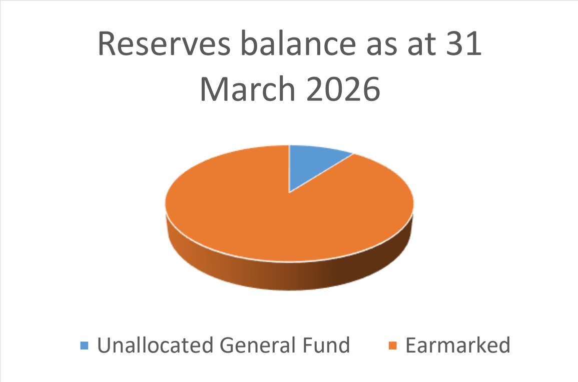
The Council's Reserves

The Council holds the following balances in reserves:

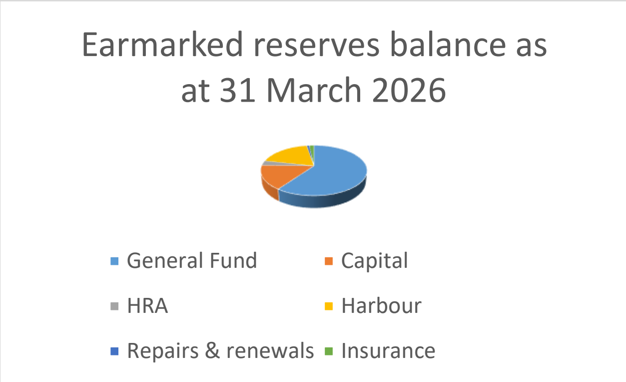
Reserves	As at 31 March 2025 £'000	As at 31 March 2026 £,000
General Fund	113,862	114,080
Unrealised investment Gain	120,723	119,071
Housing Revenue Account	11,010	11,771
Harbour Reserve Funds	62,484	73,810
Capital Funds	46,422	60,527
Other Usable Funds	19,201	10,326
Total Usable Reserves	**373,702**	**389,585**

The reserves comprise two elements:

- The unallocated general fund; and
- Balances earmarked for specific purposes.



The earmarked reserves are made up of the following:



The unallocated General Fund reserves can be used to defray General Fund expenditure. The Earmarked Funds can only be used for the purpose that they were set up for.

Further detail on the reserves can be found in Notes 6 & 7.

The overall level of usable reserves was £389.6m at 31 March 2026, an increase of £15.9m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement and associated notes provide further detail.

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

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

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The change in value is mainly attributable to cash withdrawals of £46.7m to meet the cash flow requirements of the Council offset by positive investment returns of £46.7m. More information is outlined in the 'Long-Term Investments' section on page 15.

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

Group Accounts

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

The Council has interests in the Zetland Educational Trust (ZET), Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board.
The net impact of the consolidation modifications to the financial statements are deemed to be not material and are therefore not consolidated in group accounts. More detail can be found in Note 38 Group Interests.

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

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

Looking Ahead

A structural re-organisation within the Council is ongoing. This is to address the challenges posed by an ageing workforce and rising demands on resources. This will be a phased approach starting with director roles. The Council will continue to operate with five Directorates, with responsibilities aligned as follows:

- Governance – including the statutory Monitoring Officer role, alongside Legal and Committee Services, Digital and Technology, Procurement and Internal Audit.
- People and Resources – including the statutory section 95 Officer role alongside Finance, Human Resources, Climate Change, Asset and Property Management, Waste Services and Fleet.
- Education and Children's Services – including Children's Social Work, Family Support and Libraries.
- Community Health and Social Care – including the Integration Joint Board Chief Officer role, Adult Social Work, Adult Services and Community Care Resources.
- Place – including Housing, Economic Development and Growth, Ports and Harbours, Regulatory Services and Roads and Transport.

A new SIC Corporate Plan is due to replace Our Ambition later in the year.

A business case for a sustainable model of adult social care is progressing. Consultants were appointed in January 2026 to deliver the programme strategic outline case. The strategic outline case is expected to be reported September 2026.

There are a number of large capital projects ongoing at present. The contract for the replacement ferry for Fair Isle was awarded to Parkol Marine Engineering in June 2025, with expected handover date for the vessel as October 2026. The works contract for the new Cullivoe Road was awarded to C W Johnson Plant Ltd in June 2025.

2026/27 Budget

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Plan*, presented in October 2025.

The Settlement indicated the Scottish Government will provide total revenue funding of £127.7m, inclusive of £27.4m funding in 2026/27 for the operational costs of inter-island ferry services. The budget reflects a Council Tax increase of 7.3% in 2026/27. Council Tax rates in Shetland remain amongst the lowest across Scotland.

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges, by using £45.7m from our reserves to meet our total planned revenue expenditure in 2026/27. This amount includes:

- £15.4m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Plan;*
- £4.2m of trading income generated from the Harbour Account, including additional income from the Shetland Gas Plant.

We expect to spend £189.4m delivering services funded through the General Fund in 2026/27. We can expect our total income to amount to £143.7m. There is a remaining deficit of £45.7m that cannot be met from other sources of funding and will need to be met from reserves in order to set a balanced General Fund budget. The unsustainable utilisation of £26m from the reserves compares negatively to the previous year, despite higher than anticipated funding from the Scottish Government. We do still continue to face increasing costs and continue to place reliance on the reserves to finance our annual revenue budgets. The use of £26m of reserves, over and above the amounts envisaged in the Medium-Term Financial Plan mean that we are not yet able to demonstrate the Council is in a financially stable position.

Our planned capital investment for the year for General Fund, Harbour Account and Housing Revenue Account amounts to £44m and relates to the maintenance of existing assets £16m, new capital projects including the Fair Isle ferry project £12.8m and the Cullivoe Road £8.5m, with an anticipated slippage offset of £5.3m. The Settlement provides a core capital grant of £8.8m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, external grants with the majority from borrowing £28.6m. The use of reserves in 2026/27 to balance the plan is £6.4m.

For more detail about the 2026/27 budget can be found on the Council's website at: https://www.shetland.gov.uk/budget-finance/council-budget.

Medium-Term Financial Plan

Our Medium-Term Financial Plan (MTFP) is a key document within a wider suite of plans and strategy documents occupying a position between long term strategies and detailed, short term, operational plans. An updated MTFP was presented to Elected Members in October 2025 and can be found here: Medium Term Financial Plan 2025-2030

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

The MTFP summarises our key financial planning assumptions, primarily for the General Fund revenue spend, and translated our assumptions and financial modelling into three different scenarios:

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

Our scenario planning and financial modelling indicates that the Council faces a significant challenge in being able to set balanced budgets in the future. Our central scenario indicates a potential cumulative budgetary deficit of £134.3m by 2029/30 should the Council not be proactive in managing and addressing the financial pressures it expects to face in the short- to medium-term. The more optimistic scenario indicated a likely deficit of £108.9m while the pessimistic scenario indicated a likely deficit of £160.5m over the same time period.

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

- 'Our Ambition' contains the strategic corporate and political priorities that will seek to deliver better outcomes for Shetland.
- The Workforce Strategy/Plan which sets the framework for how we make changes to our organisation so that we deliver our key priorities effectively and at pace.
- SIC Climate Change Strategy and Action Plan which sets out the strategic priorities and details action required for the Council to comply with climate legislation and targets.
- The Asset Investment Plan contains our capital expenditure plans for the next five years, *and*
- The Annual Budget is the tactical financial plan that sets out our spending priorities for the forthcoming financial year.

An updated MTFP is due to be presented to Council on 1 July 2026.

Conclusion

We have ended the year with a stable financial position, supported by underspends across revenue and capital and the continued strength of our balance sheet. This provides a degree of resilience as we manage ongoing challenges including rising demand for services, workforce pressures and increasing costs. Throughout the year, we have continued to strengthen our financial management arrangements and align our resources more closely with our priorities, including delivery of Our Ambition and the Council's Change Programme. This work will remain essential as we seek to ensure that limited financial and workforce capacity is focused on the areas that will deliver the greatest impact for our communities.

Looking ahead, our Medium-Term Financial Plan highlights the scale of the financial challenge facing the Council over the coming years. Continued reliance on reserves to support service delivery is not sustainable in the longer term, and difficult choices will be required to balance financial sustainability with the delivery of key services and infrastructure investment.

Despite these challenges and uncertainties, the Council remains in a strong balance sheet position, however significant medium-term financial challenges remain and continued reliance on reserves is not sustainable over the longer term.

This places us in a position to continue to plan proactively, adapt to challenging circumstances and work towards delivering sustainable services for the Shetland Community.

__________________	___________________	____________________
Emma Macdonald	Maggie Sandison	Paul Fraser CPFA
Leader of the Council	Chief Executive	Executive Manager - Finance

Annual Governance Statement

Executive Summary

This Annual Governance Statement provides a transparent and evidence-based assessment of the Council's governance arrangements for the year ending 31 March 2026, in line with the CIPFA/SOLACE Delivering Good Governance Local Government Framework addendum (2025).

The Council has a local code of Corporate Governance that sets out how the Council achieves compliance.

The 2025/26 Corporate Governance self-evaluation has found that, based on the evidence presented, Shetland Islands Council remains governed by sound and effective internal management controls, and continues to demonstrate compliance with the requirements of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" while recognising that ongoing improvement is required in specific areas as set out within this statement.

The self evaluation has identified improvement actions for 2026/27 which are summarised in the Annual Governance Statement, with a more detailed action plan available from the Council's website. These improvement actions will be monitored by Corporate Management Team and re-evaluated annually as part of the Code of Corporate Governance Self-Assessment process.

The Council acknowledges that some of the key governance documents have not been updated for some time. This increases the risk that they may be misaligned with current practices, organisational arrangements and legislative requirements, and therefore require prioritised review and update as part of the ongoing governance improvement programme. The Council has approved an organisational restructure which commenced in May 2026. The work to review and update the governance documents is therefore more extensive to ensure that the new structural arrangements, Values and Ways of Working are included in the updated constitutional documents. Subject to the restructure progressing as planned, an update report will be presented to the council during 2026 to approve the updated Governance Documents.

The Council recognises the importance of anticipating future challenges and adapting the governance arrangements accordingly, and remain committed to ensuring that governance will be fit for purpose.

What is the Annual Governance Statement?

The Council is required by the Local Authority (Scotland) Regulations 2014 to prepare and publish an Annual Governance Statement. Preparing an Annual Governance Statement is an opportunity to undertake a rigorous annual assessment of governance and consider whether it truly is fit for purpose. The review takes into account not just current demands but also anticipated challenges.

In this document the Council:

- Acknowledges its responsibility for ensuring that there is a sound system of governance;
- Summarises the key elements of the Governance Framework. The Council assesses against the core principles of good governance and the behaviours and actions that demonstrate good governance;
- Summarises how the review of effectiveness was conducted and the results;
- Provides details on areas of governance requiring improvement and how these are being addressed; and
- Demonstrates how the governance issues identified in the previous year's statement have been addressed and whether further work is required.

The Annual Governance Statement reports on the governance system as it applied during 2025/26, and up to the date of approval of the audited accounts.

What is Governance?

The Council, through its Chief Executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring their adequacy and effectiveness.

The Council involves those charged with governance (including the Audit Committee) in monitoring these arrangements.

Corporate governance is the system by the Council directs and controls its functions and relates to its community. It covers the following dimensions:

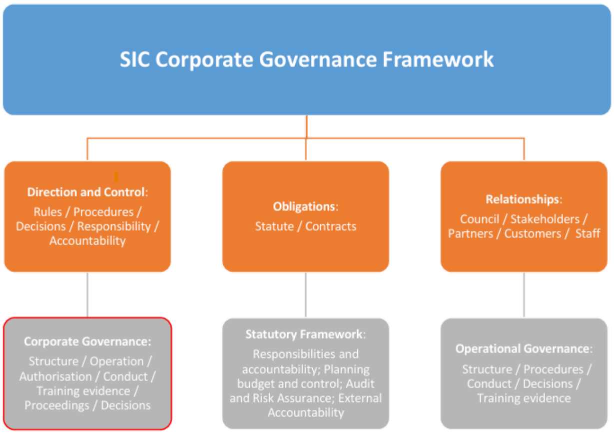
- Service delivery arrangements
- Structures and processes

- Risk management and internal control
- Standards of conduct

Good governance is about the culture, systems, processes and values by which the Council conducts its business and delivers services. The Council adheres to and works within a framework of internal values and expected external principles and standards which help to deliver good standards of governance.

Specific details of the Council's Governance arrangements are set out in the Code of Corporate Governance.

What is the Governance Framework?



The governance framework consists of the systems, processes, culture and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

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

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;

- **Scheme of Administration and Delegations**, which detail the functions that the Council has asked officers to carry out on its behalf, and the conditions they must comply with in doing so;

- **Standing Orders**, which set out the rules around how committees are run and decisions are made;

- **Financial Regulations**, setting out how the Council manages its financial affairs in accordance with good practice and statute;

- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;

- the Council's **Performance Management Framework**, which sets out how the Council sets its objectives, monitors and reports on its performance against those objectives and identifies areas for improvement;

- **Compliance** with the CIPFA codes of practice, including Code of Practice on Local Authority Accounting, Service Reporting Code of Practice for Local Authorities, Prudential Code for Capital Finance in Local Authorities, and Treasury Management in the Public Services Code of Practice, and with the CIPFA statements on *the Role of the Head of Internal Audit* and *the Role of the Chief Financial Officer*

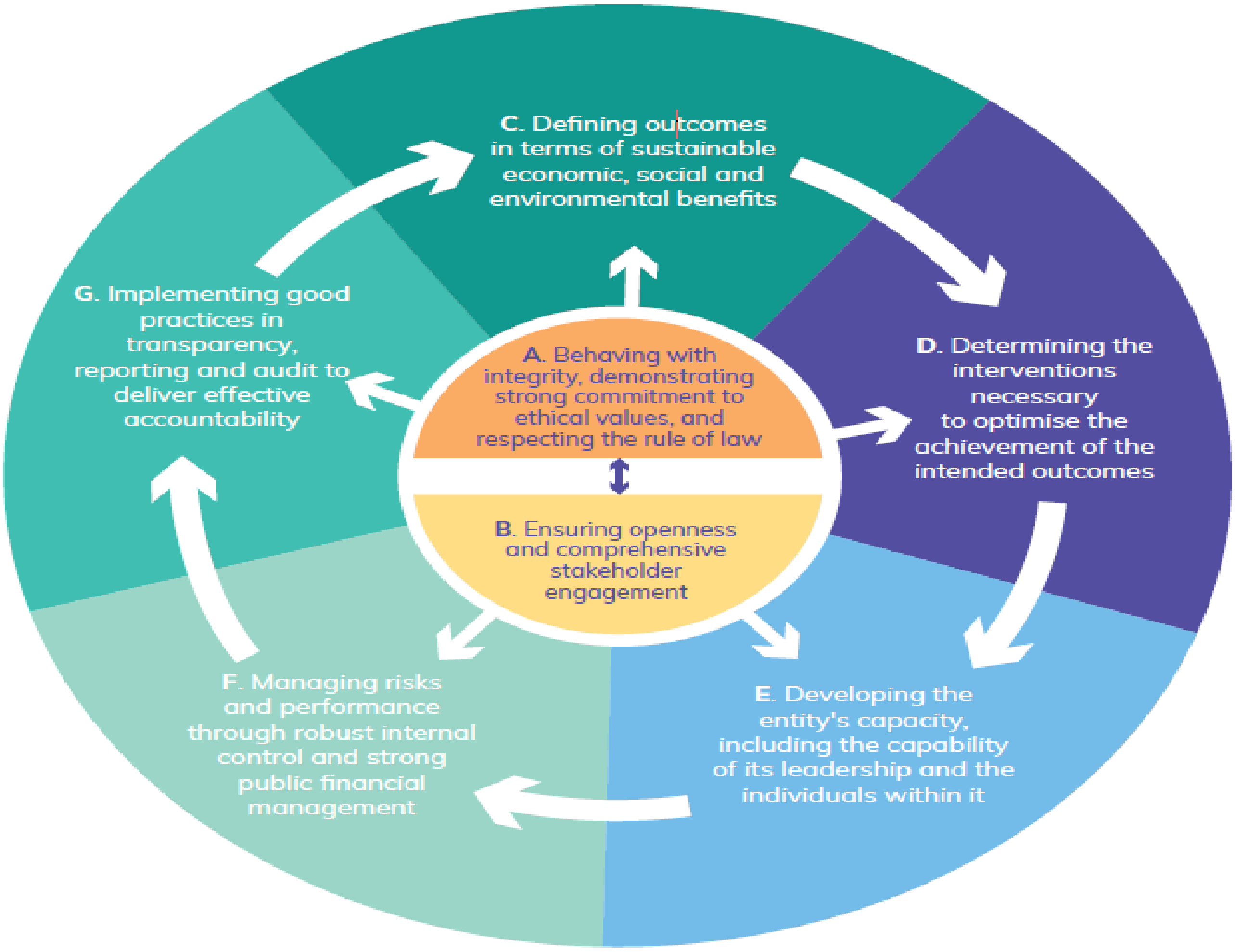
- A **comprehensive programme of internal audit reviews** across different service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

The Council's suite of governance documents, including the Scheme of Administration and Delegations, Financial Regulations, Contract Standing Orders and Code of Corporate Governance, are easily accessible and can be found on the Council's website.

What are the key elements of the Governance Framework?

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

Delivering Good Governance in Local Government (CIPFA and Solace, 2016)



Our assessment of effectiveness

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

How the review of effectiveness was conducted

The Council gains assurance from various sources:

- Assurances from chief officers and senior managers. These assurances include confirmation of compliance with internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2025/26, no areas of significant weakness or concern were identified through these assurances in relation to the overall effectiveness of internal controls; however, as set out in the Internal Audit opinion below, the timely implementation of agreed audit recommendations remains an area requiring continued management focus.
- Quarterly reports on risk management activity
- The head of internal audit's opinion on governance, risk management and internal control
- The findings from external assessments, from external audit, inspectorates, other regulators

- Internal and external audit and inspection
- Best Value Report and Accounts Commission Findings
- Self-assessments and benchmarking

Audit Committee

The Audit Committee remains responsible for considering all reports prepared by internal and external auditors and ensuring the effectiveness of the system of internal controls. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.

Internal audit

The Council's internal audit function operates in accordance with the CIPFA Statement on *the Role of the Head of Internal Audit*. Furthermore, internal audit reviews are conducted in accordance with the Public Sector Internal Audit Standards (PSIAS). From 1 April 2025, internal audit are working to new professional standards. These are a combination of the Global Internal Audit Standards (GIAS) and the Application Note 'Global Internal Audit Standards in the UK Public Sector'.

The internal audit function followed the approved internal audit plan through the year and their work revealed a range of findings. Management are working to implement agreed recommendations. The Internal Audit Annual Report contains further detail.

Internal Audit Opinion

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

As part of our reviews we have identified improvements to the internal control environment, which have been accepted by management. Our follow up work in 2025/26 shows that management have continued to find it challenging to implement agreed audit recommendations within agreed timescales. The Council therefore remains exposed to risk in these areas previously reported.

Based on the audit work undertaken, and noting the specific issues above, including the follow up position, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2025/26 in the Council.

External audit

The Council's external auditor reports to the Audit Committee. Reports from the external auditor include annual external audit plan and audit reports of the financial statements and wider audit dimensions, such as financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes as required by Audit Scotland's Code of Audit Practice. Best Value audit is fully integrated within annual audit work, which includes an annual evaluation of the Council's approach to demonstrating improvement in its services and public performance reporting.

The 2024-25 Annual Audit Report was considered by the Audit Committee in November 2025. The report included external audit's findings in the following areas:

- Audit of 2024/25 annual accounts;
- Financial management;
- Financial sustainability,
- Best Value, and
- Vision, leadership, governance and use of resources.

The Audit Report made 10 new recommendations following the audit process, 5 of which related to the Best Value thematic review on transformational change.

At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its best value duties.

Shetland Islands Council, received a copy of the Best Value Assurance Report from the Controller of Audit, in February 2026. The Accounts Commission considered the report on 12th February 2026 and their findings were published on 5th March 2026. As required, the Council considered the report and the findings on 21st May 2026. Five out of the six findings are related to the existing Annual Audit Report or Best Value Thematic recommendations that the Council has already been addressing from earlier audit reports.

The new, stand-alone Best Value recommendation is: *We welcome the council's clear vision for Shetland, shared with partners, and its recognition of the area's key challenges, including attracting people to live and work on the islands. Engagement on its corporate plan and budget is positive, but given significant projected budget gaps, it is essential that this engagement is sustained to build ownership of future priorities and support members in taking the difficult decisions that undoubtedly lie ahead.*

The Council recognises the significance of this recommendation and will continue to prioritise sustained engagement and transparent communication as part of its approach to financial planning and service prioritisation.

Shetland Islands Council will continue to demonstrate sustained engagement with partners and communities in relation to its Vision (in particular attracting people to Shetland). Evidence of this sustained engagement has been detailed in the self assessment for 2025/26.

Progress against audit recommendations are monitored under the direction of the Chief Executive and discussed at Corporate Management Team. The Best Value Improvement Plan will be reported every 6 months to the Audit Committee to demonstrate progress against audit actions.

Each year the Accounts Commission directs auditors to conduct a Best Value thematic review. The thematic review for 2025/26 is on the subject of asset management. It involves considering how the council is managing its assets to ensure high quality services whilst also responding to challenges around financial sustainability and climate change. The outcome of the thematic review is due to be presented to Audit Committee in October 2026.

2025/26 annual review

The Council has conducted an annual review of the effectiveness of its governance against the CIPFA Framework (2016) Delivering Good Governance Local Government framework addendum (2025).

Key Officers with governance/management responsibilities undertook a review of previous self assessments and action plans. In addition an officer workshop was held with the Corporate Management Team in which each behaviour was scored against a scoring mechanism as follows:

6	Excellent - outstanding sector leading
5	Very Good - major strengths
4	Good - important strengths with areas for improvement
3	Adequate - strengths just outweigh weaknesses
2	Weak - important weaknesses
1	Unsatisfactory - major weaknesses

The Corporate Management Team, which consists of the Chief Executive, Directors, and Chief Officers concluded in their review on 9 June 2026 that the annual review process has demonstrated sufficient evidence that the Council's corporate governance arrangements have operated effectively and comply with the relevant principles in all significant respects.

Based on the Council's Corporate Governance – Self Assessment 2025/26, and on the basis that the majority of scores applied were 5/6, the Council concludes that it is governed by sound and effective internal management controls and continues to demonstrate compliance with the requirements of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'.

Explicit assurance that each of the core arrangements for the local code are operating effectively are shown in the Code of Corporate Governance available here.

Where our governance needs to improve

The key areas of governance requiring improvement, together with the actions in place to address them, are set out in the Council's Corporate Governance Self-Assessment 2025/26 and reflect findings from internal and external audit activity.

The main areas identified for improvement are as follows:

- Updates to the constitutional documents to be completed once the new organisational restructure is implemented.
- Development of an updated Procurement Strategy, as the current strategy expires in 2026.
- Review and strengthening of information governance arrangements.
- Update the Performance Management Framework.
- Continue to address and resolve long standing audit recommendations.

How we have improved our governance arrangements in 2025/26

The below table summarises the improvement actions arising from the prior year annual review of governance and how these have been addressed:

Action	Progress	Current Status
The Procurement Strategy should be reviewed and updated. Management should ensure that arrangements are in place to produce an annual procurement report - outstanding Internal Audit Recommendation.	Work has commenced on developing an updated Procurement Strategy, as the current strategy expires this year. The revised Strategy will be aligned with the new Corporate Plan. The Annual Procurement Report for 2025/26 will be prepared by September/ October this year.	Ongoing
Elected Members' Induction Refresher training on the Council's Constitution.	Elected members have had access to refresher training on complaints and ethical standards.	Complete
Employee Register of Interests, Gifts and Hospitality - procedure and operational guidance required - including particular guidance for senior officers and procurement staff - outstanding Internal Audit Recommendations.	Gifts and hospitality guidance has been updated. Senior Officers now maintain Gifts and Hospitality record as per audit recommendation which is completed.	Complete
Constitutional documents – Constitution, Standing Orders for meetings and Scheme of Administration and Delegations - to be updated to reflect current organisational structures and values, remote meetings protocols and clearer guidance for public petitions and deputations. Standards and protocols for Members' Seminars and pre-meetings to be included – included in SIC Governance Review Tasks - to be monitored by CMT and performance reported to Policy and Resources Committee via Corporate Services Directorate Plan quarterly updates.	The Council has agreed to implement an organisational restructure so the updates to the constitutional documents will be completed once the new structure is implemented. The documents will reflect current organisational structures and values and ways of working, remote meetings protocols and clearer guidance for public petitions and deputations. Standards and protocols for Members' Seminars and Member briefings have been updated during 2025.	Ongoing

The below table summarises the significant governance issues identified through prior year internal audits, and how these are being addressed:

Prior Year Significant Governance Issue	Progress	Current status
Use of Consultants An internal audit review highlighted serious control deficiencies with regard to commissioning of consultancy services.	All audit actions for this audit have now been addressed.	**Complete**
Health and Safety No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	A schedule of health and safety audits and inspection has been agreed. Audit Glasgow continue to work with Human Resources and Health & Safety Manager as part of follow up process.	**Ongoing** Progress will be monitored by Internal Audit with further updates to the Audit Committee.
Asset Management arrangements for inter-island ferries An internal audit review highlighted serious control deficiencies with regard to the lack of an asset management strategy and plan, formal review of the fleet, and records of maintenance.	The Inter-Island Transport Connectivity Network Strategy Outline Business Case (OBC) is due to be completed and presented at full Council on 30 June. The OBC will describe an Inter-Island Transport Connectivity Road Map that will set out the preferred options for investment in the inter-island transport network. This in turn will be available to the Ferry Operations team to take account of the specifics of the Ferries Asset Management Strategy and Asset Management Plans.	Ongoing The remaining work on this audit action is dependent on consultancy work which is due for completion in July. A revised date for addressing the outstanding actions has been set for August 2026.
Finance procedures at ports and harbours An internal audit review highlighted serious control deficiencies with regard to financial monitoring and reconciliations, and significant use of manual documentation and processes.	Work has been ongoing to address the issues identified and to implement the improvement actions required.	Ongoing A revised date for addressing the one outstanding audit recommendation has been set as July 2026.
Weighbridge Operations An internal audit review highlighted serious control deficiencies with regard to use and management of the weighbridge.	Audit Glasgow continue to assess progress made against the audit actions. Three of the eight audit recommendations have been implemented.	Ongoing Work is ongoing to address the five outstanding audit recommendations.

Forward look on governance

The Council is committed to taking steps to address new and outstanding governance matters, with a particular focus on areas identified through internal and external audit activity and the timely delivery of agreed improvement actions.

Corporate Management Team receive regular updates on the implementation of audit recommendations, collating evidence and revising target dates if required.

The following areas have been identified as priorities for governance development in the coming year, following the publication of the *'Delivering Good Governance in Local Governance: Framework Addendum (May 2025)'*:

- Implement and embed the new management structure.
- Finalise the new corporate plan with clearly articulated priorities for the next 5 years.
- Update the key constitutional documents.

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

Conclusion

Overall, there is sufficient evidence to conclude that the Council complies with its Code of Corporate Governance for 2025/26 and that reliance can be placed upon the adequacy and effectiveness of its governance and internal control arrangements. These arrangements enable the Council to identify and manage risks to the achievement of its objectives, while recognising the areas for improvement identified within this statement.

We propose over the coming year to take steps to address the governance issues raised and to further enhance our governance arrangements. We will monitor the implementation of agreed actions and review effectiveness as part of our next annual review.

_______________	________________
Emma Macdonald	Maggie Sandison
Leader of the Council	Chief Executive

Remuneration Report

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

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

All information disclosed in the tables below will be audited.

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 remuneration 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, 2015 and 2024 Regulations). The 2024 Regulations were amended to increase the annual remuneration for councillors and senior councillors. For 2025/26 the level of remuneration for the Leader was £50,063 (£35,580 in 2024/25), and for the Convener was £37,548 (£26,686 in 2024/25).

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 its Senior Councillors shall not exceed £318k in 2025/26 (£216k in 2024/25).

The Council can exercise local flexibility in the determination of the precise number of senior councillors and their salary within these maximum limits. The 2025 Regulations permit 10 senior councillor positions, an increase of 2 from previous years. The new senior councillor positions are Depute Leader and Depute Convenor.

The senior councillor positions from 1 April 2025 are:

- Chair of Education and Families Committee:
- Chair / Vice Chair of Integrated Joint Board (IJB):
- Chair of Development Committee:
- Chair of Environment and Transport Committee:
- Depute Leader:
- Depute Convenor:
- Chair of Audit Committee:
- Chair of Planning Committee:
- Chair of Licensing Committee:
- Chair of Harbour Board.

Excluding the Convener and the Leader, the total remuneration paid to these councillors in 2025/26 was £318k (£193k in 2024/25).

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

All reports are available from the Council's Committee Information pages.

Remuneration of Conveners and Vice-Conveners for Joint Boards

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

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

The Council is also required to pay any pension contributions arising from the Convener or Vice-

Convener being a member of the Local Government Pension Scheme.

The Convener of the O&S VJB, from May 2022, has been a senior councillor of Shetland Islands Council, who is reimbursed by the Joint Board for additional remuneration paid in respect of this role.

Remuneration of Senior Employees

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

The remuneration of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities and sets out the spinal column salary points for Chief Officers which local authorities can utilise in setting the salary levels for posts within their authority. Circular CO/150 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2025/26.

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

- Chief Executive
- Director - Children's Services
- Director - Community Health and Social Care
- Director - Corporate Services
- Director - Development
- Director – Infrastructure
- Executive Manager – Criminal Justice (Chief Social Work Officer)
- Executive Manager - Finance (Section 95 Officer)
- Executive Manager - Governance and Law (Monitoring Officer)
- Executive Manager – Adult Social Work (Acting Chief Social Work Officer)
- Executive Manager - Children's Social Work (Acting Chief Social Work Officer)
- Executive Manager – Education & Learning (Chief Education Officer)
- Executive Manager – Planning (Chief Planning Officer).

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

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

Allowances

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

General Disclosure by Pay Band

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

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

Remuneration bands that do not appear in the table had nil employees in both 2025/26 and 2024/25.

Number of Employees							
Total at 31 March 2025	Remuneration Bands	Children's Services	Infra-structure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2026
221	£50,000 - £54,999	140	47	31	13	27	258
95	£55,000 - £59,999	33	34	14	8	10	99
61	£60,000 - £64,999	32	20	9	3	5	69
47	£65,000 - £69,999	20	30	2	1	1	54
36	£70,000 - £74,999	16	25	6	0	2	49
21	£75,000 - £79,999	14	13	1	1	0	29
13	£80,000 - £84,999	6	14	0	1	2	23
15	£85,000 - £89,999	4	10	0	1	0	15
9	£90,000 - £94,999	4	6	3	0	0	13
9	£95,000 - £99,999	1	6	0	0	0	7
4	£100,000 - £104,999	0	8	0	0	2	10
9	£105,000 - £109,999	0	0	1	0	0	1
2	£110,000 - £114,999	1	1	0	1	1	4
1	£115,000 - £119,999	1	1	0	0	0	2
0	£120,000 - £124,999	0	1	0	0	0	1
0	£125,000 - £129,999	0	0	0	0	0	0
3	£130,000 - £134,999	0	1	0	0	0	1
0	£135,000 - £139,999	0	2	0	0	0	2
2	£140,000 - £144,999	0	1	0	0	1	2
1	£145,000 - £149,999	0	0	0	0	0	0
1	£150,000 - £154,999	0	0	0	0	0	0
550	**Total**	**272**	**220**	**67**	**29**	**51**	**639**

Of the 272 staff (250 in 2024/25) in Children's Services noted above, 205 were head teachers or senior teaching staff (203 in 2024/25).

Of the 220 staff (187 in 2024/25) in Infrastructure Services noted above, 168 worked in Ports and Harbours Operations or Ferry Operations (142 in 2024/25).

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:

	2024/25 £000	2025/26 £000
Salaries	486	598
Expenses	16	14
Allowances	42	93
Total	**544**	**705**

The annual return of Councillors' salaries and expenses for 2025/26 is available for any member of the public to view on the Council's website here.

Summary of Remuneration paid to Employees

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

	2024/25 £000	2025/26 £000
Salaries	98,811	103,435
Overtime	4,878	5,509
Expenses	1,049	1,015
Allowances	1,328	1,363
Total	**106,066**	**111,322**

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

Exit Packages

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

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

There was one exit package awarded in 2025/26, (there were three exit packages awarded in 2024/25).

Exit package cost band (including special payments)	(a) Number of compulsory		(b) Number of other departures agreed		(a+b) Total number of exit packages by cost		Total cost of exit packages in each	
	2024/25	2025/26	2024/25	2025/26	2024/25	2025/26	2024/25 £000	2025/26 £000
£0 - £19,999	2	0	0	0	**2**	**0**	**18**	**0**
£20,000 - £39,999	1	0	0	0	**1**	**0**	**24**	**0**
£40,000 - £59,999	0	0	0	0	**0**	**0**	**0**	**0**
£60,000 - £79,999	0	0	0	0	**0**	**0**	**0**	**0**
£80,000 - £99,999	0	0	0	0	**0**	**0**	**0**	**0**
£100,000 - £149,999	0	0	0	1	**0**	**1**	**0**	**132**
£150,000 - £199,999	0	0	0	0	**0**	**0**	**0**	**0**
Total	**3**	**0**	**0**	**1**	**3**	**1**	**42**	**132**

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

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

Disclosure of Remuneration for Senior Councillors

2024/25			2025/26		
Total Remuneration £	Name of Councillor	Designation	Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
26,686	A Manson c)	Convener	36,914	0	**36,914**
	B Peterson c)	Convenor	30,112	0	**30,112**
35,580	E Macdonald	Leader of the Council	50,063	0	**50,063**
	G Robinson	Depute Leader	30,112	0	**30,112**
23,446	A Duncan	Chair - Audit Committee	30,112	0	**30,112**
24,727	D Leask	Chair - Development Committee	34,243	0	**34,243**
24,727	D Sandison	Chair - Education & Families Committee	34,243	0	**34,243**
24,727	M Lyall	Chair - Environment & Transport Committee	34,243	0	**34,243**
23,446	R W Thomson	Chair - Harbour Board	30,112	0	**30,112**
23,446	N Pearson	Chair - Licensing Committee	30,112	0	**30,112**
23,446	R McGregor	Chair - Planning Committee	30,112	0	**30,112**
24,727	J Fraser	Vice Chair - Shetland Islands Integrated Joint Board	34,243	0	**34,243**
26,686	S Leask	Convenor - Orkney & Shetland Valuation Joint Board	28,207	0	**28,207**

Notes:

From 1 April 2025, the Depute Convenor and Depute Leader positions are classed as Senior Councillors.

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

b) Councillors are only paid one special responsibility allowance, irrespective of how many Chair/Vice Chair positions they hold:

c) A Manson stood down from the role of Convenor on 11 March 2026. The full year remuneration for the position of Convenor for 2025/26 was £37,548. B Peterson was Depute Convenor until being appointed Convenor from 25 March 2026. The full year remuneration for the position of Depute Convenor was £30,112. C Hughson was appointed Depute Convenor from 25 March 2026.

Remuneration of Senior Employees of the Council

2024/25 Total Remuneration £	Name of Senior Employee	Designation	2025/26 Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £
131,195	M Sandison	Chief Executive	143,171	0	**143,171**
95,673	S Flaws	Director - Children's Services	110,852	0	**110,852**
100,462	J Robinson c)	Director - Community Health & Social Care	105,020	0	**105,020**
109,959	C Ferguson	Director - Corporate Services	114,286	90	**114,376**
109,875	N Grant	Director - Development Services	114,286	0	**114,286**
109,875	J Smith	Director - Infrastructure Services	114,286	0	**114,286**
94,569	D Morgan	Executive Manager - Criminal Justice (Acting Chief Social Work Officer)	36,909	0	**36,909**
96,275	P Fraser	Executive Manager - Finance (Section 95 Officer)	101,717	0	**101,717**
98,663	J Riise	Executive Manager - Governance & Law (Monitoring Officer)	101,836	0	**101,836**
	R MacMillan d)	Executive Manager - Adult Social Work (Acting Chief Social Work Officer)	91,635	0	**91,635**
	J Sutherland d)	Executive Manager - Children's Social Work (Acting Chief Social Work Officer)	96,463	245	**96,708**
	F Robertson e)	Executive Manager - Education & Learning (Chief Education Officer)	33,743	0	**33,743**
	I McDiarmid f)	Executive Manager - Planning (Chief Planning Officer)	85,793	0	**85,793**
151,519	S Polson g)	Marine Pilot			**0**

Notes:

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

b) Taxable expenses include taxable mileage and reimbursement of telephone rental/broadband costs:

c) J Robinson continues to work a 34-hour week. The full-time equivalent remuneration for Ms Robinson's substantive post in 2025/26 is £114,286:

d) D Morgan retired from the Council on 31/10/2025. The full-year equivalent remuneration was £101,710. The role of Chief Social Worker in 2025/26 was temporarily split between R MacMillan and J Sutherland:

e) F Robertson was appointed to the role of Chief Education Officer on 1 December 2025. The full-year equivalent remuneration for this post was £101,717:

f) I McDiarmid was appointed to the role of Chief Planning Officer on 24 July 2025. The full-year equivalent remuneration for this post was £88,155:

g) The total remuneration for S Polson for 2025/26 was below the reporting threshold of £150k.

Pension Benefits – Senior Councillors

The pension entitlements for Senior Councillors are shown in the table below, together with the contribution made by the Council to each Senior Councillor during the year. Councillors can be members of the Local Government Pension Scheme until the eve of their 75th birthday and on the completion of their term can opt to access the pension benefits that have accrued to them if they have attained / exceeded their earliest retirement age which is currently aged 55.

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2026		Difference from 31 March 2025	
		31 March 2025 £000	31 March 2026 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
A Manson	Convenor	5	7	8	0	1	0
B Peterson	Convenor	4	6	2	0	1	0
E Macdonald	Leader of the Council	8	8	6	0	1	0
G Robinson	Depute Leader		6	2	0		0
D Leask	Chair - Development Committee	7	7	3	0	2	0
D Sandison	Chair - Education & Families Committee	5	7	7	0	1	0
M Lyall	Chair - Environment & Transport Committee	5	7	3	0	0	0
R W Thomson	Chair - Harbour Board	4	6	2	0	1	0
N Pearson	Chair - Licensing Committee	4	6	2	0	1	0
J Fraser	Vice Chair - IJB	5	6	4	0	0	0

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer 31 March 2025 £000	In-Year Employer 31 March 2026 £000	Accrued Pension Benefits As at 31 March 2026 Pension £000	Accrued Pension Benefits As at 31 March 2026 Lump Sum £000	Difference from 31 March 2025 Pension £000	Difference from 31 March 2025 Lump Sum £000
M Sandison	Chief Executive	25	27	69	74	7	6
S Flaws	Director - Children's Services	25	29	33	0	6	0
J Robinson	Director - Community Health & Social Care	19	19	45	45	3	2
C Ferguson	Director - Corporate Services	21	22	94	127	9	5
N Grant	Director - Development Services	21	22	46	27	3	1
J Smith	Director - Infrastructure Services	21	22	57	65	4	3
P Fraser	Executive Manager - Finance	18	19	7	0	3	0
D Morgan	Executive Manager - Criminal Justice	19	11	57	79	2	1
J Riise	Executive Manager - Governance & Law	19	19	63	87	5	4
R MacMillan	Executive Manager - Adult Social Work (Acting Chief Social Work Officer)		17	20	0		
J Sutherland	Executive Manager - Children's Social Work (Acting Chief Social Work Officer)		18	19	0		
F Robertson	Executive Manager - Education & Learning (Chief Education Officer)		9	1	0		
I McDiarmid	Executive Manager - Planning (Chief Planning Officer)		16	49	66		
S Polson	Marine Pilot	22					

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS) Scotland Regulations 2018 (as amended), apart from teachers, whose pension benefits are provided through the Scottish Teachers Pension Scheme, where they are administered by the Scottish Public Pensions Agency (SPPA). The LGPS is a funded pension scheme, which is administered by 11 Scottish Pension Administering Authorities, of which Shetland Islands Council is one.

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 councillors' pension benefits up to 31 March 2015.

From 1 April 2015, the LGPS 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 pension age for both councillors and employees are now linked to their own state pension age (with a minimum age 65).

From 1 April 2015 the five-tier pension contribution system 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:	2024/25 %	Tiered contribution rates on whole time pay are as follows:	2025/26 %
On earnings up to and including £27,000	5.50	On earnings up to and including £27,500	5.50
On earnings above £27,001 and up to £33,000	7.25	On earnings above £27,501 and up to £33,600	7.25
On earnings above £33,001 and up to £45,300	8.50	On earnings above £33,601 and up to £46,100	8.50
On earnings above £45,301 and up to £60,400	9.50	On earnings above £46,101 and up to £61,400	9.50
On earnings above £60,401	12.00	On earnings above £61,401	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 full-time equivalent rate of pay, with contributions paid on actual pay earned.

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

The value of the accrued benefits has been calculated on the basis of the age at which the member 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 in individual's total Local Government Service, not just their current appointment. The figures also include any transfer of pension benefits from another pension arrangement.

Statement of Responsibilities

The Authority's Responsibilities

The Authority 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 Authority 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 confirm that these Annual Accounts were approved for signature by the Shetland Islands Council at its meeting on 19 August 2026.

Signed on behalf of Shetland Islands Council.

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Emma Macdonald
Leader of the Council

The Executive Manager - Finance's Responsibilities

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

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

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

The Executive Manager - Finance has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Local Authority at the reporting date and the transactions of the Local Authority for the year ended 31 March 2026.

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Paul Fraser
Executive Manager - Finance
30 June 2026

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2026

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and in Note 2: Expenditure and Funding Analysis.

2024/25 Gross Expenditure (Restated) £000	2024/25 Gross Income (Restated) £000	2024/25 Net Expenditure (Restated) £000		Notes	2025/26 Gross Expenditure £000	2025/26 Gross Income £000	2025/26 Net Expenditure £000
2,448	(92)	2,356	Chief Executive and Cost of Democracy		4,645	(237)	4,408
73,777	(6,782)	66,995	Children's Services		74,547	(7,038)	67,509
82,213	(48,832)	33,381	Community Care Services		89,141	(53,501)	35,640
20,695	(7,960)	12,735	Corporate Services		18,416	(6,090)	12,326
23,395	(4,501)	18,894	Development Services		26,196	(3,994)	22,202
55,914	(32,170)	23,744	Infrastructure Services		61,232	(14,357)	46,875
7,688	(7,859)	(171)	Housing Revenue Account		7,256	(8,494)	(1,238)
20,885	(28,508)	(7,623)	Harbour Account		22,426	(25,490)	(3,064)
287,015	**(136,704)**	**150,311**	**Net Cost of Services**		**303,859**	**(119,201)**	**184,658**
6,772	(956)	5,816	Other operating income and expenditure	8	4,216	(1,080)	3,136
7,676	(13,452)	(5,776)	Financing and investment income and expenditure	9	9,451	(55,462)	(46,011)
0	(112,068)	(112,068)	Taxation and non-specific grant income	11	0	(179,260)	(179,260)
301,463	**(263,180)**	**38,283**	**(Gain) / Loss on Provision of Services**		**317,526**	**(355,003)**	**(37,477)**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services			Notes	
		(29,471)	(Surplus) / Deficit on revaluation of property, plant and equipment assets			12	(23,553)
		(3,892)	Remeasurement of the net defined benefit liability/asset			28	3,064
		(33,363)	**Other Comprehensive Income and Expenditure**				**(20,489)**
		4,920	**Total Comprehensive Income and Expenditure**				**(57,966)**

Movement in Reserves Statement

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

2025/26	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2025 (Restated)	**(234,585)**	**(11,010)**	**(46,422)**	**(81,685)**	**(373,702)**	**(463,825)**	**(837,527)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	(35,234)	(2,241)	0	0	**(37,475)**	(20,489)	**(57,964)**
Adjustments between accounting basis & funding basis per regulations (Note 6)	24,726	1,480	(10,059)	0	**16,147**	(16,147)	**0**
Net Decrease/(Increase) before transfers	**(10,508)**	**(761)**	**(10,059)**	**0**	**(21,328)**	**(36,636)**	**(57,964)**
Net Transfers to/(from) Other Statutory Reserves	11,944	0	(4,046)	(2,451)	**5,447**	(5,447)	**0**
Decrease/(Increase) in year	**1,436**	**(761)**	**(14,105)**	**(2,451)**	**(15,881)**	**(42,083)**	**(57,964)**
Balance at 31 March 2026	**(233,149)**	**(11,771)**	**(60,527)**	**(84,136)**	**(389,583)**	**(505,908)**	**(895,491)**

2024/25 (Restated)	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2025	**(248,491)**	**(15,165)**	**(49,348)**	**(90,603)**	**(403,607)**	**(429,494)**	**(833,101)**
Adjustments on transition to new accounting arrangement for leases	(6,414)	0	0	0	**(6,414)**	(2,931)	**(9,345)**
Transitional adjustments between accounting basis and funding basis	6,414	0	0	0	**6,414**	**(6,414)**	**0**
Balance at 1 April 2024	**(248,491)**	**(15,165)**	**(49,348)**	**(90,603)**	**(403,607)**	**(438,839)**	**(842,446)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	34,900	3,383	0	0	**38,283**	(33,364)	**4,919**
Adjustments between accounting basis & funding	(13,618)	772	1,013	0	**(11,833)**	11,833	**0**
Net (Increase)/Decrease before transfers	**21,282**	**4,155**	**1,013**	**0**	**26,450**	**(21,531)**	**4,919**
Net Transfers to/(from) Other Statutory Reserves	(7,376)	0	1,913	8,918	**3,455**	(3,455)	**0**
(Increase)/Decrease in year	**13,906**	**4,155**	**2,926**	**8,918**	**29,905**	**(24,986)**	**4,919**
Balance at 31 March 2025	**(234,585)**	**(11,010)**	**(46,422)**	**(81,685)**	**(373,702)**	**(463,825)**	**(837,527)**

Balance Sheet as at 31 March 2026

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

As at 31 March 2025 (Restated) £000		Notes	As at 31 March 2026 £000
503,210	Property, Plant and Equipment	13	542,221
12,769	Property, Plant and Equipment - Right of Use	27	12,065
14,415	Investment Property	14	18,959
4,380	Heritage Assets	15	4,369
43,686	Intangible Assets	16	41,350
371,643	Long-term Investments	18	370,952
644	Long-term Debtors	22	617
950,747	**Long-Term Assets**		**990,533**
344	Assets held for Sale	21	255
6,342	Inventories	25	6,029
23,028	Short-term Debtors	23	27,469
14,639	Cash and Cash equivalents	20	12,372
44,353	**Current Assets**		**46,125**
(28,240)	Short-term Creditors	24	(32,688)
(137)	Short-term Provisions	26	(633)
(16,605)	Grant Receipts in Advance - Capital	11	(482)
(1,145)	Grant Receipts in Advance - Revenue	11	(577)
(46,127)	**Current Liabilities**		**(34,380)**
(49,009)	Long-term Borrowing	18	(46,000)
(19,092)	Pension Liability - Unfunded Obligations	28	(18,790)
(818)	Long-term Provisions	26	(884)
(38,406)	PFI and Similar Contracts	17	(37,197)
(4,121)	Other Long-term Liabilities	18	(3,914)
(111,446)	**Long-Term Liabilities**		**(106,785)**
837,527	**Net Assets**		**895,493**
373,702	Usable Reserves	7	389,585
463,825	Unusable Reserves	12	505,908
837,527	**Total Reserves**		**895,493**

The unaudited financial statements were issued on 30 June 2026.

Paul Fraser

Paul Fraser CPFA
Executive Manager – Finance
30 June 2026

Cash Flow Statement for year ended 31 March 2026

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

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

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

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

2024/25 (Restated) £000		Notes	2025/26 £000
	Operating activities		
38,283	Net (surplus)/deficit on the provision of services (CIES)		(37,475)
(54,277)	Adjustment to net surplus or deficit on the provision of services for non-cash movements		(10,691)
8,204	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		45,089
(7,790)	**Net cash flows from Operating Activities**		**(3,077)**
(959)	Investing activities		2,967
2,205	Financing activities		2,377
(6,544)	**Net increase in cash and cash equivalents**		**2,267**
8,095	Opening Cash and Cash Equivalents	20	14,639
6,544	Net movement of Cash and Cash Equivalents during the year		(2,267)
14,639	**Closing Cash & Cash Equivalents**		**12,372**

Notes to the Cash Flow Statement

Operating Activities

Cash flows for operating activities include the following:

2024/25 £000		Notes	2025/26 £000
(4,851)	Interest received	9	(4,638)
4,081	Interest paid		3,971
(6,294)	Dividends received	9	(2,508)
(7,064)	**Total**		**(3,175)**

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

2024/25 £000		Notes	2025/26 £000
(25,197)	Depreciation, impairment and revaluations		(25,507)
(2,575)	Amortisation		(2,335)
(557)	(Increase) in impairment for bad debts		(487)
(15,749)	(Increase) in creditors		15,093
(2,997)	Increase/(Decrease) in debtors		4,293
441	(Decrease)/Increase in inventories	25	(313)
(1,046)	Movement in pension liability	28	3,363
(6,667)	Carrying amount of non-current assets sold or de-recognised		(4,174)
70	Other non-cash items charged to the net surplus or deficit on the provision of services		(624)
(54,277)	**Total**		**(10,691)**

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

2024/25 £000		2025/26 £000
850	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,037
7,354	Any other items for which the cash effects are investing or financing cash flows	44,052
8,204	**Total**	**45,089**

Investing Activities

2024/25 £000		Notes	2025/26 £000
22,507	Purchase of property, plant and equipment, investment property and intangible assets		48,879
(15,221)	Purchase of short-term and long-term investments	18	(691)
(850)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(1,037)
(124)	Proceeds from short-term and long-term investments		(132)
83	Other payments from investing activities		0
(7,354)	Other receipts from investing activities		(44,052)
(959)	**Total**		**2,967**

Financing Activities

2024/25 £000		2025/26 £000
2,186	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,358
19	Repayments of short and long-term borrowing	19
2,205	**Total**	**2,377**

Housing Revenue Account

Introduction and Statutory Background

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

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

Section 203(1) – housing authorities have a duty to keep an HRA;

Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions;

Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA;

Schedule 15 – housing authorities have a duty to avoid a deficit in the HRA but if there is a deficit, a General Fund contribution must be made equal to the deficit;

Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA;

Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA; and

Schedule 15 – the Scottish Government may direct rectification of the account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

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

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

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

The HRA Income and Expenditure Statement

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

Housing Revenue Account Income and Expenditure Statement

2024/25 £000		2025/26 £000
	Expenditure	
4,623	Repairs and maintenance	4,764
851	Supervision and management	967
1,850	Depreciation and impairment of non-current assets	1,172
86	Movement in the allowance for bad debts	42
220	Other expenditure	250
7,630	**Total expenditure**	**7,195**
	Income	
(7,585)	Dwelling rents	(8,186)
(236)	Non-Dwelling rents	(252)
(37)	Other Income	(56)
(7,858)	**Total income**	**(8,494)**
(228)	**Net (Income)/Expenditure of HRA services as included in the CIES**	**(1,299)**
57	HRA services' share of Corporate and Democratic Core	61
(171)	**Net (Income)/Expenditure of HRA Services**	**(1,238)**
	HRA share of operating income and expenditure included in the CIES	
3,650	(Gain) or Loss on sale of HRA non-current assets	2,097
472	Interest payable and similar charges	434
(514)	Interest and investment income	(2,267)
16	Pension interest cost and expected return on pension assets	13
(70)	Capital Grants and Contributions	(1,279)
3,554	**Net HRA share of operating expenditure**	**(1,002)**
3,383	**(Surplus)/Deficit for the year on HRA services**	**(2,240)**

Movement on the Housing Revenue Account Statement

2024/25 £000		2025/26 £000
(15,165)	**Opening balance on the HRA**	**(11,010)**
3,383	(Surplus) / Deficit on the HRA Income and Expenditure Statement	(2,240)
772	Adjustment between accounting basis and funding basis under statute	1,479
4,155	**Increase in year on the HRA**	**(761)**
0	Transfers to reserves	-
(11,010)	**Closing balance on the HRA**	**(11,771)**

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

Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2024/25 Number	Housing Stock	2025/26 Number
77	1 Apartment	79
412	2 Apartment	412
528	3 Apartment	527
610	4 Apartment	611
32	5 Apartment	31
2	6 Apartment	2
2	8 Apartment	2
1,663	**Total**	**1,664**

Amount of Rent Arrears

At 31 March 2026, the total rent arrears amounted to £0.661m (2024/25: £0.659m). The table below provides analysis of this amount. The format of the note and presentation of prior year information has been revised.

2023/24 £000		2025/26 £000
	Dwellings	
350	Current Tenants	353
309	Former Tenants	308
659	**Total**	661
8.7%	Arrears as % of dwelling rent income	8.1%
	Non-Dwelling Rents	
2	Current Tenants	5
3	Former Tenants	3
5		8
2.1%	Arrears as % of non-dwelling rent income	3.3%

Provision for Bad Debts

Council approval is required to write off bad debts with value over £5,000. The value of housing debt written off in 2025/26 was £0.095m (£0.033m 2024/25). The housing bad and doubtful debt provision included within the Council's accounts at 31 March 2026 is £0.064m (£0.118m 2024/25).

Void Rents

The following table summarises the income lost due to voids in 2025/26. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2024/25 £000		2025/26 £000
152	General needs void rents and charges	128
25	Sheltered housing void rents and charges	27
177	Total	155

Council Tax Income Account

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

Council Tax Income Account

2024/25 £000		2025/26 £000
(13,824)	Gross Council Tax levied and contributions in lieu	(15,345)
779	Council Tax Reduction Scheme	852
1,582	Other discounts and reductions	1,754
64	Write-offs of uncollectable debts and allowance for impairment	40
71	Adjustment to previous years' Community Charge and Council Tax	78
(11,328)	**Transfer to General Fund**	**(12,621)**

Council Tax Base

The table below shows the Council Tax base used to set the 2025/26 charges. The amount of Council Tax payable depends on the valuation band of the dwelling. The following analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

2025/26	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2025/26 Band D equivalents	2024/25 Band D equivalents
Band A*			5	0	0	5	0.56	3	3
Band A	2,973	(130)	7	(479)	(270)	2,101	0.67	1,401	1,396
Band B	1,878	(73)	9	(254)	(169)	1,391	0.78	1,083	1,063
Band C	2,919	(86)	9	(349)	(238)	2,255	0.89	2,005	1,949
Band D	1,938	(45)	7	(162)	(56)	1,682	1.00	1,682	1,643
Band E	1,549	(21)	1	(90)	(19)	1,420	1.31	1,865	1,838
Band F	329	(4)	0	(13)	(1)	311	1.63	506	492
Band G	76	(3)	0	(4)	0	69	1.96	136	126
Band H	2	(1)	0	(1)	0	1	2.46	1	1
Sub-total								**8,682**	**8,511**
Less Bad Debt provision								(69)	(59)
Council Tax Base								**8,613**	**8,452**

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

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

Council Tax Reduction Scheme:

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

Exemptions:

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

Discounts:

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

Reliefs:

If a house has been structurally altered for a disabled person, the Council Tax bill may be set at the next band lower in value than that shown in the Valuation List

(Band A* shown above). A reduction is also offered for properties in Band A.

Non-Domestic Rate Income Account

Statutory Background

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

Non-Domestic Rate Income Account

2024/25 £000		2025/26 £000
36,268	Gross rates levied and contributions in lieu	38,067
(8,538)	Reliefs and other deductions	(8,238)
(8)	Payment of interest	(193)
(70)	Write-offs of uncollectable debts	(146)
0	Allowance for impairment of uncollectable debt	0
27,652	**Net non-domestic rate income**	**29,490**
(235)	Adjustment to previous years' national non-domestic rates	(3,072)
(69)	Net contribution (to) / from National Non-Domestic Rate pool	67
27,348	**Net NDR Income transferred to General Fund**	**26,485**

Analysis of Rateable Value

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

The 2025/26 Non-Domestic Basic Property Rate (‘poundage’) was set at 49.8p (49.8p in 2024/25), with a large business supplement of 5.6p for properties with a rateable value between £51,001 and £100,000 (55.4p – the Intermediate Property Rate), and 7.0p for all subjects with a rateable value above £100,000 (56.8p – the Higher Property rate).

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

Rateable values at 1 April 2025	Number of Subjects	Rateable Value £000
Commercial	576	8,672
Industrial	512	37,544
Other	1,343	28,044
Total	**2,431**	**74,260**

Notes to the Financial Statements

Note 1: Prior Period Error

The Council has identified a number of properties that meet the definition of investment property under IAS 40 and has reclassified these from Other Land & Buildings accordingly. Following a materiality assessment, only the Viking Windfarm and the Land at the Gas Plant site have been adjusted (restated) within the prior year figures. These reclassifications reflect an updated assessment of asset purpose rather than any change in the CIPFA Code.

The following are extracts from the disclosures in the financial statements setting out the amount of correction required:

Effect on Comprehensive Income and Expenditure Statement 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Corporate Services	12,528	12,735	207
Harbour Account	(9,054)	(7,623)	1,431
Net Cost of Services	148,673	150,311	1,638
Financing and investment income and expenditure	(3,903)	(5,776)	(1,873)
(Gain) / Loss on Provision of Services	38,518	38,283	(235)
(Surplus) / Deficit on revaluation of property, plant and equipment assets	(28,298)	(29,471)	(1,173)
Other Comprehensive Income and Expenditure	(32,190)	(33,363)	(1,173)
Total Comprehensive Income and Expenditure	6,328	4,920	(1,408)

Effect on Balance Sheet 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Property, Plant & Equipment	514,822	503,210	(11,612)
Investment Properties	1,395	14,415	13,020
Long-term Assets	949,339	950,747	1,408
Net Assets	836,119	837,527	1,408
Unusable Reserves	462,417	463,825	1,408
Total Reserves	836,119	837,527	1,408

Effect on Movement in Reserves Statement 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Total Comprehensive Income and Expenditure (General Fund)	35,135	34,900	(235)
Total Comprehensive Income and Expenditure (Unusable Reserves)	(32,191)	(33,364)	(1,173)
Adjustments between accounting basis & funding basis per regulations (General Fund)	(13,853)	(13,618)	235
Adjustments between accounting basis & funding basis per regulations (Unusable Reserves)	12,068	11,833	(235)
Net Decrease/(Increase) before Transfers to Statutory Reserves (Unusable Reserves)	(20,123)	(21,531)	(1,408)
Decrease/(Increase) in year (Unusable Reserves)	(23,578)	(24,986)	(1,408)
Balance at 31 March 2025 (Unusable Reserves)	(462,417)	(463,825)	(1,408)

Effect on Cash Flow Statement 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Net (surplus)/deficit on the provision of services	38,518	38,283	(235)
Adjustment to net surplus or deficit on the provision of services for non-cash movements	(54,512)	(54,277)	235

Effect on Notes to the Cash Flow Statement 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Depreciation, impairment and revaluations	(25,433)	(25,198)	235

Effect on Expenditure and Funding Analysis 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Net Expenditure in the CIES - Corporate Services	12,528	12,735	207
Net Expenditure in the CIES - Harbour Account	(9,054)	(7,623)	1,431
Net Expenditure in the CIES - Other Income and Expenditure	(110,155)	(112,028)	(1,873)
Deficit or Surplus	38,518	38,283	(235)
Other Income and Expenditure - Adjustments for Capital	(1,538)	(1,773)	(235)

Effect on Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Movement in the fair value of Investment Properties	120	(115)	(235)

Effect on Note 9 Financing and Investment Income and Expenditure 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Income and expenditure in relation to Investment properties	(270)	(1,908)	(1,638)
Changes in fair value of Investment Properties	120	(115)	(235)
Total	(3,903)	(5,776)	(1,873)

Effect on Note 12 Unusable Reserves 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(28,298)	(29,471)	(1,173)
Revaluation Reserve - Balance at 31 March	(206,414)	(207,587)	(1,173)
Movement in the fair value of Investment Properties	120	(115)	(235)
Capital Adjustment Account - Balance at 31 March	(280,096)	(280,331)	(235)

Effect on Note 13 Property, Plant and Equipment 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5,374)	(4,201)	1,173
Other movements in cost or valuation	420	(12,365)	(12,785)
Cost or Valuation - Closing Balance at 31 March 2025	257,963	246,351	(11,612)
Net Book Value - As at 31 March 2025	252,496	240,884	(11,612)

Effect on Note 14 Investment Properties 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Rental income from investment property	(363)	(2,000)	(1,637)
Direct operating expenses arising from investment property	93	92	(1)
Net gains/(losses) from fair value adjustments	(120)	115	235
Other Significant observable inputs (Level 3)	1,395	14,415	13,020
Closing balance at 31 March	1,395	14,415	13,020

Effect on Note 27 Leases 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Lease income	(3,115)	(1,477)	1,638
Less than one year	(2,950)	(1,312)	1,638
One to five years	(10,688)	(4,138)	6,550
More than five years	(22,111)	(4,496)	17,615
Total	(35,749)	(9,946)	25,803

The Council has identified a disclosure error in Note 32 Related Parties. The error relates to the disclosure of Receipts and Payments for the Shetland Islands Integration Joint Board. The following is an extract from the disclosures in the financial statements setting out the error:

Effect on Note 32 Related Parties 2024/25	Originally stated 2024/25 £000	Restated 2024/25 £000	Amount of Restatement £000
Shetland Islands Integration Joint Board - Receipts	0	39,520	39,520
Shetland Islands Integration Joint Board - Payments	37,584	38,528	944

The Council has identified that certain fair value disclosure requirements relating to financial instruments have not been fully presented in the prior year's financial statements. Specifically, disclosures relating to the categorisation of investments within the Level 2 and Level 3 fair value hierarchy, and a reconciliation of Level 3 fair value investments. Comparative information has been restated to include the omitted disclosures.

Note 2: Expenditure and Funding Analysis

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

2025/26	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	4,400	(11)	19	4,408
Children's Services	65,215	3,081	(787)	67,509
Community Care Services	40,025	326	(4,711)	35,640
Corporate Services	7,292	2,349	2,685	12,326
Development Services	19,812	2,232	158	22,202
Infrastructure Services	39,085	6,314	1,476	46,875
Housing Revenue Account	1,570	(2,311)	(497)	(1,238)
Harbour Account	(5,839)	1,186	1,589	(3,064)
Net Cost of Services	**171,560**	**13,166**	**(68)**	**184,658**
Other income and expenditure	(135,928)	(39,372)	(46,835)	(222,135)
Deficit or (Surplus)	**35,632**	**(26,206)**	**(46,903)**	**(37,477)**
Opening General Fund and HRA balance*		**245,595**		
Add (Surplus) / Deficit in the year		(37,477)		
Add other items not charged to the (Surplus) / Deficit		36,804		
Closing General Fund and HRA balance*		**244,922**		

2024/25 (Restated)	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Presentational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,099	210	47	2,356
Children's Services	61,860	5,612	(477)	66,995
Community Care Services	36,533	1,268	(4,420)	33,381
Corporate Services	8,494	3,911	330	12,735
Development Services	17,156	2,730	(992)	18,894
Infrastructure Services	35,357	4,131	(15,744)	23,744
Housing Revenue Account	4,639	(5,175)	365	(171)
Harbour Account	(7,943)	863	(543)	(7,623)
Net Cost of Services	**158,195**	**13,550**	**(21,434)**	**150,311**
Other income and expenditure	(126,337)	(704)	15,013	(112,028)
Deficit or (Surplus)	**31,858**	**12,846**	**(6,421)**	**38,283**
Opening General Fund and HRA balance*		**263,656**		
Add (Surplus) / Deficit in the year*		38,283		
Add other items not charged to the (Surplus) / Deficit		(56,344)		
Closing General Fund and HRA balance*		**245,595**		

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

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

2025/26	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	222	(262)	29	(11)
Children's Services	5,069	(1,732)	(256)	3,081
Community Care Services	1,132	(867)	61	326
Corporate Services	2,349	-	-	2,349
Development Services	2,547	(356)	41	2,232
Infrastructure Services	7,007	(701)	8	6,314
Housing Revenue Account	(2,271)	(39)	(1)	(2,311)
Harbour Account	1,628	(381)	(61)	1,186
Net Cost of Services	**17,683**	**(4,338)**	**(179)**	**13,166**
Other income and expenditure	(40,347)	975	0	(39,372)
Total adjustments between accounting basis and funding basis	**(22,664)**	**(3,363)**	**(179)**	**(26,206)**

2024/25 (Restated)	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	189	21	0	210
Children's Services	6,140	(516)	(12)	5,612
Community Care Services	1,097	379	(208)	1,268
Corporate Services	3,936	(4)	(21)	3,911
Development Services	2,812	(82)	0	2,730
Infrastructure Services	3,966	191	(26)	4,131
Housing Revenue Account	(5,192)	25	(8)	(5,175)
Harbour Account	868	(37)	32	863
Net Cost of Services	**13,816**	**(23)**	**(243)**	**13,550**
Other income and expenditure	(1,773)	1,069	0	(704)
Total adjustments between accounting basis and funding basis	**12,043**	**1,046**	**(243)**	**12,846**

Capital Adjustments

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

Pensions Adjustments

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

Other Adjustments

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

Presentational Adjustments

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

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year

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

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets). Applicable for periods beginning on or after 1 April 2025.
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2025.
- Annual improvements to IFRS accounting standards – Volume 11. Applicable for periods beginning on or after 1 April 2025.
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2025.

These amendments are not expected to have an impact on the Council's financial statements.

Note 4: Critical Judgements in Applying Accounting Policies

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

- There are a number of legal claims currently outstanding against the Council. Where a reliable estimate can be made and it's probable the Council will be required to settle the obligation, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate or the probability of settlement , the claims have been accounted for as contingent liabilities;
- There is a high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that its assets may be impaired as a result of (for example) reduced maintenance;
- The Council has classified the measurement basis of its available for sale financial instruments as fair value through profit or loss. This is due to the contractual terms of the asset which do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. During 2025/26 the unrealised gain recognised in the CIES was £1.7m;
- The Council is deemed to control the services provided under the PFI for the Anderson High School and also to control the residual value at the end of the agreement. The accounting policies for PFI have been applied to this arrangement (valued at net book value of £58.9m at 31 March 2026) which is recognised as Property, Plant and Equipment on the Council's Balance Sheet;
- The Council has considered all entities in which it has an interest for consolidation in group accounts. The Council has assessed that the value of the financial results is considered not material for consolidation in group accounts. Further information can be found at Note 38: Group Interests.

Note 5: 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 2026 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

<table>
<tr><th>Item</th><th>Uncertainties</th><th>Effect if actual results differ from assumptions</th></tr>
<tr><td>Pension Liability</td><td>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets (see Note 28: Defined Benefit Pension Schemes). A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</td><td>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £8.558m; however, the assumptions interact in complex ways.</td></tr>
<tr><td>Fair Value Measurement</td><td>When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. The Council holds Financial Assets (Equity Investments) at fair value.</td><td>This will be different in each case, but changes in any assumptions used in an asset valuation could affect the values disclosed in the accounts.</td></tr>
<tr><td>Property, Plant and Equipment: Valuations</td><td>Assets held at Fair Value are subject to valuation on a five year rolling programme with annual indexation applied during the four intervening years where an appropriate index is available, as set out in the Accounting Policies Note. Where an appropriate index is not available, the Council revalues the assets using a desktop revaluation in year three. Indices have been selected and applied based on asset types as
outlined in Note 13. The valuation report has been used to inform the measurement of the land and buildings portfolio in these financial statements. The valuer has continued to exercise professional judgement in preparing the valuation, therefore, this is the best information available to the Council as at 31 March 2026 and can be relied upon.</td><td>A +/-5% change in the value of assets held at Fair Value would result in an increase or decrease to the value of Property Plant & Equipment of:<table><tr><th>Asset Category</th><th>£000</th></tr><tr><td>Other Land & Buildings</td><td>11,566</td></tr><tr><td>Council Dwellings</td><td>4,674</td></tr><tr><td>Vehicles, Plant & Equipment</td><td>2,186</td></tr><tr><td>ROU- Land & Buildings</td><td>427</td></tr><tr><td>Surplus Assets</td><td>96</td></tr><tr><td>Community Assets</td><td>8</td></tr><tr><td></td><td>18,957</td></tr></table>A +/- 1% change in the indexation rate would result in an increase or decrease to the value of Property Plant & Equipment of £2.7m.</td></tr>
</table>

Item	Uncertainties	Effect if actual results differ from assumptions
Financial Instruments	When measuring the fair value of the Council's external investments, the Council must maximise the use of relevant observable inputs and minimise the use of unobservable inputs. To achieve this the Council is required to follow the fair value hierarchy, which categorises the inputs to valuation techniques used to measure fair value into three levels: Level 1 (quoted prices), Level 2 (observable inputs other than quoted prices), and Level 3 (unobservable inputs). Where level 1 inputs are not available, the Council using relevant experts, identifies the most appropriate valuation techniques to determine the fair value. At 31 March 2026, the Council had external investments with Fund Managers within Level 2 & 3 of £371m. The value of the Council's investments can increase or decrease from movements in the price of these investments. The Council is exposed to risk in terms of a loss arising if investments were sold at a point in time when the decrease in value of the investment showed the sale price to be lower than the original purchase price.	It is estimated that a general shift of 5% in the general price of equities (positive or negative) would result in an £11.9m gain or loss in value being recognised in the CIES. The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would result in an estimated gain or loss of £2.2m.

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

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

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

General Fund

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

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

Housing Revenue Account

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

Capital Usable Reserves

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

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

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

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

2025/26	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged or credited to the CIES:					
Charges for depreciation of non-current assets	(23,194)	(1,967)	0	(25,161)	25,161
Charges for impairment of non-current assets	(600)	822	0	222	(222)
Movement in the fair value of Investment Properties	(568)	0	0	(568)	568
Amortisation of intangible assets	(2,309)	(26)	0	(2,335)	2,335
Capital grants and contributions applied	42,772	1,280	(10,059)	33,993	(33,993)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,019)	(2,155)	0	(4,174)	4,174
Insertion of items not charged to the CIES:					
Capital repayment in respect of finance leases	114	0	0	114	(114)
Statutory provision for the financing of capital investment (principal repayments)	3,790	810	0	4,600	(4,600)
Capital expenditure charged against the General Fund and HRA balances	2,245	2,632	0	4,877	(4,877)
Adjustments involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	0	0	0
Transfer of capital grants and contributions to capital grants unapplied	0	0	0	0	0
Application of capital grants to finance capital expenditure	0	0	0	0	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	0	0	0
Adjustments involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	979	58	0	1,037	(1,037)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	0
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(14,595)	(200)	0	(14,795)	14,795
Employer's pensions contributions and direct payments to pensioners payable in the year	17,933	225	0	18,158	(18,158)
Adjustment 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	178	1	0	179	(179)
Total Adjustments	**24,726**	**1,480**	**(10,059)**	**16,147**	**(16,147)**

2024/25 (Restated)	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(18,622)	(1,851)	0	**(20,473)**	20,473
Charges for impairment of non-current assets	(4,867)	28	0	**(4,839)**	4,839
Movement in the fair value of Investment Properties	115	0	0	**115**	(115)
Amortisation of intangible assets	(2,549)	(26)	0	**(2,575)**	2,575
Capital grants and contributions applied	7,284	70	0	**7,354**	(7,354)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,908)	(3,759)	0	**(6,667)**	6,667
Capital repayment in respect of finance leases	112	0	0	**112**	(112)
Insertion of items not charged to the CIES:			0	**0**	0
Statutory provision for the financing of capital investment (principal repayments)	3,618	810	0	**4,428**	(4,428)
Capital expenditure charged against the General Fund and HRA balances	4,228	5,424	0	**9,652**	(9,652)
Adjustments involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	0	**0**	0
Transfer of capital grants and contributions to capital grants unapplied	0	0	0	**0**	0
Application of capital grants to finance capital expenditure	0	0	55	**55**	(55)
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	0	**0**	0
Adjustments involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	741	109	0	**850**	(850)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	958	**958**	(958)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(17,857)	(274)	0	**(18,131)**	18,131
Employer's pensions contributions and direct payments to pensioners payable in the year	16,852	233	0	**17,085**	(17,085)
Adjustment 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	235	8	0	**243**	(243)
Total Adjustments	**(13,618)**	**772**	**1,013**	**(11,833)**	**11,833**

Note 7: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2025/26.

	Balance at 1 April 2025 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2026 £000
General Fund Balance (unearmarked)	(48,481)	262,246	(254,100)	**(40,335)**
Council Tax Second Homes Receipts	(3,298)	874	(1,011)	**(3,435)**
Hansel Funds	(236)	236	(240)	**(240)**
School Funds	(451)	451	(441)	**(441)**
Central Energy Efficiency Fund	(65)	0	(35)	**(100)**
Coastal Community Fund	(4,390)	0	(83)	**(4,473)**
Pupil Equity Funding (PEF)	(126)	0	(57)	**(183)**
Other Earmarked Reserves	(2,266)	50	(54)	**(2,270)**
Debt Repayment	(54,549)	3,000	(11,054)	**(62,603)**
Total General Fund	**(113,862)**	**266,857**	**(267,075)**	**(114,080)**
Capital Fund	(46,347)	5,346	(9,392)	**(50,393)**
Capital Grants Unapplied	(75)	0	(10,059)	**(10,134)**
Repairs & Renewals Fund	(13,931)	13,116	(2,823)	**(3,638)**
Housing Revenue Account	(11,010)	3,577	(4,338)	**(11,771)**
Harbour Reserve Fund	(62,484)	6,750	(18,076)	**(73,810)**
Insurance Fund	(5,270)	100	(1,518)	**(6,688)**
Total Statutory Reserves	**(139,117)**	**28,889**	**(46,206)**	**(156,434)**
Unrealised Investment Gains (earmarked)	(120,723)	1,652	0	**(119,071)**
Total Usable Reserves	**(373,702)**	**297,398**	**(313,281)**	**(389,585)**

General Fund Reserves

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

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2026 compared with their original cost. The net gain (increases less decreases) is 'unrealised' because the underlying investments have not been sold as at 31 March 2026. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the Council does not consider it prudent to use to fund services.

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

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

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

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

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

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

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

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

Other Statutory Reserves

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

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

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

The **Harbour Reserve Fund** was established under Section 67(1) of the Zetland County Council Act 1974. This Act empowers the Council to transfer to the fund surpluses arising on the Harbour Account. The fund may be used to defray certain expenditure on the harbour undertaking and for any other purpose that is solely in the interest of the County and its inhabitants. It now incorporates the former Harbour Contingency and Pilot Boat Renewal Funds.

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

Note 8: Other Operating Income and Expenditure

2024/25 £000		2025/26 £000
5,816	Losses on the disposal of non-current assets	3,136
5,816	**Total**	**3,136**

Note 9: Financing and Investment Income and Expenditure

2024/25 (Restated) £000		2025/26 £000
6,293	Interest payable and similar charges	5,914
132	Change in expected credit loss	(94)
(1,908)	Income and expenditure in relation to Investment properties	(3,708)
(115)	Changes in fair value of Investment Properties	569
1,067	Pensions interest cost and expected return on pensions assets	973
(4,851)	Interest receivable and similar income	(4,638)
(6,294)	Other investment income	(2,508)
900	Realised (gains)/losses in relation to available for sale financial assets	(44,227)
(1,206)	Unrealised (gains)/losses in relation to available for sale financial assets	1,652
206	Impairment (bad debt)	56
(5,776)	**Total**	**(46,011)**

Note 10: Revenue from Contracts with Service Recipients

The Council has recognised £52.9m in 2025/26 (£53.1m in 2024/25) from contracts with service recipients. The Council exercises judgement in recognising income from service recipients. Income is recognised as performance obligations are satisfied. The Council typically satisfies its performance obligations as services are rendered, or on delivery of goods. Revenue is recognised as (or when) the performance obligation is met.

The below table details how the timing of satisfaction of performance obligations relates to the typical timing of payment. Income received in advance is mainly from rental income and course fees. Income received at the point of use is mainly from ferry fare income and canteen sales. Of the income received in arrears, 65% (66% 2024/25) on average was within the standard 30-day payment terms.

Timing of Payment	Average % 2024/25	Average % 2025/26
Paid at point of use	4.3%	4.5%
Paid in advance	16.1%	16.4%
Paid in arrears	79.6%	79.1%

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

2025/26	Central Government £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £000
Agency Income	0	(152)	(30)	0	(1,725)	(1,907)
Care home fees	0	0	0	0	(1,706)	(1,706)
Course Fees	0	0	0	0	(2)	(2)
Other Income	(64)	(181)	(90)	(8)	(5,493)	(5,836)
Sale of materials / equipment	(22)	0	0	(1)	(3,221)	(3,244)
Sale of Meals	(1)	0	(2)	0	(1,249)	(1,252)
Transport Income	(15)	(14)	(42)	(19)	(2,121)	(2,211)
Waste disposal	(20)	(702)	(22)	(211)	(1,887)	(2,842)
General Fund	**(122)**	**(1,049)**	**(186)**	**(239)**	**(17,404)**	**(19,000)**
Dues	0	0	0	0	(1,377)	(1,377)
Other Income	0	0	0	0	(4,672)	(4,672)
Tanker Income	0	0	0	0	(19,366)	(19,366)
Harbour Account	**0**	**0**	**0**	**0**	**(25,415)**	**(25,415)**
Rental Income	0	0	0	0	(8,441)	(8,441)
Other Income	0	0	0	0	(53)	(53)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(8,494)**	**(8,494)**
Total	**(122)**	**(1,049)**	**(186)**	**(239)**	**(51,313)**	**(52,909)**

2024/25	Central Government £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000	Total £000
Agency Income	0	(19)	(30)	(13)	(2,120)	(2,182)
Care home fees	0	0	0	0	(1,498)	(1,498)
Course Fees	0	0	0	0	(5)	(5)
Other Income	(58)	(303)	(80)	(9)	(4,838)	(5,288)
Sale of materials / equipment	(15)	0	0	(1)	(2,107)	(2,123)
Sale of Meals	0	0	(2)	0	(1,182)	(1,184)
Transport Income	(13)	(13)	(58)	(23)	(2,009)	(2,116)
Waste disposal	(20)	(433)	(22)	(122)	(1,867)	(2,464)
General Fund	**(106)**	**(768)**	**(192)**	**(168)**	**(15,626)**	**(16,860)**
Dues	0	0	0	0	(1,346)	(1,346)
Other Income	0	0	0	0	(4,161)	(4,161)
Tanker Income	0	0	0	0	(22,908)	(22,908)
Harbour Account	**0**	**0**	**0**	**0**	**(28,415)**	**(28,415)**
Rental Income	0	0	0	0	(7,825)	(7,825)
Other Income	0	0	0	0	(34)	(34)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(7,859)**	**(7,859)**
Total	**(106)**	**(768)**	**(192)**	**(168)**	**(51,900)**	**(53,134)**

Note 11: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2025/26:

2024/25 £000		2025/26 £000
	Credited to Taxation and Non-Specific Grant Income	
(66,038)	Revenue Support Grant	(96,102)
(27,348)	Non-domestic Rates	(26,485)
(11,328)	Council Tax	(12,621)
(7,354)	Capital Grants and Contributions	(44,052)
(112,068)	**Total**	**(179,260)**
	Credited to Services	
	Department of Work and Pensions	
(3,230)	Housing Benefit Funding	(3,079)
	Scottish Government	
(3,147)	Scottish Government PFI Support	(3,206)
(3,540)	Crown Estate	(2,417)
(243)	Islands Programme	(1,019)
(880)	Energy Efficiency Grants	(942)
0	Mid Market Rent	(668)
(160)	Early Adopter Communities Project	(382)
(370)	Criminal Justice Grant	(370)
0	Carbon Neutral Islands Funding	(118)
(248)	Developing Young Workforce	(260)
(255)	Pupil Equity Fund	(255)
(131)	No One Left Behind	(190)
(30)	Scottish Attainment Challenge	(175)
(100)	Tackling Child Poverty	(119)
(23,082)	Support for Ferries	0
(358)	Other Scottish Government Grants	(342)
	UK Government	
0	Producer Responsibility for Packaging Scheme	(2,391)
(1,100)	UK Shared Prosperity Fund	(525)
	NHS Scotland	
(1,650)	Resource Transfer	(1,699)
(359)	Integrated Care Fund	(331)
(64)	Other NHS Scotland Grants	(74)
	Other Bodies	
(1,986)	Shetland Charitable Trust - Rural Care Model	(1,820)
(939)	Innovate UK - Net Zero Living - Rural Energy Hub	(765)
(200)	Sports Scotland - Active Schools Funding	(192)
(100)	Viking Energy - Viking Community Fund	(100)
(312)	Other Grants and Contributions	(268)
(42,484)	**Total**	**(21,707)**

(17,750)	**Value of grants received in advance not recognised**	**(1,059)**

Note 12: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2024/25 (Restated) £000		2025/26 £000
(207,587)	Revaluation Reserve	(222,795)
19,092	Pensions Reserve	18,790
(280,331)	Capital Adjustment Account	(306,725)
5,001	Employee Statutory Adjustment Account	4,822
(463,825)	**Total Unusable Reserves**	**(505,908)**

Revaluation Reserve

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

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

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

2024/25 (Restated) £000		2025/26 £000
(181,367)	**Opening balance**	**(207,587)**
(2,932)	Adjustments on transition to new accounting arrangements for leases	0
(184,299)	**Adjusted balance at 1 April 2025**	**(207,587)**
(29,471)	(Surplus) or deficit on revaluation of non-current assets not posted to the CIES	(23,762)
	Amounts written off to the Capital Adjustment Account:	
5,846	Difference between fair value depreciation and historical cost depreciation	7,995
337	Assets sold or scrapped	350
0	Decommissioning Obligation provision	209
(207,587)	**Closing balance**	**(222,795)**

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. For the current financial year, the overall pension asset of £239.8m as per the actuarial valuation, has been disaggregated to distinguish between funded and unfunded obligations. The net asset position relating to funded obligations of £258.6m has been adjusted for the asset ceiling calculation required by IAS19 / IFRIC14 – The Limit on a Defined

Benefit Asset, Minimum Funding Requirements and their interaction, resulting in a revised pension asset of £0. The debit balance on the Pensions Reserve reflects the net liability position relating to unfunded obligations of £18.8m which shows a shortfall in the resources set aside by the Council to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2024/25 £000		2025/26 £000
21,938	**Opening balance**	**19,092**
(194,704)	Actuarial (gains) and losses on pensions assets and liabilities	3,061
190,812	Asset ceiling adjustment	0
18,131	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	14,795
(17,085)	Employer's pensions contributions and direct payments to pensioners payable in the year	(18,158)
19,092	**Closing balance**	**18,790**

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.

2024/25 (Restated) £000		2025/26 £000
(275,309)	**Opening balance**	**(280,331)**
(6,414)	Adjustments on transition to new accounting arrangement for leases	0
(281,723)	**Adjusted balance at 1 April**	**(280,331)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
20,473	Charges for depreciation of non-current assets	25,161
4,839	Charges for revaluation gains/losses of non-current assets	(222)
(115)	Movement in the fair value of Investment Properties	568
2,575	Amortisation of intangible assets	2,335
(62)	Repayment of capital on finance leases	(64)
(1,496)	Repayment of capital on PFI contract	(1,648)
(578)	Repayment of capital on right of use leases	(592)
6,667	Amounts of Non-Current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,174
(6,183)	Adjustment amounts written out of the Revaluation Reserve	(8,345)
	Capital financing applied in the year:	
(1,808)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,037)
(7,354)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(33,993)
(55)	Application of grants to capital financing from the Capital Grants Unapplied Account	0
(2,404)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,407)
(9,652)	Capital expenditure charged against the General Fund and HRA balances	(4,877)
0	Contribution from Other Statutory Reserves - Insurance Fund	(99)
(3,455)	Capital Fund / Other Reserves	(5,348)
(280,331)	**Closing balance**	**(306,725)**

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.

2024/25 £000		2025/26 £000
5,244	**Opening balance**	**5,001**
(5,244)	Settlement or cancellation of accrual made at the end of the preceding year	(5,001)
5,001	Amounts accrued at the end of the current year	4,822
5,001	**Closing balance**	**4,822**

Note 13: Property, Plant and Equipment

The Scottish Government on 29 August 2022 issued Local Government Finance Circular 9/2022 providing local authorities with temporary statutory override to the CIPFA/LASAAC Accounting Code of Practice requirements on areas of the accounting and disclosure of infrastructure assets for the 2022/23 and 2023/24 financial years. A permanent solution has not yet been agreed and therefore the statutory override has been extended by a further two years until 31 March 2027 (amended by finance circulars 8/2024 and 6/2025). The following tables reflect that guidance, with Note 39, detailing the accounting policy applied. Gross historic cost and accumulated depreciation have not been disclosed.

Movements in 2025/26	Council Dwellings £000	Other Land & Buildings (Restated) £000	Vehicles, Furniture, Plant & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation								
Opening Balance at 1 April 2025	**76,026**	**246,351**	**80,328**	**6,851**	**1,894**	**11,926**	**423,376**	**59,942**
Additions	3,896	1,956	4,351	0	58	35,975	46,236	346
Revaluation increases recognised in the Revaluation Reserve	15,138	(8,968)	(4,609)	0	(155)	0	1,406	(1,349)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	614	(1,764)	(107)	0	(920)	0	(2,177)	0
Derecognition – disposals	0	(86)	(3,248)	0	(218)	0	(3,552)	0
Derecognition – other	(2,143)	(972)	(13)	0	0	0	(3,128)	0
Assets reclassified (to) / from Assets Held for Sale	0	0	0	0	0	0	0	0
Other movements in cost or valuation	(46)	(5,157)	497	7	1,409	(2,084)	(5,374)	0
Closing Balance at 31 March 2026	**93,485**	**231,360**	**77,199**	**6,858**	**2,068**	**45,817**	**456,787**	**58,939**
Depreciation and Impairment								
Opening Balance at 1 April 2025	**(1,747)**	**(5,467)**	**(15,268)**	**0**	**(20)**	**0**	**(22,502)**	**0**
Depreciation charge	(1,781)	(10,997)	(6,440)	0	(10)	0	(19,228)	(1,970)
Depreciation written out to the Revaluation Reserve	3,320	14,226	4,830	0	222	0	22,598	1,970
Depreciation written out to the Surplus/ Deficit on the Provision of Services	208	1,983	207	0	1	0	2,399	
Derecognition – disposals	0	11	2,862	0	20	0	2,893	
Derecognition – other	0	0	0	0	0	0	0	
Other movements in depreciation or impairment	0	214	76	0	(290)	0	0	
Closing Balance at 31 March 2026	**0**	**(30)**	**(13,733)**	**0**	**(77)**	**0**	**(13,840)**	**0**
Net Book Value as at 31 March 2026	**93,485**	**231,330**	**63,466**	**6,858**	**1,991**	**45,817**	**442,947**	**58,939**
Net Book Value as at 31 March 2025	**74,279**	**240,884**	**65,060**	**6,851**	**1,874**	**11,926**	**400,874**	**59,942**

Movements in 2024/25 (Restated)	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation								
Opening Balance at 1 April 2024	**75,008**	**265,932**	**70,602**	**6,851**	**3,130**	**10,280**	**431,803**	**52,427**
Additions	4,142	5,464	8,700	0	82	5,952	24,340	3,808
Revaluation increases recognised in the Revaluation Reserve	20	(4,201)	3,834	0	(608)	0	(955)	3,707
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,589)	(6,816)	(173)	0	(305)	0	(9,883)	0
Derecognition – disposals	0	(366)	(2,882)	0	0	0	(3,248)	0
Derecognition – other	(3,652)	(1,030)	(922)	0	0	0	(5,604)	0
Assets reclassified (to) / from Assets Held for Sale	0	(267)	0	0	(25)	0	(292)	0
Other movements in cost or valuation	3,097	(12,365)	1,169	0	(380)	(4,306)	(12,785)	0
Closing Balance at 31 March 2025	**76,026**	**246,351**	**80,328**	**6,851**	**1,894**	**11,926**	**423,376**	**59,942**
Depreciation and Impairment								
Opening Balance at 1 April 2024	**0**	**(13,075)**	**(34,671)**	**0**	**(143)**	**0**	**(47,889)**	(1,488)
Depreciation charge	(1,749)	(8,455)	(4,352)	0	(47)	0	(14,603)	(1,488)
Depreciation written out to the Revaluation Reserve	0	14,535	20,698	0	149	0	35,382	2,976
Depreciation written out to the Surplus/ Deficit on the Provision of Services	0	1,504	857	0	9	0	2,370	0
Derecognition – disposals	0	37	2,200	0	0	0	2,237	0
Derecognition – other	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	2	(13)	0	0	12	0	1	0
Closing Balance at 31 March 2025	**(1,747)**	**(5,467)**	**(15,268)**	**0**	**(20)**	**0**	**(22,502)**	**0**
Net Book Value as at 31 March 2025	**74,279**	**240,884**	**65,060**	**6,851**	**1,874**	**11,926**	**400,874**	**59,942**
Net Book Value as at 31 March 2024	**75,008**	**252,857**	**35,931**	**6,851**	**2,987**	**10,280**	**383,914**	**50,939**

2024/25 £000	Infrastructure Assets	2025/26 £000
105,400	**Net Book Value at 1 April**	102,336
1,705	Expenditure	1,685
(4,769)	Depreciation charge	(4,747)
102,336	**Infrastructure Assets Closing Net Book Value**	99,274
412,486	Other PPE Assets (see table above)	442,947
514,822	**Total PPE Assets**	542,221

Capital Commitments

At 31 March 2026 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £32.2m. Similar commitments at 31 March 2025 were £39.5m. Major projects are detailed in the table below.

Major commitments at 31 March 2026	£m
Fair Isle Ferry	14
B9082 Cullivoe Road Improvements	8
Housing Quality Standard	3
Terminal Life Extension Works	2
Brae High School - Pre-Construction	2
Knab Site Infrastructure Build	2

Revaluations

From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations of property, plant and equipment. For assets subject to indexation, the Council revalues these assets every five years with annual indexation applied during the four intervening years. Where an appropriate index is not available, the Council revalues the assets using a desktop revaluation in year three.

All valuations in the year were carried out by Ryden LLP. 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 valuations are based on existing records, the accuracy of which could not be guaranteed and no inspection was undertaken. No liability can be held for any inaccuracies/errors arising as a result;
- where not part of a leasing arrangement, the property is feuhold and owned outright by the Council, with no burdens or encumbrances on the title;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the property is not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be demonstrated;
- that the property and its values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- that there are no outstanding Statutory Notices affecting any of the properties;
- that no account has been made of any debt liability held against the property valued;
- that no structural surveys of the properties have been made nor have the service installations been tested;
- that the value of plant and machinery has not been included in the valuation except to the

extent that it forms part of the building services installations;

- the valuations are exclusive of VAT and any other tax, which may arise on disposal; and
- that where a lease or sub-lease arrangement exists it would continue to the end date specified.

The following table shows details of revaluation programmes. The basis of valuation is set out in Note 39: Accounting Policies.

Class of Asset	Valuer	Basis of Valuation	Dates of Full Valuations, Desktop Valuations and Indexation
Council Dwellings	Ryden LLP	Existing User Value for Social Housing	Last full valuation on 31 March 2024 with desktop valuations each intervening year until next full valuation due on 31 March 2029.
Other Land and Buildings (including PFI Assets)	Ryden LLP	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Last full valuation for 5 Year rolling programme ranging from 31st March 2022 to 31st March 2026 with annual indexation applied in intervening years from 31st March 2026.
Vehicles, Furniture, Plant & Equipment	Moray Firth Marine Services Ltd for Vessels or Operational Manager	Existing Use Value; or Depreciated Historical Cost for low value/low life assets under £50k and/or 10 years life.	Last full valuation for vessels only on 31st March 2024 with a desktop valuation due on 31st March 2027 and no intervening year indexation. Last full valuation for all other VFPE on 31st March 2021 with annual indexation to be applied from 31st March 2026 onwards with no further full valuations. Note: no indexation to be applied on low value/low life assets under £50k and/or 10 years life.
Infrastructure Assets	n/a	Depreciated Historical Cost	n/a
Community Assets	n/a	Historical Cost	n/a
Surplus Assets	Ryden LLP	Fair Value (estimated at highest and best use); or Depreciated Historical Cost for low value assets under £30k.	Last full valuation for 5 Year rolling programme ranging from 31st March 2022 to 31st March 2026 with annual indexation applied in intervening years from 31st March 2026. Note: no indexation or valuation to be applied on assets under £30k from 31st March 2026.
Assets Under Construction	n/a	Historical Cost	n/a

Depreciation

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

Class of Asset	Useful Life & Depreciation Rate
Council Dwellings	30 years
Other Land and Buildings (including PFI Assets)	2-88 years
Vehicles, Furniture, Plant & Equipment	1-50 years
Infrastructure Assets	5-60 years
Community Assets	Indefinite life
Surplus Assets	10-40 years
Assets Under Construction	n/a

Indexation

Full revaluations are carried out in accordance with RICS Red Book requirements, while indexation reflects market-based movements applied in intervening periods. Although the valuation approaches differ, both are treated equally for accounting purposes under the revaluation model. The table below shows the indices applied in 2025/26.

Class of Asset	Index	% Change	Impact on PPE NBV 31 March 2026 £000
Vehicles, Furniture, Plant & Equipment	BCIS - Civil Engineering Tender Price Index	2.6	101
	BCIS - Communication Equipment	1.6	61
	BCIS - Metal Tanks, Reservoirs & Containers	3.0	6
	BCIS - Mining, Quarrying & Construction Machinery	3.9	31
	CPI	3.3	123
Other Land & Buildings	MSCI Property Index	1.4	343
	BCIS - All in Tender Index	0.8	1,884
		Total	**2,549**

Note 14: Investment Properties

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

2024/25 (Restated) £000		2025/26 £000
(2,000)	Rental income from investment property	(4,089)
92	Direct operating expenses arising from investment property	381
(1,908)	**Total**	**(3,708)**

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

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

2024/25 (Restated) £000		2025/26 £000
1,515	**Opening balance at 1 April**	**14,415**
12,785	Transfers from Property, Plant & Equipment	5,113
115	Net gains/(losses) from fair value adjustments	(569)
14,415	**Closing balance at 31 March**	**18,959**

Gains or losses arising from changes in the fair value of the investment property are recognised in the surplus or deficit on the provision of services – financing and investment income and expenditure line.

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2026 are as follows:

Recurring fair value measurements using:	Other Significant observable inputs (Level 3) 2024/25 (Restated) £000	2025/26 £000
Office Units	0	1,525
Commercial Units	14,415	17,434
Total	**14,415**	**18,959**

Significant unobservable inputs – Level 3

The office and commercial units are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. the approach has been developed using the Council's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels, maintenance costs, etc.

The Council's office and commercial units are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

Highest and best use of investment properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation process for investment properties

The fair value of the Council's investment properties is measured annually at each reporting date. All valuations are carried out by Ryden LLP, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

Note 15: Heritage Assets

Net Value 2025/26	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2025	**1,322**	**3,058**	**4,380**
Revaluation Increases / (Decreases)	0	0	**0**
Depreciation	(11)	0	**(11)**
Closing Balance at 31 March 2026	**1,311**	**3,058**	**4,369**

Net Value 2024/25	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2024	**1,333**	**3,058**	**4,391**
Revaluation Increases / (Decreases)	0	0	**0**
Depreciation	(11)	0	**(11)**
Closing Balance at 31 March 2025	**1,322**	**3,058**	**4,380**

There were no additions, disposals or impairments during 2025/26.

Historic Buildings

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

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

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

Museum Collection

The Council's museum collections are on display at the Shetland Museum and Archives, open to the public all year.

Note 16: Intangible Assets

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

From 1 April 2025, the Code requirements changed in respect of revaluations for intangible assets. The option to measure intangible assets using the revaluation model has been withdrawn, and the carrying values at the 1 April 2025 are now considered historical cost. The intangible asset affected by this change is the fishing quota.

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 net book value at 31 March 2026 using the cost model based on opening balance at 1st April 2025 then amortised in year is £41.1m (£43.3m in 2024/25). This is amortised on a straight-line basis over a 20-year period. The market value that would have been recognised had the fishing quota been measured on revaluation at 31 March 2026 is £40.6m (£43.0m in 2024/25).

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 £2.3m was charged directly to the Net Cost of Services in the CIES for 2025/26 (£2.6m in 2024/25).

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

As at 31 March 2025 £000		As at 31 March 2026 £000
	Cost or Valuation	
50,369	**Opening Balance**	**45,353**
84	Additions	(1)
(4,680)	Revaluation increases recognised in the Revaluation Reserve	0
(420)	Derecognition - disposals	0
45,353	**Closing Balance**	**45,352**
	Depreciation and Impairment	
(1,867)	**Opening Balance**	**(1,667)**
(2,575)	Amortisation charge	(2,335)
2,397	Amortisation written out to the Revaluation Reserve	0
378	Derecognition - disposals	0
(1,667)	**Closing Balance**	**(4,002)**
43,686	**Net Book Value**	**41,350**

Note 17: Private Finance Initiatives and Similar Contracts

Anderson High School contract

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

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

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

Property, Plant and Equipment

The assets used to provide services at the school are recognised on the Council's Balance Sheet.

Movements in their value over the year are detailed in Note 13: Property, Plant and Equipment.

Payments

The Council makes an agreed payment each year, which is adjusted each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contract at 31 March 2026 are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Total £000
Payable in 2026/27	595	1,555	1,943	**4,093**
Payable within 2 to 5 years	2,015	7,460	6,897	**16,372**
Payable within 6 to 10 years	2,685	11,589	6,192	**20,466**
Payable within 11 to 15 years	4,051	13,295	3,119	**20,465**
Payable within 16 to 20 years	834	4,853	194	**5,881**
Total	**10,180**	**38,752**	**18,345**	**67,277**

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

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

	2024/25 £000	2025/26 £000
Opening balance	**37,746**	**40,058**
Other movements	3,808	346
Capital payments incurred in the year	(1,496)	(1,652)
Closing balance	**40,058**	**38,752**

The long-term liability reported in the Balance Sheet of £37.197m, with the short term element of £1.555m included as part of Short-term Creditors on the Balance Sheet, totals the Closing balance of £38.752m included in the table above.

Note 18: Financial Instruments

Categories of Financial Instruments

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

Financial Assets	Investments				Debtors				As at 31 March 2026
	As at 31 March 2025		As at 31 March 2026		As at 31 March 2025		As at 31 March 2026		
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000
Fair value through profit or loss	371,643	(657)	370,952	0	0	0	0	0	370,952
Amortised cost	0	0	0		562	132	475	87	562
Total Financial Assets	371,643	(657)	370,952	0	562	132	475	87	371,514

The (£657k) for 2024/25 Current Investments balance is in relation to an overdrawn cash balance position within Blackrock investments, due to an administration error by Blackrock.

Financial Liabilities	Borrowings / Other Long Term Liabilities				Creditors				As at 31 March 2026
	As at 31 March 2025		As at 31 March 2026		As at 31 March 2025		As at 31 March 2026		
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000
Amortised cost	(87,415)	(1,671)	(83,197)	(1,565)	(4,121)	(653)	(3,914)	(589)	(89,265)
Total Financial	(87,415)	(1,671)	(83,197)	(1,565)	(4,121)	(653)	(3,914)	(589)	(89,265)

Income, expense, gains and losses

	2024/25 Surplus or Deficit on the Provision of Services £000	2025/26 Surplus or Deficit on the Provision of Services £000
Net (gains)/losses on:		
Financial assets measured at fair value through profit or loss	(306)	(42,574)
Total net gains/losses	**(306)**	**(42,574)**
Interest revenue:		
Financial asset measured at fair value through profit or loss	(11,125)	(7,129)
Financial assets measured at amortised cost	(20)	(17)
Total interest revenue	**(11,145)**	**(7,146)**
Interest expense	4,081	3,963
Impairment Loss	337	(37)
Total interest expense	**4,418**	**3,926**
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	2,083	1,847
Financial assets measured at amortised cost	130	103
Total fee expense	**2,213**	**1,950**

There were gains on available-for-sale financial assets on revaluation of £42.6m as at 31 March 2026 (gains of £0.3m at 31 March 2025).

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 2025		Financial Assets	As at 31 March 2026	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
308	308	Economic Development Loans	177	177
386	386	Other debtors	385	385

As at 31 March 2025		Financial Liabilities	As at 31 March 2026	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
(49,000)	(45,569)	Financial liabilities held at amortised cost (PWLB Borrowing)	(46,000)	(42,022)
(40,058)	(40,058)	PFI liability	(38,752)	(38,752)
(4,773)	(4,773)	Lease liabilities	(4,503)	(4,503)
(29)	(29)	Other creditors	(10)	(10)

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

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.

Level 1
Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classed as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Assets and liabilities at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value based on observable market data.

Level 3
Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

As at 31 March 2025 £000	Hierarchy Level	As at 31 March 2026 £000
(657)	Level 1	0
355,329	Level 2	238,176
16,314	Level 3	132,776
370,986	Net Investment assets	370,952

Description of Asset	Valuation hierarchy	Basis of valuation	Observable / unobservable inputs	Key sensitivities affecting valuations
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Unquoted pooled fund investments, overseas unit trusts	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Unquoted private market credit investments where regular trading does not take place	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special valuation guidance (March 2020)	Assets valued by third party valuation companies.	Valuations could be affected by significant market movements, refinancing activity or changes in operating conditions.
Unquoted infrastructure funds where regular trading does not take place	Level 3	Valued by independent third-party valuation firms, in line with relevant accounting standards (including AASB and US GAAP).	Assets are valued using discounted cash flow methodologies, with discount rates determined by the independent valuer and cross-checked against market data and comparable transactions.	Valuations could be affected by significant market movements, refinancing activity or changes in operating conditions.

Fair Value of Financial Assets

Fair Value through profit or loss	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2025 £000	As at 31 March 2026 £000
Equity shareholdings in global pooled fund investments	Level 2	Closing bid price where bid and offer price are published. Closing single price where single price published.	355,329	238,176
Unquoted infrastructure funds where regular trading does not take place	Level 3	Independent valuation companies, valued using discounted cash flow methodologies in line with accounting standards (AASB and GAAP)	0	60,578
Unquoted private market credit investments where regular trading does not take place	Level 3	Independent valuation companies, single price valuation provided based on financial statements, market indicators and loan documentation.	16,314	72,198
			371,643	**370,952**

Reconciliation of fair value measurements for financial assets carried at fair value categorised within Level 3 of the fair value hierarchy for financial assets

Fair Value through profit or loss	As at 31 March 2025 £000	Transfers into Level 3 £000	Transfers out of level 3 £000	Total gains or losses for the period £000	Additions £000	Disposals £000	Other Income £000	As at 31 March 2026 £000
Private Credit	16,314	0	0	4,525	60,000	(7,897)	(744)	72,198
Infrastructure Equity	0	0	0	578	60,000	0	0	60,578
	16,314	0	0	5,103	120,000	(7,897)	(744)	**132,776**

Fair Value through profit or loss	As at 31 March 2024 £000	Transfers into Level 3 £000	Transfers out of level 3 £000	Total gains or losses for the period £000	Additions £000	Disposals £000	Other Income	As at 31 March 2025 £000
Private Credit	28,486	0	0	1,790	0	(11,500)	(2,462)	16,314
Alternative Investments	38,312	0	0	266	0	(38,578)	0	0
	66,798	0	0	2,056	0	(50,078)	(2,462)	**16,314**

Note 19: 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;
- 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; and
- Foreign Exchange risk – the possibility that financial loss might arise as a result of currency movements on overseas investments.

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. The Council's credit risk management practices are set out and minimised through the Treasury Management Strategy & Annual Investment Strategy report.

Credit Risk Management Practices

The Council has a policy of lending to local businesses to maximise the benefit to the Shetland economy. Lending assists in sustainable economic growth with good employment opportunities, making Shetland a good place to live and work. In pursuing this policy, the Shetland Investment Fund was established on 18 April 2016 to provide a sustainable lending service of up to £15.0m. As at 31 March 2026, £0.2m was loaned to local businesses, leaving £14.8m available for future lending.

As at 31 March 2025 £000	Shetland Investment Fund	As at 31 March 2026 £000
131	Less than 1 year	87
120	2-5 years	46
57	6-10 years	44
308	**Total**	**177**

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

Trade Receivables

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

Amounts Arising from Expected Credit Losses

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

Lifetime expected credit losses - simplified approach	2024/25 £000	2025/26 £000
Balance at 1 April	**(709)**	**(840)**
Other Changes	(312)	49
Amounts written off	181	45
Balance at 31 March	**(840)**	**(746)**

Liquidity Risk

The Council has external investments with Fund Managers amounting to £371m at 31 March 2026 (£371m for 2024/25). 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 2026 the Council had fixed rate borrowings amounting to £46m from the Public Works Loans Board. The balance of £0.010m external borrowing is

0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2025 £000	Borrowing	As at 31 March 2026 £000
37,029	Less than 10 years	34,010
7,000	10-20 years	7,000
0	20-30 years	0
5,000	Over 40 years	5,000
49,029	**Total**	**46,010**

Market Risk

Interest Rate Risk

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

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

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

As at 31 March 2026 the composition of these funds was diversified between the following asset classes:

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

Not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process. The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would have resulted in a gain or loss in the region of £2.2m for 2025/26 (£2.3m for 2024/25). This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 18: Financial Instruments.

At 31 March 2026, the Council had external fixed rate borrowing amounting to £46.0m 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 Council uses the services of MUFG Corporate Markets to advise on any borrowing requirements, including associated interest rate risks.

Price Risk

The Council had £371m of investments as at 31 March 2026 (£371m for 2024/25) in the form of equity, diversified growth fund, direct loans 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 £11.9m gain or loss being recognised in the CIES for 2025/26 (£14.8m for 2024/25).

Foreign Exchange Risk

The Council has £238m (£257m for 2024/25) 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 20: Cash and Cash Equivalents

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

As at 31 March 2025 £000		As at 31 March 2026 £000
42	Cash held by the Council	42
15,254	Bank current accounts	12,330
(657)	Cash equivalents	0
14,639	**Total**	**12,372**

Note 21: Assets Held for Sale

2024/25 £000		2025/26 £000
62	Opening balance	**344**
	Assets newly classified as held for sale:	
292	Property, plant and equipment	230
(10)	Assets sold	(319)
344	Closing balance	**255**

Note 22: Long-term Debtors

As at 31 March 2025 £000		As at 31 March 2026 £000
385	Sub Debt Investment	385
177	Development loans	90
82	Other long-term debtors	142
644	**Total**	**617**

Note 23a: Short-term Debtors

As at 31 March 2025 £000		As at 31 March 2026 £000
7,124	Central Government Bodies	11,605
263	Other Local Authorities	550
455	NHS Bodies	1,205
1,206	Public Corporations and Trading Funds	1,125
13,980	Other Entities and Individuals	12,984
23,028	**Total**	**27,469**

Note 23b: Debtors for Local Taxation

Council Tax

As at 31 March 2025 £000		As at 31 March 2026 £000
469	1 year	544
666	2 to 5 years	719
287	More than 5 years	322
1,422	**Total**	**1,585**

NDR

As at 31 March 2025 £000		As at 31 March 2026 £000
412	1 year	468
553	2 to 5 years	670
53	More than 5 years	26
1,018	**Total**	**1,164**

Movements in impairment allowance

The Council has made an allowance for bad and doubtful debts. Debtor figures in the Balance Sheet are shown net of this allowance. The movement of the expected credit loss on the Council's Trade Receivables is shown in Note 19: Nature and Extent of Risks arising from Financial Instruments.

Note 24: Short-term Creditors

As at 31 March 2025 £000		As at 31 March 2026 £000
(4,494)	Central Government Bodies	(5,563)
(1,167)	Other Local Authorities	(2,066)
(443)	NHS Bodies	(391)
(856)	Public Corporations and Trading Funds	(902)
(21,280)	Other Entities and Individuals	(23,766)
(28,240)	**Total**	**(32,688)**

Note 25: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2024/25 £000	2025/26 £000	2024/25 £000	2025/26 £000	2024/25 £000	2025/26 £000	2024/25 £000	2025/26 £000
Balance at 1 April	**3,503**	**3,643**	**2,137**	**2,391**	**261**	**308**	**5,901**	**6,342**
Purchases	920	867	3,931	3,739	453	259	5,304	4,865
Recognised as an expense in the year	(769)	(817)	(3,641)	(3,824)	(406)	(367)	(4,816)	(5,008)
Balances written off	(11)	(140)	(36)	(1)	0	(29)	(47)	(170)
Balance at 31 March	**3,643**	**3,553**	**2,391**	**2,305**	**308**	**171**	**6,342**	**6,029**

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

Note 26: Provisions

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

There are two classes of provision – short and long term.

The Council recognises one long-term provision – asset decommissioning. Provisions for asset decommissioning costs reflect the Council's liability for restoration and ongoing maintenance in respect of the landfill site operated by the Council. These have been provided for based on the net present value of estimated future costs, which is expected to be incurred between 2026 and 2031.

The Council has made a provision of £0.107m to address a potential compensation event.

Long-term Provisions	Decomm-issioning £000	Total £000
Balance at 1 April 2025	**(818)**	**(818)**
Additional provisions made	(515)	(515)
Unwinding of discounting	(77)	(77)
Unused amounts reversed	0	0
Transfer to Short-term Provisions	526	526
Balance at 31 March 2026	**(884)**	**(884)**

Short-term Provisions	Decomm-issioning £000	Other Provisions £000	Total £000
Balance at 1 April 2025	**0**	**(137)**	**(137)**
Additional provisions made	0	0	0
Amounts used	0	30	30
Transfer from Long-term Provisions	(526)	0	(526)
Balance at 31 March 2026	**(526)**	**(107)**	**(633)**

Note 27: Leases

The Council as a Lessee

Right-of-use assets

The Council's lease contracts comprise leases of operational land and buildings, plant, equipment and vehicles. Most are individually immaterial; however, material leases include:

- The lease for the care homes owned by the Shetland Charitable Trust. The value of these right-of-use assets as at 31 March 2026 is £5.80m (2024/25 £6.06m); and
- The leases for seabed rentals from the Crown Estate. The value of these right-of-use assets as at 31 March 2026 is £3.88m (2024/25 £4.03m).

This table shows the change in the value of right-of-use assets held under leases by the Council:

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Opening Balance at 1 April 2025	**12,666**	**103**	**12,769**
Additions	461	7	468
Revaluations	25	0	25
Depreciation & Amortisation	(1,112)	(62)	(1,174)
Disposals	0	(23)	(23)
Balance at 31 March 2026	**12,040**	**25**	**12,065**

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Opening Balance at 1 April 2024	**0**	**0**	**0**
IFRS 16 Transition Additions	10,690	53	10,743
IFRS 16 Transition Valuations	2,932	0	2,932
Revised Opening Balance at 1 April 2024	**13,622**	**53**	**13,675**
Additions	117	68	185
Revaluations	0	0	0
Depreciation & Amortisation	(1,073)	(18)	(1,091)
Disposals	0	0	0
Balance at 31 March 2025	**12,666**	**103**	**12,769**

The Council incurred the following expenses and cash flows in relation to leases:

As at 31 March 2025 £000		As at 31 March 2026 £000
	Comprehensive income and expenditure statement	
256	Interest expense on lease liabilities	243
219	Expense relating to short-term leases	201
94	Expense relating to exempt leases of low-value items	42
	Cashflow statement	
1,247	Minimum lease payments	1,160

The lease liabilities are due to be settled over the following time bands (measured at the undiscounted amounts of expected cash payments):

As at 31 March 2025 £000		As at 31 March 2026 £000
863	Less than one year	757
1,584	One to five years	1,472
5,604	More than five years	5,352
8,051	**Total undiscounted liabilities**	**7,581**

The Council as a lessor

Operating Leases

The Council leases out land and property under operating leases. The Council received the following income as a lessor during the year:

As at 31 March 2025 (Restated) £000		As at 31 March 2026 £000
(1,477)	Lease income	(550)
(1,477)	Total	(550)

The lease receivables are due to be collected over the following time bands (measured at the undiscounted amounts of expected cash receipts):

As at 31 March 2025 (Restated) £000		As at 31 March 2026 £000
(1,312)	Less than one year	(455)
(4,138)	One to five years	(1,428)
(4,496)	More than 5 years	(839)
(9,946)	Total	(2,722)

Note 28: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

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

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

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

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

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

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

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

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

The McCloud Judgement

When the LGPS changed from a final salary to a career average scheme in 2015, older members were protected from the changes.

In 2018, the courts found that younger members had been discriminated against because the protection did not apply to them. Changes were made form 1 October 2023 to remove the discrimination, these changes are called the McCloud remedy.

Work is continuing on the relatively small number of historic adjustments that require to be made.

Our Pension Fund actuary, Hymans Robertson LLP, made an allowance for the cost of these potential improvements based on the guidance issued by the Scottish Public Pensions Agency on 28 April 2023, when compiling the 2023 Pension Fund Valuation Report.

No extra adjustments to the financial statements have been made in 2025/26 in respect of the McCloud Judgement.

The Goodwin Case

The Goodwin ruling found that male survivors of opposite-sex marriages and civil partnerships were treated less favourably than survivors in same-sex relationships when receiving pension benefits. This amounted to direct sexual-orientation discrimination. As a result, public service pension schemes — including LGPS Scotland, required their rules to be changed. Changes to the LGPS were announced in April 2022 to address this discrimination.

Recent system changes allowed us to identify the few members that were affected. Calculations still require to be performed and benefits already in payment will be backdated, with the appropriate interest added to them. There is insufficient data available to estimate reliably the impact this will have on scheme liabilities however the impact is thought to be minimal.

GMP Equalisation

Following a High Court ruling from October 2016, all defined benefit pension schemes must equalise guaranteed minimum pension (GMP) for men and women.

For the LGPS Scotland, this means:

- GMPs built up between 1990 and 1997 must be adjusted so that male and female members receive equal overall benefits, even though GMP rules themselves differ by sex.
- The ruling requires schemes to remove the inequality caused by different GMP accrual rates and state pension age differences.
- Public service schemes, including LGPS Scotland, must apply a method of GMP indexation and conversion to ensure members are not disadvantaged because of their sex.
- From October 2016, the UK Government confirmed that public service schemes would fully index GMPs for members reaching State Pension Age from that date, effectively delivering equalisation through ongoing indexation.

The liability for full indexation of GMPs for LGPS members reaching State Pension was built into both the 2020 and 2023 valuation. Advice is still awaited on how past cases require to be addressed but no explicit allowance was made at the 2023 valuation.

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the CIES and the General Fund via the Movement in Reserves Statement during the yearThe amount included in the Balance Sheet arising from the Council's obligation in respect of the Pension Fund is detailed in the table below.

For the current financial year, the overall pension asset of £239.8m as per the actuarial valuation, has been disaggregated to distinguish between funded and unfunded obligations. The net asset position relating to funded obligations of £258.6m has been adjusted for the asset ceiling calculation required by IAS19 / IFRIC14 which limits the measurement of a net defined benefit scheme. There are no unconditional rights to reduced contributions or refunds from the scheme, therefore an asset ceiling has been calculated to bring the net value to £0. The net liability position reflected in the table below relates to the unfunded obligations of £18.8m.

2024/25 £000		2025/26 £000
(493,942)	Present value of the defined benefit obligation	(509,366)
665,662	Fair value of assets in the Local Government Pension Scheme	749,179
(190,812)	Asset ceiling calculation	(258,603)
(19,092)	**Net liability arising from Defined Benefit Obligation**	**(18,790)**
190,812	Local Government Pension Scheme	258,603
(190,812)	Remeasurement of Net Defined Benefit Asset	(258,603)
(9,165)	Unfunded liabilities for Pension Fund	(9,125)
(9,927)	Unfunded liabilities for Teachers	(9,665)
(19,092)	**Total**	**(18,790)**

Assets and Liabilities in relation to Post-Employment Benefits

2024/25 £000	Local Government Pension Scheme	2025/26 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
17,035	Current service cost	13,605
29	Past service cost (including curtailments)	216
	Financing and Investment Income and Expenditure:	
1,067	Net interest expense	973
18,131	**Total pension benefit charged to the Surplus/Deficit on the Provision of Services**	**14,794**
	Other pension benefit charged to the CIES	
(18,804)	Return on plan assets (excluding the amount included in the net interest expense)	40,811
916	Actuarial (gains) and losses arising from changes in demographic assumptions	(2,996)
88,525	Actuarial (gains) and losses arising on changes in financial assumptions	20,454
5,851	Actuarial (gains) and losses arising from other experience	(4,599)
(72,596)	Remeasurement of Net Defined Benefit Asset	(56,732)
22,023	**Total pension benefit charged to the CIES**	**11,732**
	Movement in Reserves Statement	
(1,046)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	3,364
17,085	Employer's contributions and direct payments to pensioners payable in the year	18,158

Reconciliation of fair value of the Scheme assets:

2024/25 £000		2025/26 £000
650,428	**Opening balance**	**665,662**
31,582	Interest income	38,723
	Re-measurement gains and (losses):	
(18,804)	Return on assets excluding amounts included in net interest	40,811
0	Other Experience	0
17,085	Employer contributions	18,158
4,947	Contributions by scheme participants	5,302
(19,576)	Benefits paid	(19,477)
665,662	**Closing balance**	**749,179**

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

2024/25 £000		2025/26 £000
559,618	**Opening balance**	**493,942**
17,035	Current service cost	13,605
29	Past Service cost	216
27,181	Interest cost	28,637
4,947	Contributions by scheme participants	5,302
	Remeasurement (gains) and losses:	
(916)	Actuarial (gains) and losses from changes in demographic assumptions	2,996
(88,525)	Actuarial (gains) and losses from changes in financial assumptions	(20,454)
(5,851)	Actuarial (gains) and losses from other experience	4,599
(19,576)	Benefits paid	(19,477)
493,942	**Closing balance**	**509,366**

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2026 comprised:

2024/25 £000	Quoted Prices not in Active Markets	2025/26 £000
8,504	**Cash and cash equivalents**	**2,677**
	Property:	
46,196	UK property	31,260
0	Overseas property	0
46,196	**Sub-total Property**	**31,260**
	Investment Funds and Unit Trusts:	
516,757	Equities	514,737
0	Bonds	0
58,661	Other	151,958
575,418	**Sub-total Investment Funds and Unit Trusts**	**666,695**
	Debt Securities:	
35,544	Other	48,547
665,662	**Total Assets**	**749,179**

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 2026.

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

The principal assumptions used by the actuary have been:

2024/25		2025/26
	Long-term expected rate of return on assets in the Scheme:	
4.7%	Investment Funds and Unit Trusts	5.2%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
20.7	Men	21.1
23.3	Women	23.4
	Longevity at 65 for future pensioners (in years):	
21.9	Men	22.2
25.2	Women	25.3
3.1%	Rate of inflation	3.3%
2.8%	Rate of increase in salaries	3.0%
2.8%	Rate of increase in pensions	3.0%
5.8%	Rate for discounting scheme liabilities	6.3%
50.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.0%
75.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.0%

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

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

Impact of changes in assumptions	2025/26	
	%	£000
0.1% decrease in real discount rate	2.0%	8,558
0.1% increase in the salary increase rate	0.0%	566
0.1% increase in the pension increase rate	2.0%	7,994

Impact on the Council's Cash flows

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

The Pension Fund was subject to a formal statutory valuation during as at 31 March 2023. The valuation revealed that the Fund had £660m of assets and £550m of liabilities at 31 March 2023, leaving an overall pension surplus of £110m. The reported funding level of the Fund is 120%. This compares positively to the previous valuation undertaken in 2020, when the Fund had a deficit of £37m and reported funding level of 92%.

The improved funding position is due to a combination of different factors. In summary, the Fund's assets have increased from £461m to £660m and liabilities have increased from £498m to £550m since 2020. The valuation uses a variety of assumptions and different factors affect the Fund's assets and liabilities in different ways. Investment performance in the last 3 years has exceeded Pension Fund's expectations.

Each participating employer's contribution requirements have been determined following the valuation, with the aim of each employer achieving fully funded position within agreed parameters in terms of time horizon and probability. The methodology and assumptions used to derive employer contributions are set out in the Pension Fund's Funding Strategy Statement (FSS) (appendix 2).

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. Shetland Islands Council pool rate was set at 26.3% for 2024/25. The three years set out in the latest triennial valuation as at 31 March 2023 are as follows:

- 2024/25 19.0%
- 2025/26 19.0%
- 2026/27 19.0%

Further detail, including the employer contribution rates for other participating employers is contained in the Actuarial Valuation Report (appendix 1), which was approved by the Pension Fund Committee on 12 March 2024.

The actuary has estimated the total amount of contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2027 at £16.360m.

The assumed weighted average duration of the defined benefit obligation is 18 years.

Further Information

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The Pension Fund's Unaudited Annual Report and Accounts for 2025/26 was presented to the Pension Fund Committee and Pension Board on 22 June 2026.

Note 29: Pension Schemes Accounted for as Defined Contribution Schemes

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

(a) The Shetland Islands Council participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is finance by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The valuation carried out as at 31 March 2020 confirmed that an increase in the employer contribution rate from 22.4% to 26.0% will be required from 1 April 2024 to 31 March 2027. In addition, member pension contributions since 1 April 2024 have been paid within a range of 7.35% to 12.14% and have been anticipated to deliver a yield of 9.6%.

(b) The Shetland Islands Council has no liability for other employers' obligations to the multi-employer scheme.

(c) As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

(d)

(i) The scheme is an unfunded multi-employer defined benefit scheme

(ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Shetland Islands Council is unable to identify its share of the underlying assets and liabilities of the scheme.

(iii) The employer contribution rate for the period from 1 April 2025 is 26% of pensionable pay.

The employee rate applied is variable and is anticipated to provide a yield of 9.6% of pensionable pay.

(iv) While a valuation was carried out as at 31 March 2016, work on the cost control element of that valuation was suspended by the UK Government following the Court of Appeal judgments in the McCloud (Judiciary scheme) and Sargeant (Firefighters' scheme) cases, which found that the transitional protections introduced as part of the 2015 reforms unlawfully discriminated on the grounds of age. Following consultation and the introduction of statutory measures to remedy the discrimination, the UK Government confirmed that the cost control element of the 2016 valuations could be completed. In parallel, the Government Actuary was asked to review whether, and to what extent, the employer cost cap mechanism continues to meet its original policy objectives. The findings of that review were taken into account in the completion of the 2020 actuarial valuations, which were substantially delayed as a result of the McCloud remedy and wider economic changes. Employer contribution rates were implemented from 1 April 2024 following the completion of the 2020 valuations and will remain in force pending the outcome of the current 2024 valuation cycle, which is now underway.

(v) Shetland Islands Council's level of participation in the scheme is 0.58% based on the proportion of employer contributions paid in 2025-26.

In 2025/26, the Council paid £5.2m to the SPPA in respect of teachers' pension costs, representing 26% of pensionable pay for 2025/26 (£5.1m and 26% for 2024/25). There were no contributions remaining payable at the year-end.

The estimated contribution for 2026/27 is £5.5m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2025/26 these amounted to £0.9m, representing 4.72% of teachers' pensionable pay (£1.0m and 4.92% for 2024/25). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligations.

Note 30: External Audit Costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice were as follows:

2024/25 £000		2025/26 £000
274	Fees payable with regard to external audit services carried out by the appointed auditor for the year	286
0	Additional audit fee for 2024/25	2
274	**Total**	**288**

Note 31: Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2025/26 the Council collected £26.6m (£27.5m 2024/25) and received £26.5m (£27.3m 2024/25) contribution from the National Non-Domestic Rates pool.

The Council is required by legislation to provide a collection service for Scottish Water, involving the collection of £4.5m (£4.1m 2024/25) of Scottish Water charges. The legislation stipulates a minimum amount that Scottish Water must pay in commission for this service. The Council received £0.1m in 2025/26 for providing this service (£0.1m in 2024/25).

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 sets out the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government and Other Public Bodies

The Scottish Government has significant influence over the general operations of the Council because it:

- is responsible for providing the statutory framework within which the Council operates,
- provides the majority of its funding in the form of grants, and,
- prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits).

Details of all grants received from the Scottish Government, Central Government and other public bodies can be found in Note 11: Grant Income.

Elected Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, which is open to public inspection at the Office Headquarters, 8 North Ness, Lerwick, during office hours. It is also available to view on the Council's website at www.shetland.gov.uk. The Register contains details of external bodies which are represented by Elected Members and/or for which they have declared an interest. The Council made payments totalling £1.5m in 2025/26 (£1.9m in 2024/25) to these bodies. At 31 March 2026 £0.3m was outstanding (£0.2m outstanding at 31 March 2025). The Council received receipts totalling £4.7m in 2025/26 (£4.9m in 2024/25) from these bodies. At 31 March 2026 £0.2m was outstanding (£0.8m at 31 March 2025).

Officers

There were no material related party transactions in 2025/26 (nil in 2024/25).

Local Government Pension Scheme

The Council is the administering authority for the Shetland Islands Council Pension Fund, for which the Council charged the Pension Fund £0.8m for this service (£0.5m in 2024/25).

During the year, the Council paid £18.2m of employer contributions for current and former employees to the Pension Fund as detailed in Note 28: Defined Benefit Pension Schemes (£17.0m in 2024/25).

Group Entities

The Council is deemed to have significant influence or control over the following Joint Boards and Regional Transport Partnership:

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

- OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils:

- ZetTrans is a Regional Transport Partnership set up to deliver transport services for Shetland. It is an associate of the Council, who provides deficit funding as the sole funding member of the partnership.

The following table shows the financial transactions with these entities.

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

	2024/25			2025/26		
	Receipts (Restated) £000	Payments (Restated) £000	Debtor / (Creditor) £000	Receipts £000	Payments £000	Debtor / (Creditor) £000
Shetland Islands Integration Joint Board	39,520	38,258	(767)	43,158	41,891	(649)
Orkney & Shetland Valuation Joint Board	0	484	11	31	542	0
Zetland Transport Partnership	0	4,656	(55)	0	5,038	(223)

Note 33: Capital Expenditure and Capital Financing

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

2024/25 £000		2025/26 £000
87,108	**Opening Capital Financing Requirement**	**90,892**
4,330	Adjustment on transition to new accounting arrangements for leases	0
91,438	**Revised Opening Capital Financing requirement**	**90,892**
	Capital investment:	
26,231	Property, plant and equipment	48,879
84	Intangible assets	(1)
	Sources of finance:	
(1,808)	Capital receipts	(1,037)
(7,409)	Government grants and other contributions	(33,993)
(3,452)	Funding from reserves	(5,446)
	Sums set aside from revenue:	
(9,652)	Direct revenue contributions	(4,877)
(50)	Internal borrowing principal repayment	(50)
(2,354)	Loans fund principal repayments	(2,356)
(62)	Lease principal repayments	(64)
(578)	Right of Use Lease principal repayments	(592)
(1,496)	PFI contract principal repayments	(1,652)
90,892	**Closing Capital Financing Requirement**	**89,703**
	Explanation of movements in year:	
(2,404)	Increase/(decrease) in underlying need to borrow	(185)
(62)	Assets acquired under finance leases	(64)
2,312	Assets acquired under PFI contracts	(1,306)
0	Assets acquired under Decommissioning Obligations	515
0	Assets acquired under Contract Liability	0
(392)	Assets acquired under Right of Use leases	(149)
(546)	**Decrease in Capital Financing Requirement**	**(1,189)**

Note 34: Contingent Assets

The Council has Section 96 agreements in place with Viking Energy whereby, subject to certain applicable assessment criteria, they will meet extraordinary expenses in repairing certain prescribed parts of Shetland's road network damaged or affected to a defined degree by heavy vehicles used in connection with the wind farm's construction. The work required to calculate the relevant deterioration in road condition and the value to be recovered by the Council has been completed and discussions with Viking Energy are due to take place during 2026/27.

Note 35: Contingent Liabilities

The Council has an Insurance Fund to manage insurable risks. Where the actual cost and timing of any claims cannot be estimated with reasonable accuracy, no specific provision has been made in the financial statements in respect of such claims.

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

Note 36: Trust Funds administered by the Council

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

The Bare Trust was set up following the cessation of the Shetland Development Trust to hold a number of loans and equity investments, which were not considered cost effective to transfer to the Council. All assets and income arising from the Bare Trust are paid or delivered to the Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees. As at 31 March 2026, the remaining assets held by the Bare Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2025/26, the ZET received receipts of £0.04m (£0.04m 2024/25) and made payments of £0.03m (£0.02m 2024/25).

The other trusts are essentially dormant due to their low annual income. The accounts of ZET can be found on the Council's website at: https://www.shetland.gov.uk/about_finances/.

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

As at 31 March 2025 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2026 £000
(551)	Bare Trust	0	0	(571)	(571)
(655)	Zetland Educational Trust	(36)	(614)	0	(650)
(3)	Others	(3)	0	0	(3)
(1,209)	**Total**	**(39)**	**(614)**	**(571)**	**(1,224)**

Note 37: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 30 June 2026. 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 2026, the figures in the financial statements and notes to the accounts have been adjusted in all material respects to reflect the impact of this information.

Note 38: Group Interests

Introduction

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

Group Boundary

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

Subsidiaries

The Code defines a subsidiary as an entity that is controlled by another entity. The Zetland Educational Trust (ZET) and Shetland Mid-Market Homes LLP meet the definition of a subsidiary.

Zetland Educational Trust

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

2024/25 £000	Zetland Educational Trust	2025/26 £000
(38)	Gross Income	(36)
24	Gross Expenditure	32
(14)	**Net Deficit/(Surplus)**	**(4)**
31	Current Assets	36
624	Investments	614
655	**Net Assets**	**650**

Shetland Mid-Market Homes LLP

Established in 2025 by the Council and the Scottish Futures Trust to manage new build properties for mid-market rent which do not form part of the Housing Revenue Account. The LLP's first accounting period runs until 2026/27 and consequently no audited financial statements are available at 31 March 2026. Based on forecast financial information for the LLP, the Council has assessed its interest for group accounts purposes and concluded that the entity is not material to the Group.

Joint Ventures

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

Integration Joint Board

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

The Council contributed 48.6% of the Board's operating costs in 2025/26 (47.6% in 2024/25). It has three out of six voting members on the board.

The Council's share of the net surplus of the IJB was £0.8m as at 31 March 2026 (£0.4m at 31 March 2025), which is considered not material for consolidation in group accounts.

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

2024/25 £000	Integration Joint Board	2025/26 £000
(38,794)	Gross Income	(42,063)
38,824	Gross Expenditure	41,752
30	**Net Deficit/(Surplus)**	**(311)**
444	Current Assets	755
0	Current Liabilities	0
444	**Net Assets**	**755**

Associates

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

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

Orkney & Shetland Valuation Joint Board (O&SVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2025/26, the Council held five Board places out of ten and contributed 49.7% of the Board's operating costs (49.3% in 2024/25).

The Council's share of the year-end net liability is £0.16m as at 31 March 2026 (£0.16m at 31 March 2025), which is considered not material for consolidation in group accounts.

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

2024/25 £000	Orkney and Shetland Valuation Joint Board	2025/26 £000
(544)	Gross Income	(600)
542	Gross Expenditure	551
(2)	**Net Deficit/(Surplus)**	**(49)**
7	Non-current Assets	1
24	Current Assets	18
(47)	Current Liabilities	(37)
(64)	Non-current Liabilities	(69)
80	Capital and Reserves	87
0	**Net Assets**	**0**

Zetland Transport Partnership

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

The Council contributed 100% of the Partnership's operating costs in 2025/26 (96% in 2024/25) and holds four out of six seats on the Partnership. The Council's share of the net asset is £0.07m at 31 March 2026 (£0.07m at 31 March 2025) and is therefore considered immaterial for consolidation in group accounts.
The table below details Shetland Islands Council's share of ZetTrans financial results for the year:

2024/25 £000	Zetland Transport Partnership	2025/26 £000
(3,853)	Gross Income	(4,151)
3,896	Gross Expenditure	4,172
43	**Net Deficit/(Surplus)**	**21**
73	Non-current Assets	52
175	Current Assets	251
(175)	Current Liabilities	(251)
(73)	Capital and Reserves	(52)
0	**Net Assets**	**0**

Note 39: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2025/26 financial year and its position at the year-end of 31 March 2026. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

The Council will disclose material accounting policy information to aid reader's understanding and interpretation of the information presented in the financial statements. Information is considered to be material if it might influence the decisions users make based on financial information about the Council. If immaterial items are included, they can interfere with decision making, because excessive detail may obscure the relevant information. Some items may qualify as material by nature or context regardless of their size.

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

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

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

Where a change is made, it is applied retrospectively (unless not material or stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Exceptionally, the 2025/26 Code provides that changes to the valuation of non-investment assets as set out in the Code will be applied prospectively, with no restatement of prior year figures.

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

C Accruals of Income and Expenditure

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

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- supplies are recorded as expenditure when they are consumed, but where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

  interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

D Cash and Cash Equivalents

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

E Charges to Revenue for Non-Current Assets

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

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

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

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

F Employee Benefits

Benefits payable during employment

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

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

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.
The pension fund assets attributable to the Council are included in the Balance Sheet at their fair value:

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked;

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

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

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

Discretionary benefits

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

G Financial Instruments

Financial liabilities

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

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

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

Financial assets

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

- amortised cost
- fair value through profit or loss (FVPL), and

- fair value through other comprehensive income (FVOCI)

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

Amortised Cost

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

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

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the borrowing organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.
Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

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

Fair Value through Profit or Loss (FVPL)

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

Fair Value measurements of financial assets

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

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

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

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

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

The Council invests through four Fund Managers, Baillie Gifford, Blackrock, Partners and IFM. 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 Baillie Gifford and Blackrock's equity investments receive and record income, which is reinvested into their unitised funds.
- Income from Partners closed end direct lending fund is paid back to the Council apart from that which is used to cover their management fees. Income from Partners open ended direct lending fund is reinvested into the fund and used to cover management fees.
- IFM's infrastructure equity fund receives and records income which is reinvested into their fund and used to cover management fees.

H Foreign Currency Translation

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

I Government Grants and Contributions

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

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

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

J Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical significance. Heritage assets include historical buildings and the museum collection.
Heritage assets are recognised on the Balance Sheet where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Balance Sheet.

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

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

Historical buildings

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

Museum collection

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

K 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.

From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations for intangible assets. The option to measure intangible assets using the revaluation model has been withdrawn, and the carrying values at the 1 April 2025 are now considered historical cost.

Intangible assets are measured initially at cost. Thereafter they are carried at cost less accumulated depreciation and any accumulated impairment loss. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines in the CIES.

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

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

L Inventories and Long-term Contracts

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

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

M Investment Property

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

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

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

N Leases

The Council as lessee

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

Initial measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The Council initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- Fixed payments, including in-substance fixed payments:
- Variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption rate:
- Amounts expected to be payable under a residual value guarantee:
- The exercise price under a purchase option that the Council is reasonably certain to exercise:
- Lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option:
- Penalties for early termination of a lease, unless the Council is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent measurement

The right-of-use asset is subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for:

- Assets held under non-commercial leases:
- Leases where the rent reviews do not necessarily reflect market conditions:
- Leases with terms of more than five years that do not have any provisions for rent reviews:
- Leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The lease liability is remeasured when:

- There is a change in future lease payments arising from a change in index or rate:
- The Council changes its assessment of whether it will exercise a purchase, extension or termination option: or
- There is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the CIES.

Low value and short lease exemption

As permitted by the Code, the Council excludes leases:

- For low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items; and
- With a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the Council is reasonably certain to exercise and any termination options that the Council is reasonably certain not to exercise).

Lease expenditure

Expenditure in the CIES includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current 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.

The Council as lessor

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

Finance leases

The Council does not have any finance leases as lessor.

Operating leases

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 other operating expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease or where this is initiated by a service to the individual service, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). 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.

O 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, community assets and assets under construction – in this and predecessor Codes these assets have been consistently required to be measured at depreciated historical cost, but this practice has been subject to modification. The Code provides a historical summary of the modifications to historical costs and sets out how the depreciated historical cost basis of measurement has been established:
- surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective:
- council dwellings are held at current value, determined using the basis of existing use value for social housing: and
- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

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

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

From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations of property, plant and equipment. Assets included in the Balance Sheet at current value are revalued every five years, with annual indexation applied to assets during the four intervening years. Where the Council cannot obtain indices without undue cost or effort, the Council revalues those assets using a quinquennial revaluation, with a desktop revaluation in year three.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to a service.

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

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

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

Impairment

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

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

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

Depreciation

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

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

- council dwellings: 30 years
- other land and buildings: 2 - 88 years
- vehicles, plant, furniture and equipment: 1 - 50 years
- infrastructure: 5 - 60 years

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

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

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

P Fair Value Measurement

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

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

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

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

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

Q Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the CIES:
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES:

- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and

- lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are carried out.

R Provisions, Contingent Assets and Contingent Liabilities

Provisions

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

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

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

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

Contingent Assets

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

Contingent Liabilities

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

- an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council; or

- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

S Reserves

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

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

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

T 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.