

# **SHETLAND ISLANDS COUNCIL**

## **Abstract of Accounts**

**2005/06**



## **2005/06 Abstract of Accounts**

### **1 EXPLANATORY FOREWORD**

#### **1. Introduction**

The Council's accounts for the year ended 31st March 2006 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 2005.

#### **2. Explanation of statements which follow, their purpose and relationships**

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 £106m.

##### **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 Council Tax Income Account**

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

##### **9 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.

#### **10 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

#### **11 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.

#### **12 Statement on the System of Internal Financial Control**

This statement sets out the framework within which financial control is managed and reviewed.

### **3. Overall comparison of expenditure with budget**

The deficit for the year on the Consolidated Revenue Account of £0.063m was mainly due to the requirement to utilise £3.99m from reserves following the failure of the Council to agree to budget and service cuts. This draw on reserves was revised to £7m but was ultimately underspent by £3.01m. Against budget, General Fund departmental expenditure was down £1.6m, due mainly to underspends on employee costs, whilst income from revenue support grant and Council tax was higher than expected.

Housing Revenue Account net expenditure was close to budget, with capital charges some £0.24m below budget. As the Housing support grant clawback provision was no longer required, this released £3.86m, allowing a contribution of £4.39m to be made to the Housing Repairs and Renewals Fund.

Harbour Account expenditure and income has increased due to the acquisition of Shetland Towage. The transfer from the Equalisation funds of £5.7m, exhausting those funds, meant that the transfer to the Reserve Fund was £1.06m less than allowed.

Overall, the Council's trading undertakings had another satisfactory year. The significant undertakings are judged on a three year rolling basis and both have achieved the break-even target.

### **4. Material assets acquired or liabilities incurred**

Significant major capital work during 2005/06 included work at the Kantersted respite unit (£1.3m).

Other major capital spend included the purchase of four ferries from a leasing company (£20m).

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

The Council has reaffirmed its commitment to work towards its long term financial policies of achieving:

a self-sustaining Capital Fund ;

a self-sustaining Repairs and Renewals Fund;

a self-sustaining Reserve Fund;

investment in infrastructure by utilising reserves down to a minimum of £250m.

### **6. Current borrowing facilities, actual borrowings, major financing transactions during the year**

The Council continued its Treasury Management policy in 2005/06 which consists of:

continuing to have external management arrangements for all major funds;

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

operating to a stringent set of borrowing and lending guidelines.

Within the Treasury Management policy, the Council currently finances its Housing Revenue Account from internal funds and balances and has no external borrowing.

During 2004/05 the Council conducted a tendering exercise with the result that a new banking contract was awarded to the Bank of Scotland from April 2005. The contract is for a period of five years and provides current overdraft facilities of £0.8m.

Major fixed asset acquisitions are mentioned in note 4 on page 4. Major disposals during 2005/06 occurred on Council house sales.

#### 7. **Summary of Council internal and external sources of funds**

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 2006 of £295m (£319m at 31 March 2005), included in the Balance Sheet total of £311m. 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.

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 £83.3m in cash in 2005/06, as can be seen in Note 5 to the Cash Flow Statement. There is also a contribution from the National Non-Domestic Rates Pool of £8.2m, but this is more than offset by the local contribution into that Pool of £12.1m.

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.

#### 8. **Pension Liability**

In order to comply with Financial Reporting Standard no. 17 (Retirement Benefits), a valuation of the Council's Pension Fund was made by the Fund Actuary as at 31 March 2006. This indicated a net pension liability of £55.5m compared to a net liability of £47.7m as at 31 March 2005.

It is important to recognise that FRS 17 is an accounting standard that details the pension information to be included in these accounts. It prescribes a method of calculation and some of the assumptions used and reflects the position of the Fund only on one particular day, 31 March 2006.

The pension fund is a long term commitment and the triennial actuarial valuation uses an approach that reflects that. The last valuation at 31 March 2005 in fact recorded a funding level of 99% and the contributions the Council makes to the pension fund are in line with the actuary's valuation and recommendations.

#### 9. **Statutory Trading Accounts**

The Local Government in Scotland Act 2003 repealed legislation relating to DSOs/DLOs and introduced new requirements to maintain trading accounts for significant trading operations which are required to break even over a rolling three year period. Further information is shown in note 8 to the Consolidated revenue account.

#### 10. **Purchase of Shetland Towage**

On 9 February 2006, the Council, in order to provide an integrated service at the port of Sullom Voe, purchased all of the shares in Shetland Towage from the Shetland Charitable Trust for £1.3m and subsequently made a grant of £2.3m to the company. The staff of Shetland Towage has transferred to the Council which is now providing the towage service at Sullom Voe. At 31 March 2006, the total investment of £3.6m is shown as a short term investment in the Council's balance sheet. During 2006/07, Shetland Towage will be wound up and its remaining assets will be transferred to the Council.

#### 11. **Group Accounts**

The Council has considered the SORP requirement to produce group accounts and has assessed a number of bodies using the guidance provided. Although initially it was thought that no group accounts were required, and none were prepared, it became apparent following discussions during the audit process that there was a case for their preparation. The Council therefore intends to prepare group accounts for 2006/07.

#### 12. **Trusts**

As at 1 April 2005, the Council took over the activities of the Shetland Welfare Trust in order to reduce the costs of management of the service by combining it with Council management. The staff at the six homes operated by the Trust transferred to the Council. The associated costs and income are included under Social Work in the Council's revenue account.

At 1 April 2006, the Council will be taking over most of the assets and operations provided by the Islesburgh Trust in order to bring these services under Council control and to avoid duplication.

## **2 STATEMENT OF ACCOUNTING POLICIES**

### **1. Introduction**

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. Debtors and creditors**

All known debtors and creditors have been provided for, on an actual or estimated basis, in the accounts as at 31 March 2006.

### **3. Allocation of Central Support Costs**

All central support costs are fully allocated to services. Allocations are primarily done on the basis of estimates of staff time.

### **4. Capital Charges**

General Fund services have been charged for the use of assets. This charge covers the annual depreciation of the asset plus a capital financing charge set at 3.5% of their value for assets carried at current value (2004/05 3.5%) and 4.95% for assets carried at historic cost (2004/05 4.8%).

The charge to the Housing Revenue Account is equal to the principal, interest and expenses charged by the Council's Loans Fund.

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. In 2005/06, these contributions amounted to £1.69m as opposed to £2.32m that would have been charged in compliance with the Code of Practice. This treatment ensures that charges to the users of Council harbours are based on actual rather than notional capital charges as the account operates on a commercial basis with the oil industry.

### **5. Fixed Assets and Depreciation**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis, subject to a de-minimis limit for capital expenditure of £10,000. 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.

Capital expenditure that does not provide a fixed asset or continuing benefit to the Council is written off to revenue in the year it is incurred.

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. Infrastructure and Community assets have been included at historic cost, net of depreciation.

Depreciation is provided on all assets with a finite useful life. Depreciation is not normally charged on freehold land or on non-operational investment properties.

### **6. Valuation Disclosure**

Except where noted below, most of the Council's properties which were due to be revalued this year were valued over a four month period to April 2006, and the effective date for the valuation was 1 April 2005 unless the property became operational after that date. However, for properties below the de minimis level of £10,000, the effective date for valuation remains at 1 April 1994 and these will be updated on a rolling programme of revaluations.

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 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. Council dwellings were revalued each year on an average cost calculated following the disposal of individual properties during the year. In 2003/04, this method was refined to take account of geographical variations along the lines of the 'Beacon Principle', this method has been updated to take account of disposals in the year. Non-operational properties were valued by reference to their market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions. Outstanding life and residual values have also been reviewed for all assets that have been revalued this year.

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

The valuations of operational and non-operational properties were carried out by Alan Rolfe MRICS of the Asset and Property Unit of the Council's Legal and Administration Services.

7. **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at average cost, except for Ferry and Port stock (latest price), fuel (FIFO basis) and aggregates (lower of selling price/production cost).

8. **Investments**

All investments are shown at book cost less provision, where appropriate, for loss in value.

9. **Provisions**

The Council has made provision, where necessary, for bad and doubtful debts in respect of miscellaneous debtors, non-domestic rate debtors, council tax debtors and housing rent debtors.

10. **Capital receipts**

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

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.

11. **Grants**

Revenue grants are treated as revenue income and credited to revenue in the year received.

Capital grants are treated as capital income and have been credited to the Government grants deferred account.

12. **Interest on balances**

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.

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

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.

13. **Leases**

Operating lease payments are treated as operating expenditure.

Finance lease payments are treated as part of the cost of financing capital on the revenue accounts. Details of finance and operating leases are provided in note 9 to the Consolidated Balance Sheet and note 2 to the Consolidated Revenue Account.

14. **Provisions for pensions**

Pension assets and liabilities have been included in the accounts on the basis of Financial Reporting Standard No. 17. Assets of the Pension scheme have been included at fair value, generally mid-market value, and liabilities have been measured on an actuarial basis using appropriate estimates and assumptions. In particular, scheme liabilities have been discounted at a rate linked to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Details are in note 14 to the Consolidated Balance Sheet.

**SHETLAND ISLANDS COUNCIL**

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**3 CONSOLIDATED REVENUE ACCOUNT**

**YEAR ENDED 31 MARCH 2006**

2004/05			2005/06 Expenditure £000	2005/06 Income £000	2005/06 Net £000
£000					
	<b>NET COST OF SERVICES</b>				
	<b>CONTINUING SERVICES:</b>	<b>Notes</b>			
2,079	Central services		2,908	(286)	2,622
37,294	Education services		44,456	(6,312)	38,144
5,461	Environmental services		7,692	(2,114)	5,578
1,317	Housing services		4,377	(3,416)	961
5,215	Cultural and related services		5,720	(586)	5,134
30,638	Planning and development services		7,195	(1,192)	6,003
12,273	Roads and transport services		13,859	(710)	13,149
10,028	Trading services		24,459	(12,250)	12,209
12,980	Social work		23,323	(7,858)	15,465
5,507	Corporate and democratic core		5,830	0	5,830
500	Non distributed costs	7	1,267	0	1,267
1,920	Police	1	1,686	(1)	1,685
1,333	Fire	1	2,402	0	2,402
(577)	Housing revenue account		7,702	(12,078)	(4,376)
<b>125,968</b>	<b>TOTAL CONTINUING SERVICES</b>	<b>1</b>	<b>152,876</b>	<b>(46,803)</b>	<b>106,073</b>
	<b>CORPORATE INCOME AND EXPENDITURE</b>				
(10,603)	Interest and investment income	14			(12,707)
(6,715)	Transfer from Asset Management Revenue Account	10			(6,775)
(267)	Net Surplus trading undertakings				(293)
(1,100)	Pension interest cost & expected asset return	7			177
<b>107,283</b>	<b>NET OPERATING EXPENDITURE</b>				<b>86,475</b>
	<b>APPROPRIATIONS</b>				
	Contribution to/(from) earmarked reserves:				
6,876	General Fund	15			1,514
781	Housing Revenue Account	15			4,697
2,888	Harbour Account	15			2,141
(33,394)	Contribution to/(from) Capital Financing Account				(9,448)
(900)	Movement on Pension Reserve	7			(2,165)
<b>83,534</b>	<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS</b>				<b>83,214</b>
	<b>PRINCIPAL SOURCES OF FINANCE</b>				
(7,008)	Council Tax				(7,465)
(64,165)	Revenue Support Grant				(67,482)
(8,229)	Contribution from non-domestic rate pool				(8,204)
<b>4,132</b>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>				<b>63</b>
	<b>GENERAL FUND BALANCES</b>				
(4,195)	Balance at 1st April				(63)
4,132	(Surplus)/Deficit for the year				63
0	Application of Balances in the year				0
<b>(63)</b>	<b>Balance at 31st March</b>				<b>0</b>



## SHETLAND ISLANDS COUNCIL

### 2005/06 Abstract of Accounts

#### 3 NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

##### 1. Service Expenditure Analysis of Services

The Accounting Code of Practice requires the Council to present the net cost of services using the Service Expenditure Analysis set out in the Best Value Accounting Code of Practice. The Police and Fire categories mainly relate to the payment of requisitions to respectively the Northern Joint Police Committee and the Highlands & Islands Fire Board.

The current service cost, as required under FRS17, is contained within the service lines.

##### 2. Revenue effects of acquiring assets using finance and operating leases

Finance leases are agreements where the major features of ownership of the asset pass to the Council. These leases are distinguished by longer duration, options to buy at the end of the primary period, and maintenance being the Council's responsibility. Assets under such leases are included in Other Land and Buildings in the Council's Balance Sheet.

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

The following table summarises 2005/06 payments made for assets acquired under finance and operating leases.

##### Finance and Operating Lease Payments:

2004/05		2005/06 Land & Buildings £000	2005/06 Other Assets £000	2005/06 Total £000
654	Finance leases	50	1,224	1,274
2,518	Operating leases	859	1,628	2,487
<u>3,172</u>	Total	<u>909</u>	<u>2,852</u>	<u>3,761</u>

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2006/07	£830,455	£655,042	£1,485,497
2007/08- 2010/11	£2,870,391	£1,699,289	£4,569,680
2011/12 onwards	£6,520,062	£6,080,906	£12,600,968

##### 3. Publicity expenditure

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2005/06 expenditure.

##### Publicity expenditure

2004/05		2005/06
£000		£000
159	Recruitment advertising	132
188	Other advertising	217
<u>347</u>	Total	<u>349</u>

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 2004/05 £000		Expenditure 2005/06 £000	Income 2005/06 £000	Net Expenditure 2005/06 £000
	Northern Joint Police			
1,921	Committee	1,687	0	1,687
1,333	Northern Fire Board	2,402	0	2,402
	Orkney and Shetland			
267	Valuation Joint Board	304	0	304
	Emergency Planning:			
0	Shetland Health Board	20	(20)	0
	Accommodation Charges:			
58	Child Client	0	0	0
<u>3,579</u>	<b>Total</b>	<u>4,413</u>	<u>(20)</u>	<u>4,393</u>

5. **Expenditure and Income under Goods and Services Act**

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 2004/05 £000		Expenditure 2005/06 £000	Income 2005/06 £000	Net Expenditure 2005/06 £000
	Northern Joint Police			
0	Committee	22	(22)	0
0	Northern Fire Board	5	(5)	0
<u>0</u>	<b>Total</b>	<u>27</u>	<u>(27)</u>	<u>0</u>

6. **Pension Costs (Teachers)**

In 2005/06 the Council paid an employer's contribution of £1.9m (£1.9m in 2004/05) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 12.5% 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 2005/06 these amounted to £0.56m (£0.44m in 2004/05), representing 3.68% of teachers pensionable pay (2004/05 2.89%).

7. **Pension Costs (Other Employees)**

The Local Government Pension Scheme is a funded scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets.

The Council is required to recognise the cost of retirement benefits when they are earned by employees, rather than when the benefits are eventually paid. The following transactions have been included in the Consolidated Revenue Account.

2004/05 £000		2005/06 £000
6,400	Current service costs	7,246
300	Past service costs	642
200	Curtailments and settlements	625
(8,300)	Expected return on assets	(9,407)
7,200	Interest cost	9,584
5,700	Actual employers contributions payable	6,525

Note 14 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note.

Note 6 to the statement of Total Movements in Reserves shows the costs arising from the difference between expected and actual events.

#### 8. **Significant Trading Operations**

Section 10 of the Local Government in Scotland Act 2003 requires the Council to maintain trading accounts for significant trading operations and that they should break even over a three year rolling period.

The Council has deemed as significant trading operations its Highways construction and repair undertaking and its Building Maintenance undertaking, concerned with the repair and maintenance of council houses, schools and public buildings.

The three year rolling basis period commenced in 2003/04 and both operations have met the target.

	2003/04 £000	2004/05 £000	2005/06 £000	Total £000
<b>Highways</b>				
Turnover	(7,374)	(6,157)	(6,676)	
(Surplus)/Deficit	(583)	(247)	(196)	(1,026)
<b>Building Maintenance</b>				
Turnover	(3,251)	(4,145)	(4,106)	
(Surplus)/Deficit	(38)	107	(139)	(70)

#### 9. **Audit Costs**

Audit Scotland has appointed PricewaterhouseCoopers to carry out the audit of the Council's accounts for a period of five years from April 2001. The fees for audit services undertaken in accordance with the 'Code of Audit Practice' are paid to Audit Scotland and were as follows:-

2004/05 £000		2005/06 £000
182	External Audit fees	179
51	Audit Scotland Recharge	64
<u>233</u>		<u>243</u>

10. **Asset Management Revenue Account**

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

2004/05 £000		2005/06 £000	2005/06 £000
	<u>Income</u>		
(18,265)	Capital Charges		(19,495)
-	Government Grants Released		(201)
	<u>Expenditure</u>		
8,589	Provision for Depreciation	9,106	
2,461	External Interest and Expenses	2,876	
500	Finance Lease Interest	939	
<u>11,550</u>			<u>12,921</u>
<u>(6,715)</u>	Balance to Consolidated Revenue Account		<u>(6,775)</u>

11. **Members' Allowances and Expenses**

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.

2004/05 £000		2005/06 £000
378	Allowances	385
138	Expenses	150
<u>516</u>		<u>535</u>

12. **Officers' Emoluments**

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

Remuneration Band	2004/05 No.	2005/06 No.
£40,000 - £49,999	66 (-)	57 (1)
£50,000 - £59,999	19 (12)	26 (12)
£60,000 - £69,999	6 (3)	4 (2)
£70,000 - £79,999	- (-)	- (-)
£80,000 - £89,999	1	1 (-)
£90,000 - £99,999	-	-

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

13. **Related Parties and Trusts**

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 in notes 4 and 5 to the Consolidated Revenue Account and elsewhere within this Report. The Council also provides material financial assistance to a number of organisations but the terms attached to that assistance do not give the Council effective control over those organisation's financial and operational policies.

Members of the Council exercise direct control over the Council's financial and operating policies. The Register of Members' Interest records those organisations in which members have declared an

interest. Other than those organisations mentioned below, in 2005/06, the Council made payments totalling £0.45m to organisations in which members had declared an interest.

#### **Shetland Charitable Trust**

The Trustees of the Charitable Trust comprise all the Council members and two non-council members.

The Council provides some administrative and payroll services to the Trust and its companies. Charges of £0.16m were made in the year in respect of this and £0m was owed in payroll costs.

The Trust has a wholly owned property company, Shetland Leasing and Property Developments Ltd that leases buildings and four ferries to the Council. In 2005/06, the Council made payments of £1.99m to SLAP. On 30 March 2006, the Council purchased the four ferries from SLAP for £20.05m.

#### **Other Trusts**

The Charitable Trust financially supports a number of other Trusts that provides services which complement those of the Council or are purchased by the Council in pursuit of its objectives. The Shetland Arts Trust promotes the arts throughout Shetland, the Shetland Recreational Trust provides recreational activities in a number of centres throughout Shetland, the Islesburgh Trust provides cultural, recreational and artistic services in Lerwick and the Shetland Amenity Trust provides various services mainly relating to the environment.

In 2005/06, the Council made the following payments:

Shetland Arts Trust	£0.09m
Shetland Recreational Trust	£0.10m
Shetland Amenity Trust	£0.67m

On 9 February 2006, the Council purchased all the shares in Shetland Towage from the Charitable Trust for £1.3m.

The Council provides payroll services to the Islesburgh Trust. At 31 March 2006, the Council was owed £0m in payroll costs. The annual fee for services provided was £12,028.

#### **Shetland Development Trust**

The Shetland Development Trust was established in 1996 to provide assistance to business in Shetland.

The Trustees comprise four Council Members plus four non-member Trustees. The Council provides payroll services to the Trust for which it charged the Trust £794 in 2005/06 and £0m was owed in payroll costs. It also made payments of £0.03m to the Trust.

### **14. Interest and Investment Income**

The transactions comprising Interest and Investment income are as follows:

2004/05 £000		2005/06 £000
(88)	General Fund Interest on Revenue Balances	-
(5,524)	External Capital Fund	(5,530)
(1,947)	External Repairs & Renewals Fund	(2,974)
(2,425)	External Reserve Fund	(3,489)
(204)	External Housing Repairs & Renewals Fund	(337)
(408)	External Harbour Equalisation Funds	(367)
(7)	External Insurance Fund	(10)
<u>(10,603)</u>		<u>(12,707)</u>

15. **Contributions to/from Earmarked Reserves**

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

2004/05		2005/06
£000		£000
	<b>General Fund</b>	
5,524	Contribution to external funds-Capital	5,416
1,947	-Repairs & Renewals	2,690
2,425	-Reserve Fund	3,152
7	-Insurance Fund	9
<u>(3,027)</u>	Contribution from Reserve Fund	<u>(9,753)</u>
<u><u>6,876</u></u>		<u><u>1,514</u></u>
	<b>Housing Revenue Account</b>	
	Contribution to external Housing Repairs &	
204	Renewals Fund	306
	Contribution from Housing Repairs &	
577	Renewals Fund	4,391
<u>781</u>		<u>4,697</u>
	<b>Harbour Accounts</b>	
408	Contribution to external Harbour Funds	335
8,636	Contribution to Reserve Fund	7,522
(6,121)	Contribution from Equalisation Funds	(5,677)
0	Contribution from Pilot Boat Revenue Fund	0
<u>(35)</u>	Contribution from Marine Fund	<u>(39)</u>
<u><u>2,888</u></u>		<u><u>2,141</u></u>

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**4 CONSOLIDATED BALANCE SHEET**

**AS AT 31 MARCH 2006**

31 March 2005 £000			31 March 2006 £000	31 March 2006 £000
	<b><u>LONG TERM ASSETS</u></b>	<b><u>Notes</u></b>		
	Operational assets			
43,198	Council dwellings		41,786	
92,647	Other land and buildings		90,324	
20,607	Vehicles, plant and equipment		29,567	
114,816	Infrastructure assets		114,783	
4,989	Community assets		5,066	
<hr/>				<hr/>
276,257				281,526
14,411	Non-operational assets:			<hr/>
<hr/>				17,364
290,668	TOTAL FIXED ASSETS	2		<hr/>
262,632	Long-term investments			298,890
15	Long-term debtors:Housing Loans			237,473
29	Long-term debtors:Other			6
<hr/>				<hr/>
553,344	TOTAL LONG TERM ASSETS			536,395
	<b><u>CURRENT ASSETS</u></b>			
2,351	Stocks and work in progress		2,428	
10,850	Debtors, less bad debt provisions	3	8,170	
20,919	Short term investments		20,134	
3,321	Cash and bank		27,811	
<hr/>				<hr/>
590,785	TOTAL ASSETS			58,543
	<b><u>CURRENT LIABILITIES</u></b>			
(14,416)	Creditors	3	(32,825)	
0	Bank overdraft		0	
<hr/>				<hr/>
576,369	TOTAL ASSETS LESS CURRENT LIABILITIES			(32,825)
	<b><u>LONG-TERM LIABILITIES</u></b>			
(1,402)	Long-term creditor	3	0	
(12,775)	Deferred liabilities	9	(50)	
(44)	Deferred capital receipts		(32)	
(47,700)	Pension Asset/ (Liability)	14	(55,456)	
<hr/>				<hr/>
514,448	TOTAL ASSETS LESS LIABILITIES			(55,538)
<hr/>				<hr/>
<u>514,448</u>				<u>506,575</u>

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**4 CONSOLIDATED BALANCE SHEET**

**AS AT 31 MARCH 2006**

31 March 2005 £000		<b>Notes</b>	31 March 2006 £000	31 March 2006 £000
	<b><u>REPRESENTED BY:</u></b>			
(85,751)	Fixed Asset Restatement Account			(77,720)
(137,330)	Capital Financing Account			(167,515)
(3,473)	Government Grants-Deferred			(5,775)
47,700	Pension Reserve	14		55,456
0	Usable Capital Receipts Reserve			0
(153,832)	Capital Fund		(127,242)	
(84,891)	Repairs and Renewals Fund		(92,522)	
(96,710)	Reserve Fund		(91,038)	
(230)	Insurance Fund		(219)	
(335,663)				(311,021)
	<b>Balances</b>			
(63)	General Fund		0	
132	Shetland College of Further Education		0	0
(514,448)	<b>TOTAL EQUITY</b>			(506,575)

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



## 2005/06 Abstract of Accounts

### 4 NOTES TO THE CONSOLIDATED BALANCE SHEET

#### 1. Introduction

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 the summarised information on the fixed assets held.

#### 2. Summary of capital expenditure and income for the year

The table below analyses the sources of finance utilised in 2005/06 to provide for the expenditure incurred.

##### Sources of finance for capital accounts in 2005/06:

2004/05 £000		2005/06 £000
595	Loans	(259)
18,196	Capital receipts	1,697
2,110	Grant receipts	2,503
27,623	Revenue/Other	36,393
<u>48,524</u>	Total	<u>40,334</u>

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2006. These amounts relate to contracts commenced but not concluded by the end of the financial year.

##### Significant commitments under capital contracts beyond 31 March 2006:

	Outstanding Contractual Liability beyond 31/3/06 £000
Various ICT projects	2,534
Kantersted Special Needs Unit	1,130
Wind Farm Development	990
B9704 Trondra Phase 2	780
Anderson High School	750
Office Accommodation	607
Landfill	577
Bressay Bridge	500
Sumburgh Airport extension	459
Sandwick JHS	414
Mid Yell JHS	407
Other projects under £400,000	2,126
Total	<u>11,274</u>

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

**Movements in fixed assets in 2005/06 were:**

<b>Operational Assets</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Vessels, Plant &amp; Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Total</b>	<b>Non-Operational Assets</b>	<b>Total All Assets</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Certified valuation at 31 March 2005	43,151	96,396	29,283	124,982	4,995	298,807	14,536	313,343
Accumulated Depreciation & Impairment	47	(3,749)	(8,676)	(10,166)	(6)	(22,550)	(125)	(22,675)
<b>Net book Value of assets at 31 March 2005</b>	<b>43,198</b>	<b>92,647</b>	<b>20,607</b>	<b>114,816</b>	<b>4,989</b>	<b>276,257</b>	<b>14,411</b>	<b>290,668</b>
<b>Movement in 2005/06</b>								
Additions	0	0	9,025	2,535	77	11,637	6,608	18,245
Disposals	(1,422)	(107)	(885)	(89)	0	(2,503)	(132)	(2,635)
Revaluations	10	200	(309)	0	0	(99)	0	(99)
Depreciation	(1,602)	(2,417)	(2,212)	(2,817)	0	(9,048)	(58)	(9,106)
Depreciation write back	1,602	1	3,341	0	0	4,944	3	4,947
Transfers/Appropriations	0	0	0	3,406	0	3,406	(3,468)	(62)
Removal of credits *	0	0	0	4,248	0	4,248	0	4,248
Write out unidentified assets **	0	0	0	(7,316)	0	(7,316)	0	(7,316)
<b>Net Book Value of Assets at 31 March 2006</b>	<b>41,786</b>	<b>90,324</b>	<b>29,567</b>	<b>114,783</b>	<b>5,066</b>	<b>281,526</b>	<b>17,364</b>	<b>298,890</b>

\* In 2004/05, a number of infrastructure assets were identified as having grants wrongly offset against expenditure, creating credits which have been written out in 2005/06.

\*\* Capital expenditure on infrastructure assets in prior years that enhanced the value of assets but could not be attributed to individual assets was identified and written out of the accounts.

## Deferred Charges

Deferred Charges are expenditure of a capital nature which does not impact on the acquisition or enhancement of a council fixed asset.

The table below analyses the movement in deferred charges in 2005/06.

	Balance at 1/4/05	Expenditure in 2005/06	Charged to Revenue in 2005/06	Balance at 31/03/06
	£000	£000	£000	£000
<u>Improvement Grants</u>				
Other Capital Grants	0	3,302	(3,302)	0
Marina Provision	0	17	(17)	0
Housing Improvement & Repair Grants	0	4	(4)	0
Reserve Fund Property Grants	0	55	(55)	0
Island Games 2005	0	23	(23)	0
General Assistance Grants	0	127	(127)	0
Agri Landslip Hardship Grants	0	1	(1)	0
	0	3,529	(3,529)	0
<u>Other</u>				
Shetland Amenity Trust Grant	0	60	(60)	
Feasibility Studies	0	49	(49)	0
	0	109	(109)	0
Total	0	3,638	(3,638)	0
2004/05	0			
Improvement Grants	0	27,827	(27,827)	0
Other		105	(105)	0
	0	27,932	(27,932)	0

## Progress of Valuation Rolling Programme

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets.

The valuations of the Operational and Non-operational properties have been carried out by Alan Rolfe MRICS of the Asset and Property Unit.

The basis for valuation is set out in the statement of accounting policies.

GBV as at 31/03/06	Council Dwellings	Other land and Buildings	Vehicles, Vessels, Plant & Equipment	Non- Operational Assets	Total All Assets
	£000s	£000s	£000s	£000s	£000s
Valued at historical cost	0	0	N/A	10,114	10,114
Valued at current value in:					
2005/06	41,739	2,200	N/A	0	43,939
2004/05	43,151	60,012	N/A	1,875	105,038
2003/04	42,976	8,659	N/A	187	51,822
2002/03	46,034	6,948	N/A	1,712	54,694
2001/02	49,792	2,667	N/A	549	53,008
2000/01	N/A	N/A	N/A	N/A	N/A

Council Dwellings are revalued each year on an average cost calculated following the disposal of individual properties during the year. This method was refined last year to take account of

geographical variations along the lines of the 'Beacon Principle'. This has been updated for actual acquisitions and disposals during 2005/06.

The figure valued at historical cost under Non-operational assets is in respect of work in progress assets.

The Table below gives information on the numbers of some of the Fixed Assets held by the Council as at 31 March 2006.

<b>2005</b>		<b>2006</b>
2,044	<b>Council Dwellings</b>	1,994
	<b>Community Assets</b>	
32	Burial Grounds	32
18	Museum Exhibits:	18
1	Other Community Assets	1
	<b>Non Operational Assets</b>	
44	General Non Operational Assets	42
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	<b>Operational Land and Buildings</b>	
1	Airstrips	1
1	Bus Stations	1
4	Car Parks	4
1	Town Hall	1
1	Leisure Facilities	1
1	Libraries	1
3	Museums	3
16	Offices	15
26	Public Conveniences	26
35	Schools	35
0	Colleges	0
7	Social Services Homes	7
28	Other Misc Land and Bldgs	27
2	Finance leases	2
	<b>Vehicles Plant and Equipment</b>	
216	Vehicles	219
130	Plant	132
10	Ferries	13
5	Boats	6
20	Computer Equipment	20
15	Other Equipment	15
2	Finance leases	0
	<b>Infrastructure Assets</b>	
1,045	Roads (km)	1,045
	<b>Investment Properties</b>	
250	Strategic Land Holdings (acres)	250

The entry for computer equipment reflects the fact that individual computers are not held within the Asset Register unless they are over the de-minimis sum.

### 3. **Analysis of Debtors and Creditors**

This note shows the main constituents of debtors, creditors and long-term creditors in the Consolidated Balance Sheet.

31 March 2005 £000		31 March 2006 £000
<b>Debtors:</b>		
2,309	Sundry Debtors (less bad debt provision)	3,106
235	Recoverable Costs	131
1,046	Value Added Tax	755
453	Council Tax	481
1,597	Non Domestic Rates	252
180	Rents	278
451	Payroll	6
4,579	Other Debtors	3,161
<u>10,850</u>	Total	<u>8,170</u>
<b>Creditors:</b>		
(6,726)	Sundry Creditors	(25,657)
(2,453)	Housing Support grant provision	0
(1,471)	Non Domestic Rates	(2,525)
(1,653)	Government Grants	(1,045)
(416)	Employee	(370)
(402)	Council Tax	(559)
(1,295)	Other Creditors	(2,669)
<u>(14,416)</u>		<u>(32,825)</u>
<b>Long Term Creditors:</b>		
<u>(1,402)</u>	Housing Support grant provision	<u>0</u>

### 4. **Analysis of net assets employed by the various funds**

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 2005 £000		31 March 2006 £000
85,751	Fixed Asset Restatement Account	77,720
137,330	Capital Financing Account	167,515
3,473	Government Grants-Deferred	5,775
(47,700)	Pension Reserve	(55,456)
0	Usable Capital Receipts Reserve	0
230,246	General Fund	206,620
88,666	Reserve Fund	88,392
7,894	Housing Revenue Account	12,581
8,788	Harbour Accounts	3,428
<u>514,448</u>	Total	<u>506,575</u>

### 5. **Analysis of borrowing repayable in excess of 12 months**

The Council has no borrowings repayable in excess of 12 months.

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

The Council administers, as sole trustee, 8 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. As such, these individual funds have not been subject to audit.

**Trust funds:**

Fund Balance at 31/3/05  £000		Fund Balance at 31/3/06  £000
(600)	Zetland Educational Trust	(619)
(46)	Gilbertson Trust	(47)
(3)	William Strong Bequest	(3)
(6)	Other	(6)
<u>(655)</u>	Total	<u>(675)</u>

The Zetland Educational Trust, with an income of £28,700 and expenditure of £9,600, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,260, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £200 whilst the William Strong Bequest makes an annual payment to the ten oldest persons in Fair Isle. The other trusts are, due to their low annual income, dormant.

7. **Events after the Balance Sheet Date**

There are no events occurring after the Balance Sheet date that should be reflected in the statement of accounts.

The accounts were issued on 29 September 2006 and were authorised for issue by Graham Johnston B.Sc. (Hons) C.P.F.A., Head of Finance for the Council.

8. **Details of insurance provisions and the risk carried**

The Council operates an insurance fund to offset any uninsured losses and excesses on claims. 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. The Council carries some uninsured risks. These are:

- Theft cover (with the exception of computers and some specialised equipment);
- Gradually occurring pollution;
- Terrorism damage in excess of £100,000 per building.

9. **Assets held under finance leases**

The Council holds other land and buildings valued at £0.34m under finance lease. As at 31 March 2006 some £0.29m of this sum has been depreciated, leaving a net value on the Balance Sheet of £0.05m. The future cash payments under finance leases are as follows:-

2006/07                      £49,908

10. **Contingent Assets and Liabilities**

Former part time employees of the Council have submitted a claim for compensation for being denied access to the Council's pension scheme which, at the time, was open only to full time employees. The claims have been sisted pending resolution of certain test cases nationally. The Council may be liable for backdated pension contributions from 1976 although the exact amount of contributions and the number of employees affected cannot be determined at this stage.

The Council is currently in the process of finalising the Single Status agreement which will align the terms and conditions for manual and other workers. No provision has been made for the costs of the agreement as these cannot yet be determined due to agreements not yet concluded. However, current estimates suggest an annual addition of £0.5m to the annual pay bill and £9m over five years for pay preservation.

Until Single Status is agreed, the amount of any potential obligations in respect of equal pay claims continues to be difficult to quantify however work done to date regarding the claims which have now been lodged with the Council indicates a range of £3-4m.

11. **Movements in Provisions**

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

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

The tables below show the movement in the provision.

2004/05 £000		2005/06 £000
(515)	Opening balance-General Fund	(552)
59	Miscellaneous Invoices written off	28
55	Non-domestic Rates written off	48
44	Council Tax written off	47
0	Cash received on debts written off	(3)
(195)	Charge to General Fund for new provision	(14)
<u>(552)</u>		<u>(446)</u>
(134)	Opening balance-Housing Revenue Account	(201)
11	Miscellaneous Income written off	6
34	Rents written off	37
(112)	Charge to HRA for new provision	18
<u>(201)</u>		<u>(140)</u>

12. **Euro Costs**

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

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

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

13. **Depreciation Methodologies**

The Council provides for depreciation on all fixed assets with a finite useful life.

Depreciation is provided on a straight line basis over the useful life of the asset. Depreciation was charged on Council Dwellings for the first time in 2002/03. There are a number of non-operational assets that are not depreciated as the asset has not yet been brought into use.

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 MRICS of the Asset and Property Unit.

The useful lives of various classes of assets are given below:

<b>Asset</b>	<b>Years</b>
Council Dwellings	30
Community Assets	100
Infrastructure Assets	0- 60
Operational Land & Buildings	0- 120
Vehicles, plant, ferries, boats & equipment	0- 30
Non-operational Land & Buildings	0- 60

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

<b>Asset</b>	<b>Depreciation 2005/06 £000</b>	<b>Cumulative Depreciation £000</b>
Council Dwellings	1,602	(47)
Community Assets	0	6
Infrastructure assets	2,817	12,983
Operational Land & Buildings	2,417	6,166
Vehicles, plant, ferries, boats & equip	2,212	7,547
Non operational assets	58	181
	<u>9,106</u>	<u>26,836</u>



#### 14. Pension Assets and Liabilities

In accordance with Financial Reporting Standard No.17 (Retirement Benefits) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to the pension scheme for its employees. Although these benefits will not actually be paid until employees retire, the Council's commitment to make such payments requires to be disclosed at the time employees earn their future entitlement.

The Council participates in two formal pension schemes, the Local Government Superannuation Scheme which it itself administers and the Teachers Pension Scheme administered by the Scottish Executive. In addition, the Council has liabilities for discretionary pension payments outside the main schemes.

The Local Government Superannuation (Scotland) Scheme is a funded scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets. In 2005/06, pension costs have been charged to the Consolidated Revenue Account on the basis of the contributions payable for the year to the Pension Fund, based on the formal actuarial valuation as at 31 March 2002.

The net pension liability of £55.5m exceeds the General Fund balance of £0.00m by £55.5m. The actuarial valuation sets the appropriate employer's contribution rates and this, together with returns on investments, will be utilised to meet the fund's commitments.

#### **Net Pension Liability**

The Council's assets and liabilities amounted to:

<b>2005</b>		<b>2006</b>
<b>£'000</b>		<b>£'000</b>
126,600	Share of Pension Fund Assets	168,551
(161,200)	Less: Estimated liabilities in Pension Fund	(204,497)
(13,100)	Estimated liabilities for discretionary pensions	(19,510)
<u>(47,700)</u>	Net pension asset/(liability)	<u>(55,456)</u>

Assets are valued at fair value, principally market value for quoted investments and an estimate for unquoted investments, and consist of:

<b>2005</b>			<b>2006</b>		
	Market Value	Expected rate of return		Market Value	Expected rate of return
%	£'000	%		£'000	%
86.3	109,267	7.7	Equity Investments	154,176	7.4
10.2	12,933	4.8	Bonds	10,817	4.6
0.0	0	5.7	Property	0	5.5
3.5	<u>4,400</u>	4.8	Cash	<u>3,558</u>	4.6
	<u>126,600</u>			<u>168,551</u>	

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value. The main assumptions used in the calculation are:

<b>2005</b>		<b>2006</b>
%		%
2.9	Price Increases	3.1
4.4	Salary Increases	4.6
2.9	Pension Increases	3.1
5.4	Discount Rate	4.9

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**5 TOTAL MOVEMENTS IN RESERVES**

	Fixed Asset Restatement Account	Capital Financing Account	Government Grants Deferred	Capital Fund	Usable Capital Receipts Reserve	Pilot Boat Renewal Fund	Total
	£000	£000	£000	£000	£000	£000	£000
<b>CAPITAL RESERVES</b>							
Balances 1/4/2005	(85,751)	(137,330)	(3,473)	(153,088)	0	(744)	(380,386)
Net (surplus)/deficit for year	0	2,623	201	(8,052)	0	(38)	(5,266)
Unrealised gains from revaluation of fixed assets	8,031	0	0	0	0	0	8,031
Value of assets disposed of	0	0	0	0	0	0	0
Proceeds of disposal	0	0	0	0	(1,685)	0	(1,685)
Capital grants	0	0	(2,503)	0	0	0	(2,503)
Other capital receipts	0	0	0	0	(12)	0	(12)
Financing of fixed assets	0	(32,808)	0	34,680	1,697	0	3,569
Applied to repay Debt	0	0	0	0	0	0	0
<b>Balance 31/3/2006</b>	<b>(77,720)</b>	<b>(167,515)</b>	<b>(5,775)</b>	<b>(126,460)</b>	<b>0</b>	<b>(782)</b>	<b>(378,252)</b>

Balance as at 1/4/05	Net (surplus)/deficit for Year	Financing of Assets	Appropriation to/from revenue	Actuarial gains & losses for pensions	Balance as at 31/03/06
£000	£000	£000	£000	£000	£000

**REVENUE RESERVES**

General Fund	(63)	3,991	0	(3,928)	0	0
Housing Revenue Account	0	0	0	0	0	0
Pension Reserve	47,700	0	0	2,165	5,591	55,456
Reserve Fund	(88,666)	(3,736)	0	4,010	0	(88,392)
Repairs & Renewals Fund	(76,878)	(2,939)	0	0	0	(79,817)
Housing Repairs & Renewals Fund	(7,894)	(296)	0	(4,391)	0	(12,581)
Harbour Charge Equalisation Funds	(5,444)	5,444	0	0	0	0
Marine Superannuation Fund	(2,600)	(46)	0	0	0	(2,646)
Insurance Fund	(230)	11	0	0	0	(219)
Quarry Repairs & Renewals Fund	(119)	(5)	0	0	0	(124)
Shetland College of F.E. Balance	132	(132)	0	0	0	0
Devolved School Management Balance	0	0	0	0	0	0
<b>Total</b>	<b>(134,062)</b>	<b>2,292</b>	<b>0</b>	<b>(2,144)</b>	<b>5,591</b>	<b>(128,323)</b>

## **SHETLAND ISLANDS COUNCIL**

### **2005/06 Abstract of Accounts**

#### **5 NOTES TO THE TOTAL MOVEMENTS IN RESERVES STATEMENT**

##### **1. Capital Reserves**

The Fixed Asset Restatement Account and the Capital Financing Account 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 account is available for use by the Council for its purposes.

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 is managed by Baillie Gifford and is mainly invested in bonds.

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.

The Pilot Boat Renewal Fund was established by the Council, as Pilotage Authority in 1983 to defray expenditure on the building of vessels for boarding and landing duties. It has been funded by contributions from the Harbour Account and is invested in the Council's Loans Fund.

##### **2. Revenue Reserves**

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.

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.

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.

The Marine Superannuation Fund was established by contributions from the Harbour Account for the purpose of covering the unfunded element of pensions of Harbour staff.

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

The above Funds are invested together by Baillie Gifford and Henderson Global Investors who manage equity portfolios and Insight Investment Management who manage a bond portfolio.

The Quarry Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act, 1975 to fund environmental works at Council quarries. It is invested in the Council's Loans Fund.

The Shetland College of F.E., although part of the Council, is required to report to its funding bodies on a financial year ending 31 July. Its balance after eight months operation (August – March) is therefore carried forward rather than being subsumed within the General Fund.

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

##### **3. Accounting Policies**

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, note 5.

#### 4. **Fund Managers**

As mentioned in notes 1 and 2 above, the Council's funds are largely managed externally by fund managers.

The managers hold funds on behalf of the Council with a book value at 31 March 2006 of £254.8m.

The market value of the funds at 31 March 2006 was £287.5m and was invested as follows:

	Amount (£m)	%
UK equities	120.3	42
Overseas equities	48.1	17
UK Government bonds	102.0	35
Other bonds	0.4	0
Cash	16.7	6
	<u>287.5</u>	<u>100</u>

#### 5. **Housing Revenue Account**

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund.

In 2005/06, a contribution of £4.39m was made from the Housing Revenue Account to the Housing Repairs and Renewals Fund (2004/05 £0.58m contribution from the Housing Revenue Account).

#### 6. **Pension Reserve**

The Pension Reserve shows the surplus or deficit on pensions as calculated according to the strictures of Financial Reporting Standard No 17 (Retirement Benefits). This balance is not available for use by the Council but it does give an indication of the long term solvency of the pension fund.

The actuarial gains and losses shown as movements on the Pension Reserve can be analysed as follows, measured as absolute amounts and as a percentage of assets or liabilities.

2005		2006	
£000		£000	
3,300	Difference between the expected and actual return on assets	22,138	
126,600	Value of assets	168,551	
2.6%	Percentage of assets	13.1%	
(800)	Experience gain/(loss) on liabilities	102	
174,300	Present value of liabilities	224,007	
0.5%	Percentage of the present value of liabilities	0%	
(32,400)	Change in financial assumptions underlying the present value of liabilities	(27,831)	
18.6%	Percentage of the present value of liabilities	12.4%	

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Account**

**6 CASHFLOW STATEMENT**

2004/05		2005/06	2005/06
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
69,174	Cash paid to and on behalf of employees	76,745	
50,649	Other operating cash payments	36,388	
370	Housing Benefit paid out	343	
4,560	National Non-Domestic Rates : payments to Pool	1,861	
			115,337
	<b>Cash Inflows</b>		
(3,379)	Rents (after rebates)	(3,396)	
-	Community Charge income (after rebates)	-	
(6,321)	Council Tax income (after rebates)	(6,877)	
(10,451)	Non-domestic rate receipts	(12,463)	
	National Non-Domestic Rates : receipts from Pool		
(65,079)	Revenue Support Grant	(66,877)	
(392)	DSS grants for benefits	(362)	
(13,313)	Other government grants	(13,180)	
(6,648)	Other operating cash receipts	(8,370)	
(16,743)	Cash received for goods & services	(25,954)	
			(137,479)
2,427	NET REVENUE CASH (IN)/OUTFLOW		(22,142)
	<b>SERVICING OF FINANCE</b>		
	<b>Cash Outflows</b>		
0	Interest paid	0	
500	Interest element of finance leases	939	
			939
	<b>Cash Inflows</b>		
(1,630)	Dividends received	(4,390)	
(8,011)	Interest received	(8,437)	
			(12,827)
(6,714)	BALANCE c/f		(34,030)

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**6 CASHFLOW STATEMENT (continued)**

2004/05		2005/06	2005/06
£000		£000	£000
(6,714)	BALANCE b/f		(34,030)
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
21,408	Purchase of fixed assets	37,817	
153,647	Purchase of long-term investments	213,692	
14,146	Other capital cash payments	2,827	
			254,336
	<b>Cash Inflows</b>		
(1,284)	Sale of fixed assets	(1,685)	
(167,653)	Sale of long-term investments	(239,720)	
(1,641)	Capital grants received	(2,927)	
(13)	Other capital cash receipts	(13)	
			(244,345)
	<b>ACQUISITIONS AND DISPOSALS</b>		
0	Investment in subsidiary undertakings	3,600	
			3,600
<u>11,896</u>	Net cash inflow/outflow before financing		<u>(20,439)</u>
	<b>MANAGEMENT OF LIQUID RESOURCES</b>		
(11,484)	Increase/(decrease) in short term investments		(4,385)
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
154	Repayments of amounts borrowed-finance leases	334	
0	Repayments of amounts borrowed-other	0	
			334
	<b>Cash Inflows</b>		
0	Repayments of amounts loaned	-	
0	New loans raised	0	
			0
<u>566</u>	(INCREASE)/DECREASE IN CASH		<u>(24,490)</u>

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**6 NOTES TO THE CASH FLOW STATEMENT**

**1. Analysis of and Reconciliation to Net Debt**

**Reconciliation to Net Debt**

2004/05 £000		2005/06 £000
566	(Increase)/decrease in Cash	(24,490)
0	Decrease in Debt Financing	0
<u>11,484</u>	(Increase)/decrease in Liquid Resources	<u>785</u>
12,050		(23,705)
<u>(36,290)</u>	Opening Net Debt	<u>(24,240)</u>
<u>(24,240)</u>	Closing Net Debt	<u>(47,945)</u>

**Analysis of Net Debt**

	Balance at 31/3/05 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/06 £000
Cash and bank	(3,321)	(24,490)	0	(27,811)
Overdraft	0	0	0	0
		<u>(24,490)</u>		
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
		<u>0</u>		
Current Investments	(20,919)	785	0	(20,134)
Total	<u>(24,240)</u>	<u>(23,705)</u>	<u>0</u>	<u>(47,945)</u>

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

2004/05 £000		2005/06 £000	2005/06 £000
4,132	(Surplus)/Deficit for Year		63
	<b><u>Non cash transactions</u></b>		
(2)	Contributions to/from reserves	3,580	
0	Transfer from DLO/DSO surplus	0	
(1,912)	Loans Fund principal repayments	(1,947)	
<u>(843)</u>	Capital from current revenue	<u>(1,688)</u>	(55)
	<b><u>Items on an accruals basis</u></b>		
66	Movement in stocks	77	
3,102	Movement in debtors	(3,176)	
<u>(398)</u>	Movement in creditors	<u>(15,850)</u>	(18,949)
	<b><u>Items classified elsewhere</u></b>		
(154)	Finance lease capital	(334)	
(500)	Finance lease interest	(939)	
(2,017)	Interest paid	(2,583)	
<u>953</u>	Other	<u>655</u>	<u>(3,201)</u>
<u><u>2,427</u></u>			<u><u>(22,142)</u></u>

3. **Reconciliation of Relevant Movements within Financing and Management of Liquid Resources**

	Balance at 31/3/05 £000	Balance at 31/3/06 £000	Movement 2005/06 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	20,919	20,134	785
<b>Financing</b>			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Principal element of finance lease rental			<u>334</u>
			<u><u>334</u></u>

4. **Definition of Liquid Resources**

Liquid resources are defined as short term investments.

5. **Analysis of government grants**



**Government grants received in 2005/06:**

2004/05 £000		2005/06 £000	2005/06 £000
(65,079)	Revenue Support Grant		(66,877)
	Rebates Grants		
(728)	Council Tax Rebate	(782)	
(1,910)	Rent Rebate	(2,210)	
(392)	Rent Allowance	(362)	
			(3,354)
	Other Revenue Grants		
(2,656)	Housing Support Grant	(2,446)	
(1,239)	Further Education Grant	(1,542)	
(479)	Training Grants	(388)	
(20)	Milk Subsidy	(15)	
(38)	Housing Benefit Administration	(39)	
(45)	Council Tax Administration	(46)	
(6,197)	Other	(5,713)	
			(10,189)
<u>(78,783)</u>	Total Revenue Grants		<u>(80,420)</u>
(1,641)	Capital Grants		(2,927)
<u><u>(80,424)</u></u>	Total		<u><u>(83,347)</u></u>

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**7 HOUSING REVENUE ACCOUNT**

£000		£000	£000
	<b>EXPENDITURE</b>		
2,242	Repairs and maintenance	2,481	
409	Supervision and management	375	
4,367	Capital financing costs	4,434	
112	Bad or doubtful debts	(18)	
<u>557</u>	Other expenditure	<u>430</u>	
7,687			7,702
	<b>INCOME</b>		
(4,948)	Dwelling rents (gross)	(5,017)	
(359)	Non-dwelling rents (gross)	(491)	
(2,656)	Housing Support Grant	(2,446)	
<u>(301)</u>	Other income	<u>(4,124)</u>	
(8,264)			(12,078)
(577)	(Surplus)/Deficit for Year		(4,376)
0	Pension interest cost & expected return on assets		17
	Appropriation to/(from) Housing		
577	Repairs and Renewals Fund		4,391
<u>0</u>	Transfer to Pension Reserve		<u>(32)</u>
<u><u>0</u></u>			<u><u>0</u></u>

**2005/06 Abstract of Accounts**

**NOTES TO THE HOUSING REVENUE ACCOUNT**

**Number and types of dwelling**

**Housing stock:**

31 March 2005		31 March 2006	
No.		No.	
59	1 Apartment	58	
423	2 Apartment	414	
592	3 Apartment	577	
791	4 Apartment	763	
43	5 Apartment	39	
2	6 Apartment	2	
1	8 Apartment	1	
<u>1,911</u>	Total	<u>1,854</u>	

**Amount of rent arrears**

The table below summarises the rent arrears position.

The 2006 figures are not directly comparable with 2005. This was due to a problem with the computerised rents system which meant that overpayments of housing benefit were included along with genuine rent arrears. Although this problem has now been solved, the figures at 31 March 2005 could not be restated.

The trend shown below of fewer tenants in arrears and a fall in arrears as a share of gross rent is confirmed when comparing 2006 with comparable figures from 2004.

The number of properties in arrears has decreased by 39 over the period.

**Rent arrears:**

31 March 2005		31 March 2006	
215	Amount (£000)	146	
6.79	Amount as share of gross rents (%)	2.68	
517	Number of properties in arrears (No.)	478	
21.9	Properties in arrears as share of total stock (%)	25.7	
415	Average amount per property in arrears (£)	306	

### **Provision for bad debts**

The following table summarises the movements on the bad debt provision during 2005/06

#### **Bad debt provision:**

2004/05		2005/06	2005/06
£000		£000	£000
(134)	Balance as at 1st April		(201)
	Bad rent debt written off		
18	Over £1,000 (Council approved)	22	
16	Under £1,000 (delegated authority)	15	
			37
11	Miscellaneous bad debt written off		6
(89)			(158)
(112)	Contribution to/(from) Housing Revenue Account		18
(201)	Balance as at 31st March		(140)

### **Housing Support Grant clawback**

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 the capital charges element of HSG is adjusted three years later to reflect the actual charges, and the amount of HSG is subsequently adjusted.

The Council's capital charges are consistently below the Scottish Executive estimate due to the achievement of a borrowing rate 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 three years hence. During 2005/06, the Scottish Executive reduced the Council's HSG in respect of capital charges relating to 2002/03.

At 31 March 2006, the Council had provided £3.85m in respect of anticipated clawback. Following the resolution of discussions with the Scottish Executive, it was determined that the clawback provision was no longer required. It was therefore released back to the Housing Revenue Account. The amounts relating to each year are:

2001/02	£0.85m
2002/03	£1.6m
2003/04	£1.4m

The result is that the Housing Repairs and Renewals Fund has received a cash injection that, in part, will be used to fund existing property maintenance and new housing throughout Shetland.

## SHETLAND ISLANDS COUNCIL

### 2005/06 Abstract of Accounts

#### 8 COUNCIL TAX INCOME ACCOUNT

2004/05		2005/06	2005/06
£000		£000	£000
	Gross Council Tax levied		
(8,175)	Council Tax	(8,622)	
<u>(8,175)</u>			<u>(8,622)</u>
(50)	Council Tax benefits (net of Government grant)		10
52	Provision for bad and doubtful debts		56
1,134	Other deductions		1,053
31	Prior year adjustments		38
<u>(7,008)</u>	Net Council Tax income		<u>(7,465)</u>

#### 1. Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2005/06 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.

#### 2. Charge setting

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

#### 3. Deductions

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

##### Exemptions

Council Tax will be payable on almost all houses. A few however will be exempt. Houses where all the residents are students or are under 18 years old or are persons with a severe mental impairment will be exempt. So will some classes of empty property though in many cases only for a limited period.

##### Discounts

Council Tax bills can be reduced by discounts for dwellings with less than two adults. If only one adult lives there, the bill may be cut by 25%. If the property is unoccupied and is no ones sole or main residence, the bill may be cut by up to 50%. If the property is a second home or long term empty the discount will only be 10%. Certain persons will not be counted when establishing the number of residents, these are; students, student nurses, apprentices, YTS trainees, persons with a severe mental impairment, adults for whom child benefit is still payable, people absent in nursing homes or hospitals, prisoners, care workers, and members of religious communities.

##### Reliefs

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

## COUNCIL TAX VALUATION BANDS 2005/06

	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.)		3,210	1,767	2,489	1,484	959	172	37	2	<b>10,120</b>
Gross Tax Base (Properties x Weighting)		19,260	12,369	19,912	13,356	10,549	2,236	555	36	<b>78,273</b>
Adjusted Properties (Band D Equivalents)		2140.00	1374.33	2212.44	1484.00	1172.11	248.44	61.67	4.00	<b>8,697</b>
Vacant Properties (No.):										
Mandatory Standard Exemptions		(164)	(83)	(62)	(21)	(4)	(3)	(1)	(1)	<b>(339)</b>
Chargeable Dwellings subject to Disabled Reduction (No.)		(10)	(9)	(13)	(11)	(6)	0	(1)	0	<b>(50)</b>
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	10	10	13	11	6	0	1	0	0	<b>51</b>
Class 18 (MoD) Dwellings (No.)	0	24	22	7	0	1	0	0	0	<b>54</b>
Revised Total Properties (No.)	<b>10</b>	<b>3,070</b>	<b>1,710</b>	<b>2,432</b>	<b>1,458</b>	<b>950</b>	<b>170</b>	<b>35</b>	<b>1</b>	<b>9,836</b>
Types of Property (No.):										
Single Discount (25%)	4	1,275	693	906	305	126	9	3	0	<b>3,321</b>
Double Discount (50%)	0	424	95	63	37	20	4	1	1	<b>645</b>
No Discount (0%)	6	1,346	900	1,456	1,116	803	157	31	0	<b>5,815</b>
	<b>10</b>	<b>3,045</b>	<b>1,688</b>	<b>2,425</b>	<b>1,458</b>	<b>949</b>	<b>170</b>	<b>35</b>	<b>1</b>	<b>9,781</b>
Properties Subject to Council Tax (No.)	9.00	2,514.25	1,467.25	2,167.00	1,363.25	907.50	165.75	33.75	0.50	<b>8,628.25</b>
Net Tax Base (Properties x Weighting)	45	15,086	10,271	17,336	12,269	9,983	2,155	506	9	<b>67,659</b>
Adjusted Properties (Band D Equivalents)	5.00	1,676.17	1,141.19	1,926.22	1,363.25	1,109.17	239.42	56.25	1.00	<b>7,517.67</b>
<b>COUNCIL TAX 2005/06:</b>										
<b>General Fund Charge</b>										
Tax Yield (£)	4,905	1,644,320	1,119,512	1,889,624	1,337,348	1,088,093	234,868	55,181	981	<b>7,374,831</b>
<b>Charge per Property (£)</b>	<b>545.00</b>	<b>654.00</b>	<b>763.00</b>	<b>872.00</b>	<b>981.00</b>	<b>1,199.00</b>	<b>1,417.00</b>	<b>1,635.00</b>	<b>1,962.00</b>	

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**9 NON-DOMESTIC RATE INCOME ACCOUNT**

2004/05		2005/06	2005/06
£000		£000	£000
	Gross rates levied		
(14,603)	General Rate		(14,466)
<u>(14,603)</u>			<u>(14,466)</u>
23	Provision for bad and doubtful debts		45
3	Payment of interest		3
2,909	Reliefs and other deductions (net)		2,341
3,439	Contribution to national non-domestic rate pool		3,873
<u>(8,229)</u>	Net non-domestic rate income		<u>(8,204)</u>

1. **Analysis of rateable values**

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

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 Executive. The national Non-Domestic Rate poundage set for 2005/06 was £0.461.

<b>Category</b>	<b>No. of Subjects</b>	<b>Rateable Value</b>
		£000
Commercial	539	3,715
Industrial	490	12,615
Other	745	7,758
<b>TOTAL</b>	<b><u>1,774</u></b>	<b><u>24,088</u></b>

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**10 PENSION FUND ACCOUNT 2005/06**

**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006**

2004/05		Notes	2005/06	2005/06
£000			£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>			
	Contributions receivable			
(6,509)	Employers	10	(6,675)	
<u>(2,609)</u>	Employees	10	<u>(2,763)</u>	
(9,118)			(9,438)	
(605)	Transfers in		(1,247)	
<u>(277)</u>	Other income		<u>(713)</u>	
(10,000)				(11,398)
	Benefits Payable			
3,336	Pensions	10	3,612	
505	Lump sums	10	1,084	
	Payments to and on account of leavers			
19	Refunds of contributions		25	
631	Transfers out		471	
179	Administrative expenses	7	208	
4,670				5,400
<u>(5,330)</u>	<b>NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>			<u>(5,998)</u>
	<b>RETURNS ON INVESTMENTS</b>			
(4,134)	Investment income	13	(5,085)	
(9,851)	Change in market value of investments- Realised and unrealised		(31,450)	
52	Taxation - irrecoverable withholding tax		62	
<u>700</u>	Investment management expenses	7	<u>802</u>	
(13,233)	Net returns on investments			<u>(35,671)</u>
(18,563)	<b>Net (increase)/decrease in the fund during the year</b>			(41,669)
(130,966)	<b>Opening net assets of the scheme</b>			(149,529)
<u><u>(149,529)</u></u>	<b>Closing net assets of the scheme</b>			<u><u>(191,198)</u></u>





## **SHETLAND ISLANDS COUNCIL**

### **2005/06 Abstract of Accounts**

#### **10 NOTES TO PENSION FUND ACCOUNT**

##### **1. Introduction**

The Council is Trustee for a Pension Fund covering 3,034 members (including 378 who are members of other admitted bodies and 12 who are members of a scheduled body), 657 pensioners, 144 dependents and 784 deferred members. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

The scheduled body is:

Orkney and Shetland Valuation Joint Board

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  
Advocacy Shetland  
Shetland Voluntary Care Forum  
Disability Shetland  
Shetland Development Trust  
Shetland Charitable Trust

##### **2. Administration, operation, management of the Fund**

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 2005/06, an additional £2.40 (admitted bodies £2.80) for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 2005 indicated a funding level of 99%. As a result, the rate of employer's contribution for Shetland Islands Council will be £2.40 for the three years commencing 1 April 2006 and the rate of employer's contribution for admitted bodies will vary according to certain circumstances peculiar to the individual employers (in line with the Funding Strategy Statement.) 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 following 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	4.0% p.a.
Salary increases	2.8% p.a.
Pension increases	2.5% p.a.
Inflation	2.5% p.a.

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 approximately twice a year.

Actuarial valuations and fund management advice are provided by Hymans Robertson. At the date of the last actuarial valuation (31 March 2005) the market value of the Scheme's assets was £149.5m.

The Fund's investments are currently managed by Capital International. 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. The Fund also uses the services of a custodian, The Northern Trust Company.

3. **Accounts preparation**

The accounts, which have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom (which includes all the presentational and disclosure requirements contained in Section 2 of the Pension SORP), 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.

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 2005/06.

4. **Valuation of investments**

Valuations of all the investments have been carried out by the custodian, The Northern Trust Company, at mid market values on 31 March 2006.

5. **Foreign currency translations**

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2006.

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

The value of purchases and sales in 2005/06 were £105.3m and £96.6m respectively as compared to £68.2m and £58.9m in 2004/05.

7. **Fund administration costs**

Expenses of the Fund in 2005/06 include an administration charge from the Council of £163,413 (2004/05 £148,218). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2005/06 amounted to £678,717 (2004/05 £572,610).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them for 2005/06 amounted to £89,234 (2004/05 £97,538). This is calculated on the basis of the number of transactions undertaken during the period and also a charge levied on the basis of the assets held per country.

8. **Investment return**

Capital International achieved a return for 2005/06 of 23.9% versus the benchmark return of 26.3%

9. **Investments**

The holding of the following investment was greater than 5% of the total portfolio at 31 March 2006:-

Company	% Total Portfolio		Amount £000	
	2006	2005	2006	2005
Vodafone Group	5.7	7.2	10,818	10,711

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

**Investments held:**

	Market Value at 31/3/05	Net (Purchases) /Sales during 2005/06	Realised (Profits)/ Losses	Unrealised (Profits)/ Losses	Market Value at 31/3/06
	£000	£000	£000	£000	£000
Fixed interest - public sector					
UK	(3,280)	(1,113)	(100)	52	(4,441)
Foreign	(6,340)	6,392	46	(98)	0
Fixed interest - other					
UK	(921)	1,111	(21)	(169)	0
Foreign	(1,841)	1,610	32	199	0
Equities					
Quoted - U.K.	(89,782)	(6,993)	(6,144)	(11,921)	(114,840)
-Foreign	(35,607)	(561)	(3,369)	(8,366)	(47,903)
Index linked					
UK	(3,864)	4,098	(376)	142	0
Foreign	(79)	82	(4)	1	0
Unit Trusts Equity					
UK	(2,109)	(909)	0	(502)	(3,520)
Foreign	(1,465)	(4,743)	(571)	(263)	(7,042)
Unit Trusts Bonds					
UK	0	(5,983)	0	0	(5,983)
Foreign	0	(1,716)	0	(18)	(1,734)
<b>Total investment assets</b>	<b>(145,288)</b>	<b>(8,725)</b>	<b>(10,507)</b>	<b>(20,943)</b>	<b>(185,463)</b>

10. **Contributions receivable and benefits payable**

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

	Administering Authority £000		Scheduled Body £000		Admitted Bodies £000	
	2006	2005	2006	2005	2006	2005
Contributions receivable						
employers	(5,460)	(4,912)	(52)	(48)	(1,163)	(1,549)
employees	(2,317)	(2003)	(20)	(19)	(426)	(587)
Benefits payable						
pensions	3,409	3,109	10	9	193	218
lump sums	799	367	20	0	160	35
lump sum death benefits	60	39	-	-	45	64

11. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £207,024 for employee contributions (2004/05 £171,513) and £489,383 for employer contributions (2004/05 £420,117).

12. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £163,413 for administration recharge costs (2004/05 £148,218).

13. **Investment income**

The figure for investment income is made up as follows:

	2006 £000	2005 £000
Interest on fixed interest securities	(543)	(520)
Dividends	(4,180)	(3,347)
Interest on index-linked securities	(91)	(72)
Interest on cash	(219)	(138)
Other	(52)	(57)
Total	(5,085)	(4,134)

14. **Statement of Investment Principles**

The Council has prepared and approved a Statement of Investment Principles in relation to investments made by its fund manager for the Pension Fund. The Statement is made available to Pension Fund members in a Pension Fund report sent to them.

15. **Funding Strategy Statement**

The Council has prepared and approved a Funding Strategy Statement which is a summary of the Pension Fund's approach to funding liabilities.

**SHETLAND ISLANDS COUNCIL**

**2005/06 Abstract of Accounts**

**11 RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

**1. The Council's Responsibility**

The Council is required:

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.

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

**2. The Head of Finance's Responsibilities**

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 2006.

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

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;

kept proper accounting records which were up to date;

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

The statement of accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

.....  
Graham Johnston B.Sc. (Hons) C.P.F.A.  
Head of Finance

## **SHETLAND ISLANDS COUNCIL**

### **2005/06 Abstract of Accounts**

#### **12 STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL**

This statement is given in respect of the statement of accounts for Shetland Islands Council. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a reasonable period.

The system of internal financial control is based on a framework of guidance and management information. Key aspects include:

- Comprehensive and up to date financial regulations
- Comprehensive budgeting systems
- Regular review of financial data
- Targeted reporting of budget against actual to managers
- Close management of capital expenditure

The Head of Finance is responsible for Internal Audit within the Council. The Service Manager-Internal Audit is responsible to the Head of Finance for the day to day discharge of the internal audit function. In accordance with the Council's Internal Audit Charter, it is the responsibility of Internal Audit to assist management in establishing an operating environment which is controlled, efficient and effective.

As required by the Audit Charter, Internal Audit plan and perform their work in accordance with an annual audit plan. This plan is a prioritised schedule of assignments to be performed during the year within the framework of a 5-year risk based Strategic Audit Plan. The plan requires the approval of the Management Team and the Council's Executive Committee, acting as an Audit Committee. Six monthly reports are made to the Committee to monitor progress against the annual audit plan.

The effectiveness of internal financial control is also informed by:

- The work of managers within the Council
- The work of Internal Audit, as mentioned above
- The external auditors in their annual audit letter and other reports

The conclusion of Internal Audit, reporting to the Executive Committee, on 2005/06 was that the Council's system of internal control was adequate and effective.

However, Internal Audit conducted an investigation during the year into the Contracts and Tendering procedures within the Council, undertaken following concerns that potential overpayments were made on a contract with an external consultant. In their report dated July 2005, Internal Audit raised a number of issues surrounding the non-compliance with Standing Orders and the breaching of EU Tender Regulations. An action plan was agreed in accordance with the recommendations contained in the report, which included the establishment of a Contracts Working Group and a Procurement Strategy Board, although corrective action has yet to be fully completed and embedded in the procedures.

Internal Audit also identified issues during the year included the continuing failure to report on overspends on capital projects, although the appropriate Head of Service has now committed to so report, and accuracy problems with the inventory of computer items together with the operation of procedures to record inventory purchases.

.....  
Graham Johnston B.Sc. (Hons) C.P.F.A.  
Head of Finance

## **Independent Auditor's Report to the Members of Shetland Islands Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of Shetland Islands Council for the year ended 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Council Tax Income Account, Non-Domestic Rate Account, Housing Revenue Account, Consolidated Balance Sheet, Statement of Total Movement in Reserves, Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice (the 2005 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the local authority in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword by the Head of Finance and the Statement of Responsibilities for the Statement of Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. 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 local authority'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.

### **Adverse opinion**

The 2005 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures, where non production of group accounts would result in the statement of accounts failing to present fairly the authority's activity and financial position.



Under the terms of the SORP, and relevant Financial Reporting Standards, Shetland Islands Council should have grouped a number of its related bodies within its financial statements for the year ended 31 March 2006. The Council has set out its reasons for not preparing group accounts for the year ended 31 March 2006 within Note 11 of the Explanatory Foreword to the financial statements.

Organisations that are likely to be included in Shetland Islands Council group accounts are Shetland Development Trust, Shetland Charitable Trust, the Northern Joint Police Board, the Highlands and Islands Fire Board, the Orkney and Shetland Valuation Joint Board and their related subsidiaries. The aforementioned organisations contain balances and transactions that are material to Shetland Islands Council's financial statements. For group accounts purposes, based on prior year financial statements, it is estimated that these bodies would contribute a deficit position of approximately £7.5 million to the Group Consolidated Revenue Account (resulting from income of £15 million and expenditure of £22.5 million) and Net Assets of £215 million to the Group Balance Sheet.

In our opinion, in view of the omission of these amounts:

the financial statements do not present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the local authority as at 31 March 2006 and its income and expenditure for the year then ended; and

The financial statements have not been properly prepared in accordance with the Local Government (Scotland) Act 1973.

#### **Emphasis of matter - failure to comply with European Commission Treaty**

It has not been necessary to qualify our opinion in respect of the following matter.

Within Note 13 to the Consolidated Revenue Account titled "Related Parties and Trusts" the Council makes reference to its relationships with the Shetland Charitable Trust, Shetland Leasing and Property Limited and a number of other bodies.

On 7 December 2005, the European Commission ("the Commission") ruled that Shetland Islands Council was in breach of Article 88(3) of the European Commission Treaty in that the Council had unlawfully granted state aid to a private concern by acquiring shares in the concern under conditions that would not have been acceptable to a normal private market-economy investor.

In its ruling, the Commission considered that these investments had been made by Shetland Islands Council, although funding for this purpose had been transacted by the Council through two intermediary companies: the Shetland Charitable Trust and Shetland Leasing and Property Limited. On this occasion, the Commission did not levy any penalties or seek recovery of the state aid given.

In light of this ruling, Shetland Islands Council is in the process of reviewing its arrangements surrounding its relationships and transactions with, and via, Related Parties and Trusts to ensure no other breaches have taken place or will do so in the future.

PricewaterhouseCoopers LLP  
Glasgow

31 October 2006