

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2001/02

2001/02 Abstract of Accounts

1 EXPLANATORY FOREWORD

1.1 Introduction

1.1.1 The Council's accounts for the year ended 31st March 2002 have been prepared to comply with statutory requirements and also with reference to the Code of Practice on Local Authority Accounting in the United Kingdom 2000.

1.2 Explanation of statements which follow, their purpose and relationships

1.2.1 The following statements are contained in this Abstract of Accounts:

2. Statement of Accounting Policies

This statement explains the basis of the figures in the accounts, with particular reference to the treatment applied where more than one approach is possible.

3. Consolidated Revenue Account

This statement reports the net cost for the year of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and local taxation.

The statement consolidates the income and expenditure in all other statements in this abstract with the exception of the Pension Fund and other Trust Funds.

The net cost of services was £85.1 million.

4. Consolidated Balance Sheet

This statement shows the balances and reserves at the disposal of the Council at the year end. It also shows the Council's long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

The Consolidated Balance Sheet includes the year end position of all funds covered in this abstract with the exception of the Pension Fund and other Trust Funds.

5. Total Movement in Reserves

This statement of total movements in reserves brings together all the recognised gains and losses of the Council during the year, and identifies those which have and have not been recognised in the Consolidated Revenue Account. It also separates these movements between the revenue and capital reserves of the Council.

6.Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. It excludes the Pension Fund and other Trust Funds, apart from cash transfers between the Pension Fund and other Council funds.

7.Housing Revenue Account

The Housing Revenue Account shows the major elements of expenditure relating to Council housing, which include maintenance, administration, rent rebates and capital financing costs. The statement also shows how this expenditure is met by Council house rents, Housing Support Grant and other forms of income.

8.DLO/DSO Accounts

The DLO/DSO Accounts meet the statutory obligation to account separately for the income and expenditure of Direct Labour Organisations/Direct Service Organisations.

9.Council Tax Income Account

The Council Tax Account shows the net income raised from Council taxes levied under the Local Government Finance Act 1992.

10.Non-Domestic Rate Income Account

The Non-Domestic Rate Income Account shows the income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property.

11.Pension Fund Account

This statement gives a stewardship report on the financial transactions of the Pension Fund during the year, and the disposition of its assets at the year end

12.Responsibilities for the Statements of Accounts

This statement sets out the respective responsibilities of the Council and the Head of Finance for the accounts of the authority.

1.3 Overall comparison of expenditure with budget

- 1.3.1 The General Fund expenditure came in under budget. The budgeted contributions from the Capital Fund and Repairs and Renewals Fund were not required, partly due to the unbudgeted income from the DLO Reserve Fund and the DLO/DSO surpluses. The overall effect was a General Fund surplus for the year of £5.3m, giving a revenue balance in hand of £16.9m.
- 1.3.2 The Housing Revenue Accounts gross expenditure was £1.3 million under budget, due mainly to lower loan charges. This meant that the contribution from the Housing Repairs and Renewals Fund was much less than anticipated.
- 1.3.3 Harbour Account income was £0.5 million less than budget and expenditure was £0.2 million greater than budget. This resulted in transfers to/from reserves being over budget.
- 1.3.4 The Council's DLOs and DSOs had another satisfactory year.

1.4 **Material assets acquired or liabilities incurred**

- 1.4.1 The most significant major capital work during 2001/02 occurred with the building of a new inter island ferry for Whalsay.
- 1.4.2 Other significant capital works were on the new Library in Lerwick and the A970 road at Northmavine.

1.5 **Explanation of unusual material items**

- 1.5.1 There are no unusual material items.

1.6 **Comment on planned future developments, including a summary of revenue and capital investment plans.**

- 1.6.1 The Council has reaffirmed its commitment to work towards its long-term financial policies of achieving:
- 1.6.1.1 a self-sustaining Capital Fund ;
- 1.6.1.2 a self-sustaining Repairs and Renewals Fund;
- 1.6.1.3 a self-sustaining Reserve Fund;
- 1.6.1.4 a standstill budget for the General Fund and of increasing the property Band D Council Tax charge by the estimated average percentage increase throughout Scotland, plus £33.

1.7 **Current borrowing facilities, actual borrowings, major financing transactions during the year**

1.7.1 The Council continued its Treasury Management policy in 2001/02 which consists of:

1.7.1.1 continuing to have external management arrangements for all major funds;

1.7.1.2 extending the maturity of its external borrowings within approved policy limits to take advantage of low interest rates;

1.7.1.3 operating to a stringent set of borrowing and lending guidelines.

1.7.2 Within the Treasury Management policy, the Council has borrowed to finance its Housing Revenue Account from either external sources or from internal funds and balances. No new external borrowing was made during the year and external repayments amounted to £3.6m.

1.7.3 During 1998/99 the Council conducted a tendering exercise with the result that a new banking contract was awarded to the Bank of Scotland from April 1999. The contract is for a period of five years and provides current overdraft facilities of £0.8m.

1.7.4 Major fixed asset acquisitions are mentioned in note 1.4. Major disposals during 2001/02 occurred on Council house sales, MV Linga ferry and North Atlantic Fisheries College (NAFC).

1.8 **Summary of Council internal and external sources of funds**

1.8.1 The Council has prudently built up extensive reserves to meet future financial requirements, the main examples being the Capital Fund, Repairs and Renewals Fund, and the Reserve Fund, which have a combined Balance Sheet value at 31 March 2002 of £317 million (£289 million at 31 March 2001). The Council intends to preserve the value of these funds so far as is possible, so only the earnings on their investment are available to meet annual outgoings.

1.8.2 External sources of funds include the various forms of capital and revenue grant assistance available from the U.K. Government and the European Union, which provided some £63.7 million in cash in 2001/02. There is also a contribution from the National Non-Domestic Rates Pool of £6.9 million, but this is more than offset by the local contribution into that Pool of £13.0 million.

1.8.3 The remaining sources of Council funding are the charges levied locally, which include the various Council Taxes, rents, and a wide variety of charges for goods and services provided by the Council.

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2 STATEMENT OF ACCOUNTING POLICIES

2.1 Introduction

2.1.1 The accounting policies presented below apply to all statements in this abstract, bar the Pension Fund which has a separate statement of accounting policies.

2.2 Debtors and creditors

2.2.1 All known and determinable amounts due to the Council have been brought into account. This is effected by taking into account all invoices raised by 4 April 2002, which relate to 2001/02, and accruing all other known material amounts not raised by that date which relate to 2001/02.

2.2.2 All known material amounts due by the Council have been brought into account. This is effected by taking into account payments made by 15 April 2002, which relate to 2001/02, and accruing other known material amounts not paid by that date which relate to 2001/02.

2.3 Administration and the treatment of overheads

2.3.1 The net cost of support services administration has been allocated in full to all their users, including services delivered to the public. Support services costs comprise all the costs of all central departmental headquarters, including all staff, office and central service costs (e.g. telephones, messenger service).

2.3.2 The costs of service management (i.e. the costs of service department headquarters) are also allocated in full, in their case to the activities and services managed by these departments.

2.3.3 Allocations, or recharges, are primarily based on estimates of staff time. There are exceptions, however. Telephone recharges are based on usage and number of extensions. The messenger service is recharged on the number of calls made. And computer operations are recharged on the basis of machine time utilised.

2.3.4 The costs of service strategy and regulation are recharged to the relevant services. The costs of the corporate and democratic core of the Council, and of unapportionable central overheads, are recharged to a separate General Fund account. They are not recharged from the General Fund to other funds of the Council.

2.4 **Capital charges**

2.4.1 The Code of Practice on Local Authority Accounting requires service revenue accounts to be charged with a capital charge for all fixed assets used in the provision of each service. As a minimum such charges should cover the annual depreciation of an asset, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the Balance Sheet. Exemptions to this general treatment have been applied to the Housing Revenue Account and the Harbour Accounts, as set out below.

2.4.1.1 **Redemption of debt and loan charges**

For the Housing Revenue Account the capital charges are repayments to the Loans Fund on advances made to finance capital expenditure, together with a charge for interest and Loans Fund management expenses. The annual repayments of principal are calculated on a straight line basis, written off over the estimated lifetime of the assets concerned. The Loans Fund interest is charged at an average rate over the year and expenses are charged proportionally on the outstanding debt.

Harbour Account capital charges are in the form of revenue contributions to finance capital expenditure in the year incurred. This treatment does not comply with the Code of Practice.

2.4.1.2 **Asset Rentals**

As mentioned, all funds other than the Housing Revenue Account and the Harbour Account require to carry a charge to the revenue accounts for all fixed assets used in the provision of a service.

The Council has changed its policy on the depreciation of assets to comply with the Code of Practice. Depreciation is now provided on all assets with a finite useful life. Depreciation is not normally charged on freehold land or on non-operational investment properties.

The capital charges to the service revenue accounts have therefore been calculated at 6% of their value (for assets carried at current value on the Balance Sheet) and (for assets carried at historical cost) the asset rental has been calculated at 6% of value.

2.5 **Fixed assets**

2.5.1 The major change between the 2000/01 Balance Sheet entries and the 2001/02 figures is to make amendments to the valuations to take account of acquisitions and disposals during the year, up to date valuations and the inclusion of some minor assets omitted from previous year's figures.

2.5.2 All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This includes assets acquired under finance leases which have been capitalised and included in the balance sheet on the basis of the outstanding obligation to make future rental payments.

2.5.3 Operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value..

2.6 **Valuation Disclosure**

2.6.1 Except where noted below, most of the Council's properties were valued over a four month period from January 2002 to April 2002, and the effective date for the valuation was 31 March 2002. However, for properties below the de minimis level of £40,000, the effective date for valuation remains at 1 April 1994 and these will be updated on a rolling programme of revaluations. Where existing values have a valuation date later than 1 April 1994 these will be updated at the expiry of 5 years from that valuation date as part of the rolling programme.

2.6.2 Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. Non-operational properties were valued by reference to their open market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions.

2.6.3 Full details of the valuation of each property are contained in Valuation Certificates which form the basis for the summary information in these accounts.

2.6.4 The properties were valued by Alan Rolfe ARICS of the Property Services Section of the Council's Legal and Property Services Division.

2.7 **Valuation of other assets**

2.7.1 **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at cost.

2.7.2 **Investments**

All investments are shown at book cost, with allowances made for income due at the 31 March but not received by that date.

2.8 **Provisions**

2.8.1 The Council has made provision, where necessary, for bad and doubtful debts in respect of miscellaneous debtors, rate debtors, community charge debtors, council tax debtors and Housing Revenue Account debtors.

2.8.2 As at 31 March 2002 General Fund provisions for bad debt amounted to £498,000 (£562,000 as at 31 March 2001), and for the Housing Revenue Account amounted to £104,000 (£103,000 as at 31 March 2001).

2.8.3 During the course of 2001/02 £102,000 of bad debts were written off against the General Fund bad debt provision (£896,000 in 2000/01) and £32,000 against the Housing Revenue Account provision (£84,000 in 2000/01).

2.9 **Deferred charges**

2.9.1 The items treated as deferred charges in these statements are capital grants which do not create a fixed asset for the Council. The movements in 2001/02 are shown in a note to the Consolidated Balance Sheet.

2.9.2 Deferred charges are funded from revenue or reserves in the year expenditure is incurred, in accordance with the Council's overall debt repayment policy.

2.10 **Capital receipts**

2.10.1 Capital receipts are treated as capital income and have been applied in accordance with the Council policy on debt redemption on all funds.

2.10.2 All long term debtors on the Balance Sheet have been financed by the Capital Fund, creating a Deferred Capital Receipt. This means that when the debts are paid then the proceeds can be credited to the Capital Receipts Reserve, providing the potential for more flexible use than applies to the Capital Fund.

2.11 **Grants**

2.11.1 Revenue grants are treated as revenue income and credited to revenue in the year received, with adjustment by accrual at the year end in accordance with the principle of matching income to the year to which it is properly attributable.

2.11.2 Capital grants are treated as capital income and have been credited to the Government grants deferred account, with adjustment by accrual at the year end where appropriate, for all funds.

2.12 **Interest on balances**

2.12.1 Interest on revenue balances is charged or credited at fund level at the average seven day money market interest rate for each month, calculated from daily quotes obtained from several brokers.

2.12.2 Interest is charged or credited to internally held balances of Council reserves at varying rates, dependent on the nature of the reserve.

2.12.3 The interest charged or credited to Funds is calculated on the basis of monthly surpluses or deficits on those Funds, with interest on internally held reserves capitalised half yearly.

2.13 **Leases**

2.13.1 Operating lease payments are treated as operating expenditure.

2.13.2 Finance lease payments are treated as part of the cost of financing capital on the revenue accounts.

2.13.3 Details of finance and operating leases are provided in notes to the Consolidated Balance Sheet and Consolidated Revenue Account.

2.14 **Provisions for pensions**

2.14.1 Shetland Islands Council's Pension Scheme is statutorily governed by the Local Government Superannuation (Scotland) Regulations 1987, as amended.

2.14.2 It is a fully funded defined benefit scheme with the pension calculated on the basis of one eightieth of the final year's pay for each year of membership of the scheme. The lump sum payable on retirement is three times the annual pension entitlement and is tax free.

2.14.3 Teachers are not covered by the Council's Pension Scheme, instead being covered by the national unfunded scheme.

2.14.4 The Council operates an early retirement scheme, which provided certain conditions laid down in the regulations are met, offers the opportunity for employees to retire early and receive pension benefits. Any additional cost of retirement under the early retirement scheme is met by the Council and does not fall on the Pension Fund.

2.14.5 Further information is provided in section 11 of this Abstract of Accounts.

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3. CONSOLIDATED REVENUE ACCOUNT YEAR ENDED 31 MARCH 2002

2000/01 £000		2001/02 Expenditure £000	2001/02 Income £000	2001/02 Net £000
	<u>NET COST OF SERVICES</u>			
	<u>CONTINUING SERVICES:</u>			
7,516	Development	4,440	0	4,440
30,211	Education	34,260	(3,087)	31,173
19,575	Infrastructure	24,810	(2,267)	22,543
1,737	Housing Revenue Account	8,377	(8,365)	12
996	Housing - General Fund	3,658	(2,635)	1,023
2,574	Community Services	3,828	(196)	3,632
4,962	Marine Operations	17,660	(12,437)	5,223
10,014	Corporate & Chief Executive	7,604	(423)	7,181
<u>9,026</u>	Social Work	<u>12,504</u>	<u>(2,630)</u>	<u>9,874</u>
86,611	TOTAL CONTINUING SERVICES	117,141	(32,040)	85,101
	<u>CORPORATE INCOME AND EXPENDITURE</u>			
(29,664)	Interest and investment income			(31,475)
(16,487)	Transfer from Asset Management Revenue Account			(10,587)
<u>(995)</u>	Total net surplus from DLOs/DSOs			<u>(1,029)</u>
39,465	NET OPERATING EXPENDITURE			42,010
	<u>APPROPRIATIONS</u>			
	Contribution to/(from) earmarked reserves:			
18,500	General Fund			10,770
(632)	Housing Revenue Account			891
4,743	Harbour Account			6,039
4,415	Contribution to/(from) Capital Financing Reserve			120
<u>66,491</u>	AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS			<u>59,830</u>
	<u>PRINCIPAL SOURCES OF FINANCE</u>			
(4,890)	Council Tax			(5,397)
(48,593)	Revenue Support Grant			(52,837)
<u>(7,650)</u>	Contribution from non-domestic rate pool			<u>(6,937)</u>
<u><u>5,358</u></u>	(SURPLUS)/DEFICIT FOR THE YEAR			<u><u>(5,341)</u></u>
	<u>BALANCES</u>			
(17,418)	Balance at 1st April			(11,592)
5,358	(Surplus)/Deficit for the year			(5,341)
<u>468</u>	Application of Balances in the year			<u>-</u>
<u><u>(11,592)</u></u>	Balance at 31st March			<u><u>(16,933)</u></u>

There were no acquired or discontinued operations during the year.

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3 NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

3.1 Revenue effects of acquiring assets using finance and operating leases

3.1.1 Finance leases are agreements where the major features of ownership of the asset pass to the Council, and these are subject to the government's capital expenditure controls. These leases are distinguished by longer duration, options to buy at the end of the primary period, and maintenance being the Council's responsibility.

3.1.2 Operating leases leave the major responsibilities of ownership with the leasing company, and these leases are not subject to capital controls.

3.1.3 The following table summarises 2001/02 payments made for assets acquired under finance and operating leases.

Finance and Operating Lease Payments:

2000/01		2001/02
£000		£000
175	Finance leases	129
1,113	Operating leases	1,419
<u>1,288</u>	Total	<u>1,548</u>

3.1.4 The future cash payments under operating leases are as follows:

2002/03	£1,171,059
2003/04 onwards	£15,512,647

3.2 Section 83 Expenditure

3.2.1 The provisions of Section 83 of the Local Government (Scotland) Act 1973 authorise a local authority to incur expenditure in the interest of their area, or any part of it, or all or some of its inhabitants, for which authorisation does not exist by virtue of any other enactment.

3.1.2 Expenditure under this section may not exceed the equivalent of the product of a rate of 2p in the £, amounting to approximately £800,000 for Shetland Islands Council. Actual 2001/02 expenditure, in the form of grants to charities and voluntary organisations, was £10,802 (2000/01 £10,292).

3.3 **Publicity expenditure**

3.3.1 Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2001/02 expenditure.

Publicity expenditure

2000/01		2001/02
£000		£000
197	Recruitment advertising	141
123	Other advertising	116
<u>320</u>	Total	<u>257</u>

3.4 **Agency expenditure**

Below is a summary of Council income and expenditure under agency agreements, whereby the Council does work for other public bodies, or has work done on its behalf by other public bodies.

Agency expenditure and income (included in the Consolidated Revenue Account):

Net Expenditure 2000/01 £000		Expenditure 2001/02 £000	Income 2001/02 £000	Net Expenditure 2001/02 £000
1,522	Northern Joint Police Committee	1,724	0	1,724
1,030	Northern Fire Board	1,076	0	1,076
221	Orkney and Shetland Valuation Joint Board	233	0	233
15	Emergency Planning: Shetland Health Board	0	0	0
88	Accommodation Charges: Child Client	106	0	106
<u>2,876</u>	Total	<u>3,139</u>	<u>0</u>	<u>3,139</u>

3.5 **Expenditure and Income under Goods and Services Act**

- 3.5.1 The Council undertakes maintenance of police and fire properties on behalf of the Joint Boards. The table below shows the maintenance expenditure and the amounts billed to the Joint Boards by the Council.

Expenditure and income under the Local Authority (Goods and Services) Act 1970:

Net Expenditure 2000/01 £000		Expenditure 2001/02 £000	Income 2001/02 £000	Net Expenditure 2001/02 £000
	Northern Joint Police			
0	Committee	126	(126)	0
0	Northern Fire Board	8	(8)	0
<u>0</u>	<u>Total</u>	<u>134</u>	<u>(134)</u>	<u>0</u>

3.6 **Pension Costs (Teachers)**

- 3.6.1 In 2001/02 the Council paid £0.90 million (£0.83 million in 2000/01) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 6.9% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2001/02 these amounted to £0.26 million (£0.23 million in 2000/01), representing 1.99% of pensionable pay (2000/01 1.91%).

3.7 **Pension Costs (Other Employees)**

- 3.7.1 In 2001/02 the Council paid an employer's contribution of £3.7 million (2000/01 £3.10 million) into the Pension Fund, which represented 13.5% of APT&C pensionable pay, and 11.25% of Manual pensionable pay. The contribution rate is determined by the Fund actuary's triennial valuation, the last review being at 31 March 1999. Under Pension Fund regulations contributions are set to meet the overall liabilities of the Fund.
- 3.7.2 In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2001/02 these amounted to £0.24 million (2000/01 £0.20 million) or 0.82 % of pensionable pay (2000/01 0.75%).
- 3.7.3 The cost in the year for discretionary lump sum payments was £5,600 (2000/01 £130,000) and the capital cost for increased pensions £37,000 (2000/01 £867,000). The capital cost of increases awarded in prior years is £4.2m (2000/01 £3.2m).

- 3.7.4 The pension cost that would have had to have been provided for in the year in order to meet future pension liabilities on a systematic and rational basis over the period during which the Council derives benefit from its employees' services is £5.23m (2000/01 £4.8m), representing 19.1% of APT&C pensionable pay (2000/01 18.5%) and 15.9% of manual pensionable pay (2000/01 15.5%). This comprises a regular cost of £4.91m (2000/01 £4.5m) with an increase of £0.32m (2000/01 £0.3m) in respect of amortisation over a period of approximately 10 years (representing the future service working lifetime of the active membership) of the deficit of assets over liabilities at the 1999 valuation. The actual contribution to the Pension Fund was £3.7m (2000/01 £3.1m).
- 3.7.5 The most recent actuarial valuation was as at 31 March, 1999. Details of this are given in section 11.2 of this abstract.

3.8 **Treatment of surpluses/deficits**

- 3.8.1 A surplus of £5.3 million has been generated on the General Fund for the year ended 31 March 2002. This increases the surplus that will be carried into 2002/03 to £16.9 million.
- 3.8.2 Any surplus or deficit on the Housing Revenue Account is eliminated by a balancing contribution to or from the Housing Repairs and Renewals Fund.
- 3.8.3 The Harbour Accounts balance, after making the appropriate transfer to the Reserve Fund to achieve the 15% rate of return on capital employed, is transferred to or from the Harbour Charge Equalisation Reserves.
- 3.8.4 The DLO/DSO surplus for 2001/02 and the surpluses accumulated in previous years have been transferred to the General Fund.

3.9 **Corporate and Democratic Core**

- 3.9.1 The CIPFA Best Value Accounting Code of Practice has introduced a new definition of Corporate and Democratic Core costs, covering Democratic Representation and Management and Corporate Management.
- 3.9.2 The Consolidated Revenue Account includes £4.21 million in respect of Corporate and Democratic Core costs for 2001/02 (2000/01 £5.76m).
- 3.9.3 The Council did not comply with the CIPFA Best Value Accounting Code of Practice in respect of the presentation of information in the Consolidated Revenue Account. The Council will work toward compliance for the 2002/03 accounts.

3.10 **(Surplus)/Deficit for the Year**

3.10.1 The balance for the year is attributable to the following component parts of the Council:

(Surplus)/Deficit for the Year:

2000/01 £000		2001/02 £000
(995)	DLO/DSO	(1,029)
6,353	General Fund	(4,312)
<u>5,358</u>	Total	<u>(5,341)</u>

3.11 **Asset Management Revenue Account**

3.11.1 The transactions on the Asset Management Revenue Account are summarised as follows:

2000/01 £000		2001/02 £000	2001/02 £000
	Income		
(26,356)	Capital Charges		(20,382)
<u>(524)</u>	Government Grants Applied		<u>0</u>
(26,880)			(20,382)
	Expenditure		
5,878	Provision for Depreciation	6,523	
4,432	External Interest and Expenses	3,222	
<u>83</u>	Finance Lease Interest	<u>50</u>	
<u>10,393</u>			<u>9,795</u>
<u>(16,487)</u>	Balance to Consolidated Revenue Account		<u>(10,587)</u>

3.12 **Members' Allowances and Expenses**

3.12.1 Regulations made under section 50 of the Local Government (Scotland) Act 1973 require that the Council publish a record of Members' allowances and expenses. This is done annually in a local paper. Summarised information is given below.

2000/01 £000		2001/02 £000
350	Allowances	370
<u>104</u>	Expenses	<u>108</u>
<u>454</u>		<u>478</u>

3.13 **Officers' Emoluments**

3.13.1 The number of employees whose remuneration, excluding pension contributions, was £40,000 or more in bands of £10,000 were:

Remuneration Band	2000/01 No.	2001/02 No.
£40,000 - £49,999	18 (-)	22 (3)
£50,000 - £59,999	22 (16)	18 (13)
£60,000 - £69,999	3 (-)	3 (-)

The figures in brackets show the number of pilots, employed at the Sullom Voe Harbour operation, included in the totals.

3.14 **Related Parties and Trusts**

3.14.1 The Council has a substantial legal and financial relationship with Central Government, mainly through the devolved Scottish Government. They provide the bulk of revenue finance, as can be seen in the consolidated revenue account and cash flow statement.

The Council also has substantial financial relationships with a number of bodies such as its Pension Fund, the Northern Joint Police Committee and the Orkney and Shetland Valuation Joint Board. Financial information on these relationships, and others, is shown elsewhere within this Report.

Shetland Islands Council Charitable Trust

This Trust was originally established by the Council in 1976 for the benefit of the inhabitants of Shetland. The main source of capital funding of the Trust came from the operators of the Sullom Voe Oil Terminal.

Originally, all the Trustees were nominated by Shetland Islands Council. In 1990, the Trust was reconstituted and two non-council member Trustees were added.

The Council provides administrative support to the Trust and the Council's Chief Officers act as professional advisors. Charges of £0.5m were made in the year in respect of this. At the 31 March 2002, £0.5m was due to the Council from the Charitable Trust.

Shetland Development Trust

The Shetland Development Trust was established in 1996 to provide assistance to business in Shetland. The Trust is funded by grants from the Shetland Islands Council. In the year to 31 March 2002, there were no payments made.

The Trustees comprise the twenty two Council Members plus two non-member Trustees.

The Council also provides administrative support to the Trust and the Council's Chief Officers act as professional advisors. Charges of £0.25m were made in the year in respect of this. At the 31 March 2002, £0.25m was due to the Council from the Shetland Development Trust.

3.15 **Interest and Investment Income**

3.15.1 The transactions comprising Interest and Investment income are as follows:

2000/01 £000		2001/02 £000
(1,052)	General Fund Interest on Revenue Balances	(524)
(8,032)	External Capital Fund	(5,721)
(9,082)	External Repairs & Renewals Fund	(8,550)
(7,298)	External Reserve Fund	(12,519)
(1,105)	External Housing Repairs & Renewals Fund	(903)
(3,067)	External Harbour Equalisation Funds	(3,238)
(28)	External Insurance Fund	(20)
<u>(29,664)</u>		<u>(31,475)</u>

3.16 **Contributions to/(from) Earmarked Reserves**

3.16.1 The table below shows the detail of the various transfers between the Consolidated Revenue Account and the various reserves.

2000/01 £000		2001/02 £000
	General Fund	
(468)	Contribution from DSO balances	(4,843)
8,032	Contribution to external funds-Capital	5,721
9,082	-Repairs & Renewals	8,550
7,298	-Reserve Fund	12,519
28	-Insurance Fund	20
0	Contribution from unapplied Capital Receipts Reserve	(7,560)
(5,472)	Contribution from Reserve Fund	(3,637)
18,500		10,770
	Housing Revenue Account	
1,105	Contribution to external Housing Repairs & Renewals Fund	903
(1,437)	Contribution to/(from) Housing Repairs & Renewals Fund	(12)
(300)	Contribution from Reserve Fund	0
(632)		891
	Harbour Accounts	
3,067	Contribution to external Harbour Funds	3,238
5,897	Contribution to Reserve Fund	7,913
51	Contribution to Equalisation Funds	0
(4,384)	Contribution from Equalisation Funds	(5,226)
131	Contribution to Pilot Boat Revenue Fund	135
(19)	Contribution from Marine Fund	(21)
4,743		6,039

SHETLAND ISLANDS COUNCIL

2001/02 Abstract of Accounts

4 CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2002

31 March 2001 £000		31 March 2002 £000	31 March 2002 £000
	<u>LONG TERM ASSETS</u>		
	Operational assets		
48,298	Council dwellings	49,792	
98,049	Other land and buildings	92,598	
10,407	Vehicles, plant and equipment	8,241	
91,990	Infrastructure assets	94,030	
3,569	Community assets	3,614	
<hr/>			
252,313			248,275
7,097	Non-operational assets: Investment properties		7,149
<hr/>			
259,410	TOTAL FIXED ASSETS		255,424
251,712	Long-term investments		297,017
116	Long-term debtors:Housing Loans		68
44	Long-term debtors:Other		40
<hr/>			
511,282	TOTAL LONG TERM ASSETS		552,549
	<u>CURRENT ASSETS</u>		
1,472	Stocks and work in progress	1,657	
7,939	Debtors, less bad debt provisions	6,711	
67,680	Short term investments	41,277	
26	Cash and bank	1,809	
			<hr/>
			51,454
<hr/>			
588,399	TOTAL ASSETS		604,003
	<u>CURRENT LIABILITIES</u>		
(3,605)	Borrowing due within one year	0	
(11,812)	Creditors	(11,311)	
(408)	Bank overdraft	0	
			<hr/>
			(11,311)
<hr/>			
572,574	TOTAL ASSETS LESS CURRENT LIABILITIES		592,692
	<u>LONG-TERM LIABILITIES</u>		
0	Borrowing due in excess of one year	0	
(572)	Deferred liabilities	(351)	
(160)	Deferred capital receipts	(108)	
			<hr/>
			(459)
<hr/>			
571,842	TOTAL ASSETS LESS LIABILITIES		592,233

SHETLAND ISLANDS COUNCIL

2001/02 Abstract of Accounts

4 CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2002

31 March 2001 £000		31 March 2002 £000	31 March 2002 £000
	<u>REPRESENTED BY:</u>		
	Earmarked reserves		
(131,949)	Fixed Asset Restatement Reserve		(115,221)
(70,853)	Capital Financing Reserve		(82,880)
0	Government Grants-Deferred		(490)
(28,016)	Usable Capital Receipts Reserve		(21,465)
	General Fund:		
(142,172)	Capital Fund	(148,549)	
(63,293)	Repairs and Renewals Fund	(71,942)	
(84,243)	Reserve Fund	(96,945)	
(195)	Insurance Fund	(200)	
184	Shetland College of Further Education Balance	603	
(85)	Devolved School Management Balances	(58)	
			(317,091)
	Housing Revenue Account:		
(7,346)	Housing Repairs and Renewals Fund		(8,254)
	Harbour Accounts:		
(23,333)	Harbour Charge Equalisation Funds	(24,939)	
(1,269)	Pilot Boat Renewal Fund	(1,475)	
(2,992)	Marine Fund	(3,381)	
			(29,795)
	DLOs/DSOs:		
(4,589)	DLO Reserve Fund	0	
(99)	Quarry Repairs and Renewals Fund	(104)	
			(104)
(560,250)			(575,300)
	Balances		
(10,597)	General Fund	(16,933)	
(995)	DLOs/DSOs	0	
			(16,933)
(571,842)	TOTAL EQUITY		(592,233)

.....
 Graham Johnston B.Sc. (Hons.), C.P.F.A.
 HEAD OF FINANCE

SHETLAND ISLANDS COUNCIL

2001/02 Abstract of Accounts

4 NOTES TO THE CONSOLIDATED BALANCE SHEET

4.1 Introduction

4.1.1 This statement shows the balances and reserves at the disposal of the Council at the year end. It also shows the councils long term indebtedness, and the fixed and net current assets employed in its operations, together with the summarised information on the fixed assets held.

4.2 Summary of capital expenditure and income for the year

4.2.1 The table below analyses the sources of finance utilised in 2001/02 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2001/02:

2000/01 £000		2001/02 £000
1,531	Loans	2,477
657	Capital receipts	17,113
524	Grant receipts	70
20,672	Revenue/Other	2,727
<u>23,384</u>	Total	<u>22,387</u>

4.2.2 The table below analyses capital expenditure and income on fixed assets over the various categories of assets.

Movements in fixed assets in 2001/02 were:

	Balance at 1/4/01	Opening Revaluations and Restatements	Expenditure in 2001/02	Disposals/ Revaluations and Depreciation in 2001/02	Balance at 31/03/02
	£000	£000	£000	£000	£000
Operational assets					
Council dwellings	48,298	0	3,221	(1,727)	49,792
Other land, buildings	98,049	0	4,438	(9,889)	92,598
Vehicles, plant, equip	10,407	0	2,414	(4,580)	8,241
Infrastructure assets	91,990	0	3,997	(1,957)	94,030
Community assets	3,569	0	46	(1)	3,614
Non-operational assets	7,097	0	5,371	(481)	11,987
Total	259,410	0	19,487	(18,635)	260,262
2000/01	249,002	0	17,695	(7,287)	259,410

4.2.3 The table below analyses capital expenditure and income on deferred charge items in 2001/02.

Movements in deferred charges in 2001/02 were:

	Balance at 1/4/01	Expenditure in 2001/02	Charged to Revenue in 2001/02	Balance at 31/3/02
	£000	£000	£000	£000
Housing Improvement & Repair Grants	0	706	(706)	0
Grant to Whalsay Sports Development Trust	0	409	(409)	0
Reserve Fund Property Grants	0	375	(375)	0
Grant to NAFC for Laboratory Improvements	0	158	(158)	0
Other Capital Grants	0	946	(946)	0
Feasibility Studies	0	167	(167)	0
Fish Factory Improvement Scheme	0	122	(122)	0
Other	0	17	(17)	0
Total	0	2,900	(2,900)	0
2000/01	0	5,689	(5,689)	0

4.2.4 The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2002. These amounts relate to contracts commenced but not concluded by the end of the financial year.

**Significant commitments under capital contracts beyond
31 March 2002:**

	Outstanding Contractual Liability beyond 31/3/02 £000
Pilot Launch Sellaness	950
IT Photo Image Digitising	266
Skerries Classroom	217
Nav Aids Sullom Voe	214
IT Document Archiving	185
Whalsay Ferry Replacement	175
Maryfield Berthing	159
New Library-St Ringans	124
	<hr/>
Total	<u><u>2,290</u></u>

4.2.5 The Table below gives information on some of the Fixed Assets held by the Council as at 31 March 2002.

2,231	Council Dwellings	2,163
	Community Assets	
32	Burial Grounds	32
	Museum Exhibits:	
1	Painting HM Queen Victoria	1
1	Painting HM Queen Elizabeth	1
1	Model SS St Sunniva	1
1	Model Earl of Zetland 11	1
1	Model St Clair/St Magnus iv	1
1	Media Sacre Cannon	1
1	Bronze Gun	1
1	Model Steamer Pole Star	1
1	HMS Racoon in L Harbour	1
1	Model St Clair 111	1
1	Viking Brooch	1
1	MV Brenda	1
1	Sixareen Industry	1
	Non Operational Assets	
14	Industrail Estate	14
15	Commercial Properties	15
4	Non Operational - Other	4
	Operational Land and Buildings	
1	Airstrips	1
1	Bus Stations	1
4	Car Parks	4
1	Town Hall	1
2	Leisure Facilities	1
1	Libraries	1
3	Museums	4
15	Offices	15
26	Public Conveniences	26
35	Schools	35
2	Colleges	1
7	Social Services Homes	7
25	Other Misc Land and Bldgs	26
	Vehicles Plant and Equipment	
281	Vehicles	173
	Plant	77
12	Ferries	13
5	Boats	5
1319	Computer Equipment	18
	Infrastructure Assets	
1033	Roads	1,033
	Investment Properties	
250	Strategic Land Holdings (acres)	250

This summary of assets has been presented in a revised format following the introduction of the Council's Asset Register. The main variance on Computer Equipment reflects the fact that individual computers are no longer held within the asset register unless they are over the de minimis sum. The increase in ferries reflects the inclusion in the asset register of the Spes Clara Ferry which was previously omitted.

4.3 Analysis of net assets employed by the various funds

4.3.1 The table below analyses the net assets employed by the Council over the various accounts of the Council.

Analysis of net assets employed:

31 March 2001 £000		31 March 2002 £000
131,949	Fixed Asset Restatement Reserve	115,221
70,853	Capital Financing Reserve	82,880
0	Government Grants-Deferred	490
28,016	Usable Capital Receipts Reserve	21,465
300,401	General Fund	334,024
7,346	Housing Revenue Account	8,254
27,594	Harbour Accounts	29,795
5,683	DLOs/DSOs	104
<u>571,842</u>	Total	<u>592,233</u>

4.4 Analysis of borrowing repayable in excess of 12 months.

4.4.1 The table below analyses the borrowings of the Council of greater than twelve months duration by type or source, and also by length of time to maturity.

Analysis of borrowing >12 months :

31 March 2001 £000		31 March 2002 £000
	Analysis of loans by source:	
0	Banks	0
0	Building Societies	0
0	Other	0
<u>0</u>	Total Outstanding	<u>0</u>
	Analysis of loans by maturity:	
0	Between 1 and 2 years	0
0	Between 2 and 5 years	0
<u>0</u>	Total Outstanding	<u>0</u>

4.5 **Trust fund and third party funds administered by the Council** .

4.5.1 The Council administers 22 trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over a great many years. Funds are in the main held in deposit accounts with local banks. The funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

Trust funds:

Fund Balance at 31/3/01		Fund Balance at 31/3/02
£000		£000
(255)	Zetland Educational Trust	(550)
(43)	Gilbertson Trust	(44)
(1)	Bremner Trust	(1)
(14)	Other	(12)
<u>(313)</u>	Total	<u>(607)</u>

4.5.2 The Zetland Education Trust's value has increased due mainly to a gain on the sale of investments. The Trust had, in the 1960's, purchased units in a fund with the Local Authority Mutual Investment Trust, with a value of £18,000. As this fund was being wound up, the ZET redeemed its units in January 2002, making a gain on the sale of some £281,000.

4.6 **Devolved School Management** .

4.6.1 In 1994/95, the Council introduced a scheme of Devolved School Management, in line with Scottish Office guidelines. The scheme allows schools to carry forward into the next financial year 10% of any surplus balance held on specific devolved budget heads. Conversely, schools must meet in full, in the next financial year, any deficit balance on these budget heads. The total unspent balances held by schools for 2001/02 amount to £93,448 (£99,456 in 2000/01) while the total overspent balances amount to £28,163 (£7,049 in 2000/01), giving an overall surplus balance of £65,285 (surplus of £92,407 in 2000/01), of which £52,330 can be carried forward.

4.7 **Details of insurance provisions and the risk carried**

4.7.1 The Council operates an insurance fund to offset any uninsured losses and excesses on claims. The fund is actuarially valued no less than triennially. The authority assesses its likely funding needs and this reflected in the internal recharges, which take account of insurance premia, and all other permitted insurance costs incurred.

4.7.2 The Council carries some uninsured risks. These are:

4.7.2.1 Theft cover (with the exception of computers and some specialised equipment);

4.7.2.2 Gradually occurring pollution;

4.7.2.3 Terrorism damage in excess of £100,000 per building.

4.8 **Assets held under finance leases**

4.8.1 The Council holds other land and buildings valued at £869,366 under finance lease. As at 31 March 2002 some £518,912 of this sum has been depreciated, leaving a net value on the Balance Sheet of £350,454.

4.9 **Contingent liabilities**

4.9.1 The Council is defending two court actions (from Lerwick Port Authority and Shetland Catch Ltd) concerning the payment of grants, subject to conditions, from its Reserve Fund.

The cost to the Council, should it lose the actions, would be approximately £450,000 in repayments to the Lerwick Port Authority and Shetland Catch Ltd and legal expenses.

The Council is strongly defending the actions.

4.10 **Euro Costs**

4.10.1 The Council has considered the possible effect of the introduction of the euro into the United Kingdom.

4.10.2 Due to the uncertainty over entry into the euro, no commitments in respect of costs to be incurred have been made.

4.10.3 No firm assessment of the total costs likely to be incurred has been made. However, the Council's financial management system is a multi-currency system and should be capable of dealing with the euro at little extra cost.

4.11 **Movements in Provisions**

4.11.1 The Council has made provision for the risk of incurring bad debts on its General Fund and Housing Revenue Account.

4.11.2 The provision has been determined by the Council's Income and Recovery Manager, using his professional judgement and experience.

4.11.3 The tables below show the movement in the provision.

2000/01 £000		2001/02 £000
(1,303)	Opening balance-General Fund	(562)
697	Braer Incident costs	0
130	Miscellaneous Invoices	31
30	Non-domestic Rates	42
38	Council Tax	28
(45)	Cash received on debts written off	0
<u>(109)</u>	Charge to General Fund for new provision	<u>(37)</u>
<u><u>(562)</u></u>		<u><u>(498)</u></u>
(132)	Opening balance-Housing Revenue Account	(103)
25	Miscellaneous Income	14
58	Rents	19
<u>(54)</u>	Charge to HRA for new provision	<u>(34)</u>
<u><u>(103)</u></u>		<u><u>(104)</u></u>

4.12 Depreciation Methodologies

- 4.12.1 The Council provides for depreciation on all fixed assets with a finite useful life.
- 4.12.2 Depreciation is provided on a straight line basis over the useful life of the asset.
- 4.12.3 The useful life of an asset has been determined by the officers of the Council in charge of the relevant asset. The life of the operational and non-operational properties have been determined by Alan Rolfe ARICS of the Property Services Division.
- 4.12.4 The useful life of various classes of assets are given below.

Asset	Year
General Highways	50
Street Lighting	30
Airstrips	50
Burial Grounds	100
Museum Exhibits	100
Ferries	0-19
Operational Buildings	5-120
Non-operational Buildings	5-50
Vehicles, plant, equipment	Various

- 4.12.5 The depreciation for the year and cumulative depreciation is shown below:

Asset	Depreciation 2001/02 £000	Cumulative Depreciation £000
Other Land & Buildings	2,877	4,815
Vehicles, plant & equipment	1,511	7,202
Infrastructure assets	2,076	3,030
Non-operational assets	59	91
Community Assets	0	1
	<u>6.523</u>	<u>15.139</u>

5. TOTAL MOVEMENTS IN RESERVES

	Fixed Asset Restatement Reserve	Capital Financing Reserve	Capital Fund	Usable Capital Receipts Reserve	Pilot Boat Renewal Fund	Total
	£000	£000	£000	£000	£000	£000
CAPITAL RESERVES						
Earmarked Reserves						
Balances 1/4/2001	(131,949)	(70,853)	(142,172)	(28,016)	(1,269)	(374,259)
Net (surplus)/deficit for year	0	2,739	(6,377)	(1,553)	(206)	(5,397)
Unrealised gains from revaluation of fixed assets	10,374	0	0	0	0	10,374
Value of assets disposed of	6,354	0	0	0	0	6,354
Proceeds of disposal	0	0	0	(8,934)	0	(8,934)
Other capital receipts	0	0	0	(52)	0	(52)
Financing of fixed assets	0	(13,899)	0	17,090	0	3,191
Applied to repay Debt	0	(867)	0	0	0	(867)
Balance 31/3/2002	(115,221)	(82,880)	(148,549)	(21,465)	(1,475)	(369,590)
	Balance as at 1/4/01	Net (surplus)/deficit for Year	Financing of Assets	Balance as at 31/03/02		
	£000	£000	£000	£000		
REVENUE RESERVES						
Earmarked Reserves						
General Fund	(10,597)	(6,336)	0	(16,933)		
Government Grants-deferred	0	(490)	0	(490)		
Housing Revenue Account	0	0	0	0		
DLO/DSO	(995)	995	0	0		
Reserve Fund	(84,243)	(13,020)	318	(96,945)		
Repairs & Renewals Fund	(63,293)	(8,649)	0	(71,942)		
Housing Repairs & Renewals Fund	(7,346)	(908)	0	(8,254)		
Harbour Charge Equalisation Funds	(23,333)	(1,606)	0	(24,939)		
Marine Superannuation Fund	(2,992)	(389)	0	(3,381)		
DLO Reserve Fund	(4,589)	4,589	0	0		
Insurance Fund	(195)	(5)	0	(200)		
Quarry Repairs & Renewals Fund	(99)	(5)	0	(104)		
Shetland College of F.E. Balance	184	419	0	603		
Devolved School Management Balance	(85)	27	0	(58)		
Total	(197,583)	(25,378)	318	(222,643)		

SHETLAND ISLANDS COUNCIL

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5 NOTES TO THE TOTAL MOVEMENTS IN RESERVES STATEMENT

5.1 Earmarked Reserves

5.1.1 The Fixed Asset Restatement Reserve and the Capital Financing Reserve were both created as a result of the new method of accounting for capital assets at current cost. Their balances vary with the accounting entries for capital expenditure and revaluation of assets. Neither reserve is available for use by the Council for its purposes.

5.1.2 The Capital Fund was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of the principal of loans. The fund can only fund expenditure each year to the limit of its returns in the year due to the unavailability of Section 94 consent. The fund is managed by Baillie Gifford and is mainly invested in trustee securities.

5.1.3 The Usable Capital Receipts Reserve was established for the purpose of financing capital expenditure and its capital can be applied for that purpose. Returns in the year are credited to the General Fund. The source of funding for the reserve is capital receipts not applied during the year and it is invested in the Council's Loans Fund.

5.2 Revenue Reserves

5.2.1 The Reserve Fund was established under Section 67(i) of the Zetland County Council Act 1974. This Act empowers the Council to transfer to the fund surpluses arising on the Harbour Account. The fund may be used to defray certain expenditure on the harbour undertaking and for any other purpose which is solely in the interest of the County and its inhabitants.

5.2.2 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.

5.2.3 The Harbour Charge Equalisation Funds were established for the purpose of restricting the increase in harbour charges at Sullom Voe. They are funded by contributions from the Harbour Account.

5.2.4 The above Funds are invested together in Trustee Securities as the "Miscellaneous Funds". Baillie Gifford and Henderson Investors manage equity portfolios and Rothschild Asset Management manage a bond portfolio.

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

5.3 **Accounting Policies**

5.3.1 The Reserves are subject to the same accounting policies defined for Council expenditure and income. These can be found in section 2 of this Abstract. Council policy concerning the use of certain reserves can be found in section 1.6.

5.4 **Fund Managers**

5.4.1 As mentioned in notes 5.1 and 5.2, the Council's funds are largely managed externally by fund managers.

5.5 **Internal Funds**

5.5.1 Although the bulk of the Council's funds are invested externally by fund managers, the Council also holds a part of each fund internally to cover various transfers and expenses. These are invested in the Council's loans fund where they attract interest.

5.5.2 The table below shows the interest earned by the funds invested in the Council's Loans Fund.

2000/01 £000		2001/02 £000
(375)	Capital Fund	(661)
(2,225)	Usable Capital Receipts Reserve	(1,553)
(73)	Pilot Boat Renewal Fund	(70)
(135)	Reserve Fund	100
(106)	Repairs & Renewals Fund	(34)
(38)	Housing Repairs & Renewals Fund	(23)
201	Harbour Charge Equalisation Funds	(11)
(9)	Marine Superannuation Fund	(6)
(340)	DLO Reserve Fund	(254)
(1)	Insurance Fund	(1)
(6)	Quarry Repairs & Renewals Fund	(5)
<u>(3,107)</u>		<u>(2,518)</u>

5.6 **Housing Revenue Account**

- 5.6.1 It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund.
- 5.6.2 In 2001/02, a contribution of £0.012m was made to the Housing Revenue Account from the Housing Repairs and Renewals Fund. In 2000/01 there was a contribution of £1.186m to the Housing Revenue Account from the Housing Repairs and Renewals Fund.

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6. CASHFLOW STATEMENT

2000/01		2001/02	2001/02
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
51,508	Cash paid to and on behalf of employees	55,888	
44,543	Other operating cash payments	49,666	
281	Housing Benefit paid out	226	
4,886	National Non-Domestic Rates : payments to Pool	6,086	
			111,866
	Cash Inflows		
(3,393)	Rents (after rebates)	(3,526)	
-	Community Charge income (after rebates)	-	
(4,686)	Council Tax income (after rebates)	(5,012)	
(12,251)	Non-domestic rate receipts	(13,195)	
-	National Non-Domestic Rates : receipts from Pool		
(48,593)	Revenue Support Grant	(52,837)	
(264)	DSS grants for benefits	(237)	
(9,897)	Other government grants	(10,572)	
(11,895)	Other operating cash receipts	(16,776)	
(16,484)	Cash received for goods & services	(14,100)	
			(116,255)
(6,245)	NET REVENUE CASH (IN)/OUTFLOW		(4,389)
	SERVICING OF FINANCE		
	Cash Outflows		
1,046	Interest paid	290	
83	Interest element of finance leases	50	
			340
	Cash Inflows		
(3,012)	Dividends received	(1,696)	
(14,052)	Interest received	(9,128)	
			(10,824)
(22,180)	BALANCE c/f		(14,873)

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6. CASHFLOW STATEMENT (continued)

£000		£000	£000
(22,180)	BALANCE b/f		(14,873)
	CAPITAL ACTIVITIES		
	Cash Outflows		
18,004	Purchase of fixed assets	19,408	
143,644	Purchase of long-term investments	259,187	
5,689	Other capital cash payments	2,782	
			281,377
	Cash Inflows		
(2,142)	Sale of fixed assets	(10,172)	
(143,429)	Sale of long-term investments	(235,219)	
(595)	Capital grants received	(533)	
(60)	Other capital cash receipts	(52)	
			(245,976)
(1,069)	Net cash inflow/outflow before financing		20,528
	MANAGEMENT OF LIQUID RESOURCES		
(11,647)	Increase/(decrease) in short term investments		(26,403)
	FINANCING		
	Cash Outflows		
92	Repayments of amounts borrowed-finance leases	79	
13,210	Repayments of amounts borrowed-other	3,605	
-	New loans issued	-	
			3,684
	Cash Inflows		
0	Repayments of amounts loaned	-	
0	New loans raised	0	
			0
<u>586</u>	(INCREASE)/DECREASE IN CASH		<u>(2,191)</u>

SHETLAND ISLANDS COUNCIL

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6 NOTES TO THE CASH FLOW STATEMENT

6.1 Analysis of and Reconciliation to Net Debt

6.1.1 Reconciliation to Net Debt

2000/01 £000		2001/02 £000
586	(Increase)/decrease in Cash	(2,191)
(13,210)	Decrease in Debt Financing	(3,605)
<u>11,647</u>	(Increase)/decrease in Liquid Resources	<u>26,403</u>
(977)		20,607
<u>(62,713)</u>	Opening Net Debt	<u>(63,693)</u>
<u>(63,690)</u>	Closing Net Debt	<u>(43,086)</u>

6.1.2 Analysis of Net Debt

	Balance at 31/3/01 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/02 £000
Cash in hand	(26)	(97)	0	(123)
Overdraft	408	(2,094)	0	(1,686)
		<u>(2,191)</u>		
Debt due after 1 year	0	0	0	0
Debt due within 1 year	3,605	(3,605)	0	0
		<u>(3,605)</u>		
Current Investments	(67,680)	26,403	0	(41,277)
Total	<u>(63,693)</u>	<u>20,607</u>	<u>0</u>	<u>(43,086)</u>

6.2 **Reconciliation of Consolidated Revenue Account surplus to Net Cashflow from revenue activities**

2000/01 £000		2001/02 £000	2001/02 £000
5,358	(Surplus)/Deficit for Year		(7,365)
	<u>Non cash transactions</u>		
5,514	Contributions to/from reserves	5,691	
468	Transfer from DLO/DSO surplus	995	
(1,753)	Loans Fund principal repayments	(1,786)	
(13,914)	Capital from current revenue	<u>(1,174)</u>	3,726
	<u>Items on an accruals basis</u>		
227	Movement in stocks	185	
1,746	Movement in debtors	(818)	
(1,333)	Movement in creditors	<u>368</u>	(265)
	<u>Items classified elsewhere</u>		
(92)	Finance lease capital	(79)	
(83)	Finance lease interest	(50)	
(3,077)	Interest paid	(2,496)	
694	Other	<u>2,140</u>	(485)
<u>(6,245)</u>			<u>(4,389)</u>

6.3 Analysis of government grants

Government grants received in 2001/02:

2000/01 £000		2001/02 £000	2001/02 £000
(48,593)	Revenue Support Grant		(52,837)
	Rebates Grants		
(471)	Council Tax Rebate	(401)	
(1,713)	Rent Rebate	(1,685)	
(264)	Rent Allowance	(237)	
			(2,323)
	Other Revenue Grants		
(2,759)	Housing Support Grant	(3,294)	
(1,415)	Further Education Grant	(1,288)	
(302)	Training Grants	(200)	
(50)	Civil Defence Grant	0	
(16)	Milk Subsidy	(15)	
(20)	Housing Benefit Administration	(16)	
(23)	Council Tax Administration	(18)	
(3,208)	Other	(3,655)	
			(8,486)
<u>(58,834)</u>	Total Revenue Grants		<u>(63,646)</u>
(539)	Capital Grants		(533)
<u><u>(59,373)</u></u>	Total		<u><u>(64,179)</u></u>

6.4 **Reconciliation of Relevant Movements within Financing and Management of Liquid Resources**

	Balance at 31/3/01 £000	Balance at 31/3/02 £000	Movement 2001/02 £000
Management of Liquid Resources			
Short Term Investments	67,680	41,277	26,403
Financing			
Bank Loans	3,605	0	3,605
Building Society Loans	0	0	0
	<u>3,605</u>	<u>0</u>	<u>3,605</u>
Principal element of finance lease rental			<u>79</u>
			<u><u>3,684</u></u>

6.5 **Definition of Liquid Resources**

6.5.1 Liquid resources are defined as short term investments.

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7. HOUSING REVENUE ACCOUNT

2000/01		2001/02	2001/02
£000		£000	£000
	EXPENDITURE		
2,184	Repairs and maintenance	1,815	
828	Supervision and management	830	
6,148	Capital financing costs	5,401	
54	Bad or doubtful debts	34	
293	Other expenditure	296	
<u>0</u>	Contribution to R&R	<u>0</u>	
9,507			8,376
	INCOME		
(4,960)	Dwelling rents (gross)	(4,913)	
(236)	Non-dwelling rents (gross)	(231)	
(2,929)	Housing Support Grant	(3,063)	
(1,186)	Contribution to/(from) Housing Repairs and Renewals Fund	(12)	
<u>(196)</u>	Other income	<u>(157)</u>	
(9,507)			(8,376)
<u><u>0</u></u>	TOTAL		<u><u>0</u></u>

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7. NOTES TO THE HOUSING REVENUE ACCOUNT

7.1. Number and types of dwelling

Housing stock:

31 March 2001		31 March 2002	
No.		No.	
67	1 Apartment	64	
415	2 Apartment	419	
621	3 Apartment	614	
939	4 Apartment	885	
51	5 Apartment	51	
<u>1</u>	8 Apartment	<u>1</u>	
<u>2,094</u>	Total	<u>2,034</u>	

7.2. Rent charged for each type of dwelling

Rent charged:

2000/01 (See Note) £ per week		2001/02 (See Note) £ per week
	Lerwick:	
25.04	1 Apartment	25.80
33.42	2 Apartment	34.44
41.69	3 Apartment	42.96
50.07	4 Apartment	51.60
58.34	5 Apartment	60.12
	Non-Lerwick:	
23.78	1 Apartment	24.51
31.75	2 Apartment	32.72
39.61	3 Apartment	40.81
47.57	4 Apartment	49.02
55.42	5 Apartment	57.11
84.98	8 Apartment	87.32

Note: A rent charging system was introduced in 1994/95 which charges a different rent according to the location and size of property and the facilities provided, e.g double glazing, central heating. The above figures are therefore averages in each case.

7.3. **Amount of rent arrears**

7.3.1. The table below summarises the rent arrears position.

7.3.2. The total amount of arrears has fallen by £7,000 during 2001/02 to £142,000. Arrears as a share of gross rents have fallen to 2.70%.

7.3.3. The number of properties in arrears has decreased by 94 over the period.

Rent arrears:

31 March 2001		31 March 2002
149	Amount (£000)	142
2.76	Amount as share of gross rents (%)	2.70
577	Number of properties in arrears (No.)	483
23.0	Properties in arrears as share of total stock (%)	19.0
257	Average amount per property in arrears (£)	294

7.4 **Provision for bad debts**

7.4.1 The following table summarises the movements on the bad debt provision during 2001/02

Bad debt provision:

2000/01 £000		2001/02 £000	2001/02 £000
(132)	Balance as at 1st April		(103)
	Bad rent debt written off		
29	Over £1,000 (Council approved)	13	
29	Under £1,000 (delegated authority)	6	19
25	Miscellaneous bad debt written off		14
(49)			(70)
(54)	Contribution to/(from) Housing Revenue Account		(34)
(103)	Balance as at 31st March		(104)

7.5. **Housing Support Grant clawback**

- 7.5.1. Housing Support Grant (HSG) is a form of deficit grant. The Scottish Executive estimate expenditure and income for each local authority from data supplied by the Council. Any deficit thus arrived at is the basis for payment of HSG. The estimate for capital charges is adjusted four years later to reflect the actual charges, and the amount of HSG is subsequently adjusted. For example, the 2002/03 HSG payable to the Council will be adjusted for any difference between estimated and actual Capital charges in 1998/99.
- 7.5.2. The Shetland Islands Council's capital charges are consistently below the Scottish Executive estimate. This is due to the achievement of a borrowing rate which is consistently below the Scottish local authority average. This means that the grant received by the Council in the first instance exceeds its eventual entitlement, giving rise to a downward adjustment four years hence. At 31st March 2002 the estimated provision for the four years 1998/99 to 2001/02 is £1.178 million.
- 7.5.3. The Council is pursuing the Scottish Executive's New Housing Partnership (NHP) Initiative to transfer its stock to an alternative landlord. In the event of a stock transfer taking place, the Scottish Executive has pledged to repay or service the massive outstanding debt on the HRA. The outcome of the NHP initiative is subject to a tenants ballot. In the event of a stock transfer taking place, the Council's entitlement to HSG would end.

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8. SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

2000/01		2001/02	2001/02
£000		£000	£000
	EXPENDITURE		
5,752	Labour	5,874	
3,139	Materials	2,921	
1,539	Sub-contractors	2,088	
998	Transport and plant	1,150	
579	Capital charges	131	
446	Overheads	1,329	
<u>36</u>	Interest payable on stock balances	<u>34</u>	
12,489			13,527
	INCOME		
(13,484)	Charges to other Council accounts		(14,556)
<u>(995)</u>	Surplus or deficit for the year		<u>(1,029)</u>
	APPROPRIATIONS		
995	Contribution to/(from) DLO/DSO Reserves		0
<u>0</u>	Contribution to General Fund		<u>1,029</u>
<u>0</u>	TOTAL		<u>0</u>

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8. NOTES TO SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

8.1. Turnover and surplus for each DLO/DSO

DLO/DSO revenue accounts 2001/02

2000/01 Turnover		2001/02 Turnover	2001/02 Surplus
£000		£000	£000
(5,746)	Highways DLO	(6,251)	(696)
(3,823)	Building DLO	(4,310)	(185)
(889)	Building Cleaning DSO	(929)	(17)
(1,166)	School and Welfare Catering DSO	(1,210)	(30)
(707)	Vehicle Maintenance DSO	(720)	(10)
(594)	Refuse Collection DSO	(602)	(74)
(238)	Ground Maintenance DSO	(240)	(2)
(321)	Other Cleaning DSO	(294)	(15)
<u>(13,484)</u>	Total	<u>(14,556)</u>	<u>(1,029)</u>

8.2. Financial objective

8.2.1. The financial objective for each Direct Labour Organisation and each Direct Service Organisation is to break even.

8.3. Further information

8.3.1. The Council operates two DLOs and six DSOs under the provisions of the Local Government Planning and Land Act 1980 and the Local Government Act 1988. The above statements summarise their operations. Full reports and accounts of their operations are produced separately and may be obtained from:

Head of Finance,
Breiwick House,
15 South Road,
Lerwick,
Shetland ZE1 0TD

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9. COUNCIL TAX INCOME ACCOUNT

2000/01		2001/02	2001/02
£000		£000	£000
(5,798)	Gross Council Tax levied Council Tax	(6,370)	
<u>(5,798)</u>			<u>(6,370)</u>
22	Council Tax benefits (net of Government grant)		28
31	Provision for bad and doubtful debts		23
829	Other deductions		909
26	Prior year adjustments		13
<u>(4,890)</u>	Net Council Tax income		<u>(5,397)</u>

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9. NOTES TO COUNCIL TAX INCOME ACCOUNT

9.1. Council tax base

9.1.1. Overleaf is the analysis of the Council Tax base used to set the 2001/02 charges. The analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

9.2. Charge setting

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

9.3. Deductions

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

9.3.1.1. Exemptions: Properties are exempted from Council Tax if wholly occupied by students or persons under 18. Exemption also applies to certain vacant properties, but in most cases for a limited period only.

9.3.1.2. Discounts: Discounts on Council Tax are awarded at 25% if only one adult is in residence, and at 50% if there is no adult occupant. Students, some nurses, apprentices, YT trainees and persons who are severely mentally impaired are excluded from the count of adult residents.

9.3.1.3. Reliefs: A property adapted for the disabled will have its Council Tax band reduced by one band, unless it is valued in band A.

9.4. Provision for bad debts

9.4.1. The following table summarises the movements on the bad debt provision during 2001/02.

Bad debt provision:

2000/01 £000		2001/02 £000
(148)	Balance as at 1st April	(141)
38	Bad debt written off	28
<u>(110)</u>		<u>(113)</u>
(31)	Contribution from General Fund	(23)
<u>(141)</u>	Balance as at 31st March	<u>(136)</u>

COUNCIL TAX VALUATION BANDS 2001/02

	BAND A Subject to Disabled Relief	BAND A (£0 to £26,999.99)	BAND B (£27,000.00 to £34,999.99)	BAND C (£35,000.00 to £44,999.99)	BAND D (£45,000.00 to £57,999.99)	BAND E (£58,000.00 to £79,999.99)	BAND F (£80,000.00 to £105,999.99)	BAND G (£106,000.00 to £211,999.99)	BAND H (£212,000.00 to infinity)	TOTAL
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (No.)		3,241	1,776	2,445	1,414	892	156	33	2	9,959
Gross Tax Base (Properties x Weighting)		19,446	12,432	19,560	12,726	9,812	2,028	495	36	76,535
Adjusted Properties (Band D Equivalents)		2160.67	1381.33	2173.33	1414.00	1090.22	225.33	55.00	4.00	8,504
Vacant Properties (No.):										
Mandatory Standard Exemptions		(208)	(101)	(60)	(21)	(10)	(2)	(1)	(1)	(404)
Chargeable Dwellings subject to Disabled Reduction (No.)		(3)	(9)	(13)	(10)	(7)	0	0	0	(42)
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	3	9	13	10	7	0	0	0	0	42
Class 18 (MoD) Dwellings (No.)	0	0	0	0	70	0	0	0	0	70
Revised Total Properties (No.)	3	3,039	1,679	2,382	1,460	875	154	32	1	9,625
Types of Property (No.):										
Single Discount (25%)	0	1,208	687	855	265	96	14	1	0	3,126
Double Discount (50%)	0	431	94	59	35	15	2	1	1	638
No Discount (0%)	3	1,400	898	1,468	1,090	764	138	30	0	5,791
	3	3,039	1,679	2,382	1,390	875	154	32	1	9,555
Properties Subject to Council Tax (No.)	3.00	2,521.50	1,460.25	2,138.75	1,306.25	843.50	149.50	31.25	0.50	8,454.50
Net Tax Base (Properties x Weighting)	15	15,129	10,222	17,110	11,756	9,279	1,944	469	9	65,932
Adjusted Properties (Band D Equivalents)	1.67	1,681.00	1,135.75	1,901.11	1,306.25	1,030.94	215.94	52.08	1.00	7,325.75
COUNCIL TAX 2001/02:										
General Fund Charge										
Tax Yield (£)	1,245	1,255,707	848,405	1,420,130	975,769	770,116	161,311	38,906	747	5,472,335
Charge per Property (£)	415.00	498.00	581.00	664.00	747.00	913.00	1,079.00	1,245.00	1,494.00	

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10. NON-DOMESTIC RATE INCOME ACCOUNT

2000/01		2001/02	2001/02
£000		£000	£000
(14,858)	Gross rates levied		
	General Rate		(15,391)
<u>(14,858)</u>			<u>(15,391)</u>
82	Provision for bad and doubtful debts		(13)
20	Payment of interest		2
2,302	Reliefs and other deductions (net)		2,366
4,741	Contribution to national non-domestic rate pool		6,133
<u>(7,713)</u>	Net non-domestic rate income		<u>(6,903)</u>

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10. NOTES TO NON-DOMESTIC RATE INCOME ACCOUNT

10.1. Analysis of rateable values

10.1.1. The table below sets out the gross rateable values and the deductions used to arrive at estimates of effective rateable values for 2001/02.

10.1.2. The General Fund rate in the pound is determined by the Scottish Office and the budgeted yield is the product of rate in the pound and the effective rateable value.

Rateable values 2001/02

	Fund 01/02 £000
Gross Rateable Value	32,609
Void Relief	(1,996)
Disabled Relief	(417)
Discretionary/Mandatory Relief	(2,293)
Statutory Exemptions	(128)
Estimated Effective Rateable Value	<u>27,775</u>
Amount to be raised by Rates	13,054
Amount of 2001/02 charge:	
Rate in £ (p)	47.0

10.2. Provision for bad debts

10.2.1. The following table summarises the movements on the bad debt provision during 2001/02.

Bad debt provision:

2000/01 £000		2001/02 £000	2001/02 £000
(128)	Balance as at 1st April		(180)
	Bad rate debt written off		
29	Over £250 (Council approved)	0	
1	Under £250 (delegated authority)	0	0
<u>(98)</u>			<u>0</u>
(82)	Contribution to/(from) General Fund		0
<u>(180)</u>	Balance as at 31st March		<u>0</u>

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11. PENSION FUND ACCOUNT 2001/02

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2002

2000/01		2001/02	2001/02
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable		
(3,801)	Employers	(4,682)	
(116)	Employers - Strain on fund	(217)	
<u>(1,960)</u>	Employees	<u>(2,135)</u>	
(5,877)		(7,034)	
(789)	Transfers in	(1,097)	
<u>(22)</u>	Other income	<u>(22)</u>	
(6,688)			(8,153)
	Benefits Payable		
2,202	Pensions	2,433	
885	Lump sums	818	
	Payments to and on account of leavers		
14	Refunds of contributions	11	
535	Transfers out	643	
146	Administrative expenses	136	
<u>67</u>	Interest on revenue balances	<u>57</u>	
3,849			4,098
<u>(2,839)</u>	NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(4,055)</u>
	RETURNS ON INVESTMENTS		
(3,785)	Investment income	(3,760)	
(1,244)	Change in market value of investments- Realised and unrealised	4,755	
<u>353</u>	Investment management expenses	<u>366</u>	
(4,676)	Net returns on investments		<u>1,361</u>
(7,515)	Net increase in the fund during the year		(2,694)
(103,825)	Opening net assets of the scheme		(111,340)
<u>(111,340)</u>	Closing net assets of the scheme		<u>(114,034)</u>

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11. NOTES TO PENSION FUND ACCOUNT

11.1. Introduction

The Council is Trustee for a Pension Fund covering 2,630 members (including 606 who are members of other admitted bodies), 616 pensioners and 443 deferred members. These figures do not include teachers, who are covered by the Scottish Office Pension Agency.

The admitted bodies are:

Lerwick Port Authority
Shetland Amenity Trust
Shetland Arts Trust
Shetland Recreational Trust
Shetland Fisheries Training Centre Trust
Shetland Islands Tourism
Shetland Enterprise Company
Shetland Welfare Trust
Shetland Alcohol Trust
Shetland Careers Service
ABA Services
Shetland Youth Information Service
Islesburgh Trust
Shetland Seafood Quality Control Ltd
Shetland Business Innovation Centre Ltd
CT Shetland Services
Advocacy Shetland

11.2. Administration, operation, management of the Fund

11.2.1. The Pension Fund is funded by contributions from employees and employers, as well as investment income, and pays pensions and lump sum benefits to members. The contributions from employees are fixed by statute and the employers contributed, during 2001/02, an additional £2.25 for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 1999 indicated a funding level of 98%. As a result, the rate of employer's contribution rose to £2.00 at 1 April 2000, to £2.25 at 1 April 2001 and to £2.45 at 1 April 2002. The method of calculating the employer's rate of contribution is known as the "Projected Unit" method.

This method determines the future contribution rate required by considering the benefits accruing over the next three years. The employer's contribution rate is set to ensure that the assets of the Fund are sufficient to cover the expected benefits. In order to determine the

contribution rate, a number of assumptions are made based on the historical performance of the Fund and on forecasts for the future.

These assumptions were:

Investment returns	6.3% p.a.
Salary increases	4.3% p.a.
Pension increases	2.8% p.a.
Inflation	2.8% p.a.

11.2.2. The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 1998. The Council discharges this duty by appointing a Pension Fund Management Consultative Committee comprising three councillors, one representative of the Admitted Bodies' employers, three employee representatives (one representing the Admitted Bodies' employees) and a retired beneficiary. The Management Committee is advised by relevant officers of the Council as appropriate and meets at least twice a year.

11.2.3. Actuarial valuations and fund management advice are provided by Hymans Robertson. The next valuation to 31 March 2002 should be available in late 2002.

11.2.4. At the date of the last actuarial valuation (31 March 1999) the market value of the Scheme's assets was £92.4m.

11.2.5. The Fund's investments are currently managed by Phillips & Drew. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis. Management will transfer to Capital International during 2002/03.

11.3. **Accounts preparation**

11.3.1. The accounts, which have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom, summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pension and other benefits in the future.

11.3.2. The transactions of the Fund are accounted for on an accruals basis, thereby taking into account all known and determinable amounts due by and due to the Fund in 2001/02.

11.4. **Valuation of investments**

11.4.1. Valuations of all the investments have been carried out by the fund managers, Phillips & Drew, at mid market values on 31 March 2002.

11.5. **Foreign currency translations**

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2002.

11.6. **Purchases and sales during the year**

11.6.1. The value of purchases and sales in 2001/02 were £48.1 million and £40.7 million respectively as compared to £46.9 million and £47.0 million in 2000/01.

11.7. **Fund administration costs**

11.7.1. Expenses of the Fund in 2001/02 include an administration charge from the Council of £123,939 (2000/01 £123,469). This represents the time spent by the staff of the Council (principally in Finance Services) in administering the Fund.

11.7.2. Phillips & Drew's management fee for the year amounted to £333,776, paid on the basis of 0.85% on the first £10 million invested, 0.4% on the next £15 million, 0.3% on the next £25 million, and 0.2% on the remainder.

11.8. **Investment return**

11.8.1. The Fund achieved a return of -0.9% versus the benchmark return of -1.6% during 2001/02.

11.9. **Investments**

11.9.1. The investments of the Fund are held approximately as follows:

Government securities	3%
U.K. equities and securities	59%
Overseas equities and securities	29%
Property funds	-
Unit Trusts	8%
Other	1%

11.9.2. The table below gives further details of investments held, and of movements during the year.

Investments held:

	Market Value at 31/3/01	Net (Purchases) /Sales during 2001/02	Realised (Profits)/ Losses	Unrealised (Profits)/ Losses	Market Value at 31/3/02
	£000	£000	£000	£000	£000
Fixed interest securities					
UK	(1,641)	(578)	(27)	83	(2,163)
Other	(10,150)	(2,195)	56	228	(12,061)
Equities					
Quoted-U.K.	(61,687)	(5,474)	(2,101)	6,636	(62,626)
-Other	(15,854)	(2,971)	(122)	607	(18,340)
Unquoted-U.K.	(27)	51	(28)	(7)	(11)
Index linked					
UK	0	(767)	(10)	(19)	(796)
Other	(2,776)	2,206	(392)	392	(570)
Property funds	(157)	0	0	(21)	(178)
Unit Trusts					
Property	(3,479)	557	(104)	44	(2,982)
Other	(5,177)	357	(144)	(356)	(5,320)
Other	(2,237)	1,376	61	(21)	(821)
Total investment assets	(103,185)	(7,438)	(2,811)	7,566	(105,868)

11.10. Contributions receivable and benefits payable

11.10.1. The total contributions receivable and benefits payable during the year were as follows:-

	Administering Authority £000	Admitted Bodies £000
Contributions receivable		
employers	(3,928)	(971)
employees	(1,697)	(438)
Benefits payable		
pensions	2,356	77
lump sums	694	124

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12. RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

12.1. The Council's Responsibility

12.1.1. The Council is required:

12.1.1.1. to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance.

12.1.1.2. to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

12.2. The Head of Finance's Responsibilities

12.2.1. The Head of Finance is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2002.

12.2.2. In preparing this statement of accounts, the Head of Finance has:

12.2.2.1. selected suitable accounting policies and then applied them consistently;

12.2.2.2. made judgements and estimates that were reasonable and prudent;

12.2.2.3. complied with the Code of Practice, in so far as local circumstances and the overriding requirement to present fairly the financial position and transactions of the Council permit;

12.2.2.4. kept proper accounting records which were up to date;

12.2.2.5. taken reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

To the members of Shetland Islands Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements on pages 8 to 61 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 8 to 12.

Respective responsibilities of the Chief Finance Officer and Auditors

As described on page 62 the Chief Finance Officer of the Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice. Our responsibilities, as independent auditors, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2002, and its income and expenditure for the year. We also report if, in our opinion, the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly the financial position of the Council as at 31 March 2002 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

26 September 2002