

# **SHETLAND ISLANDS COUNCIL**

## **Abstract of Accounts**

**2008/09**

**SHETLAND ISLANDS COUNCIL - 2008/09 ABSTRACT OF ACCOUNTS**

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## **SHETLAND ISLANDS COUNCIL**

### **2008/09 Abstract of Accounts**

#### **EXPLANATORY FOREWORD**

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

The Council's accounts and the Group accounts for the year ended 31st March 2009 have been prepared to comply with statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008.

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

The following statements are contained in this Abstract of Accounts:

###### **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.

###### **Responsibilities for the Statement of Accounts**

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

###### **Income and Expenditure Account**

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

###### **Statement of Movement on the General Fund Balance**

This statement together with its accompanying note shows the adjustments required to the Income and Expenditure account for the statutory and non-statutory proper practices taken into account when determining the Council's budget and council tax demand.

###### **Statement of Total Recognised Gains and Losses**

This statement shows the gains and losses that do not arise from the Council's operating performance and are not included in the Income and Expenditure Account.

###### **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 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.

###### **Cash Flow Statement**

This 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.

###### **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.

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

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

#### **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.

#### **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.

#### **Group Financial Statements**

These statements include an Income & Expenditure Account, Statement of Total Recognised Gains & Losses, Balance Sheet, Cash Flow Statement, Reconciliation of Council Deficit to Group Deficit and relevant notes that reflect the totality of service delivery undertaken by the Council and those entities in which it has a relevant interest.

#### **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 revised budget for the year on the General Fund envisioned a draw on reserves of £4.54m. In the event the draw was £6.507m, which included an unbudgeted cost of £2.81m in respect of an accrual for prior year costs following the Single Status agreement. There was also a transfer from the Capital programme of £2.254m for expenditure not meeting the accounting definition of capital. If these unbudgeted costs were excluded, the draw on reserves would have been £3.1m under budget. There were under-spends on Education and Social Care staffing budgets of £1.8m where there were delays in recruitment due to activities not progressing as planned, a reduction in private sector housing grants of £0.58m. There was also an increase in the amount of revenue support grant from the Scottish Government.

Housing Revenue Account net expenditure was £0.6m over budget due mainly to overspends on maintenance. This was offset by less capital expenditure funded by the HRA of £1.3m. As a result, the contribution from the Housing Repair and Renewal Fund of £1.77m was £0.73m under budget.

Harbour Account income was £1.1m higher than expected, including £0.38m from non Sullom Voe piers, but this was partly offset by increased capital financing costs. Along with savings in other areas, this resulted in a contribution to the Reserve Fund of £3.23m, being £0.843m more than budget.

The Council's Significant trading operations both made a loss this year, due to the unbudgeted accrual for back pay due to the Single Status settlement. However, they are judged on a three year rolling basis and both have exceeded the break-even target.

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

Significant major capital work during 2008/09 included work on the new AHS (£1.9m) and other major capital spend included the Uyeasound harbour development (£2.4m).

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

The Council is committed 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 2008/09, which consists of:

continuing to have external management arrangements for all major funds;

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 disposals during 2008/09 occurred on Council house sales.

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

The Council has prudently built up extensive reserves of £295m to meet future financial requirements. As can be seen in the note on Movements in Reserves, the main individual reserves are the Capital Fund, Repairs and Renewals Fund and the Reserve Fund, which have a combined value at 31 March 2009 of £280.4m (£289m at 31 March 2008). 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.

The Council received from the Scottish Executive £89.9m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £1.75m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.4m to fund the payment of rent rebates and allowances.

The remaining sources of Council funding are levied locally, the most significant being the Council Tax which raised £8.36m, £5.2m from rents and charges to Council house and hostel tenants and £12.8m in charges to the users of Council harbours, principally Sullom Voe.

#### 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 2009. This indicated a net pension liability of £58.98m compared to a net liability of £18.1m as at 31 March 2008.

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 2009. 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 2008 recorded a funding level of 88% 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 7 to the Core Financial Statements.

#### 10. **Trusts**

The Council's 2007/08 Accounts were qualified in respect of a failure, in the Auditor's opinion, of the Council to group its accounts with those of Shetland Development Trust and Shetland Charitable Trust. Changes in the governance of the Shetland Development Trust (which brought it into closer connection with the Council) meant that the Council accepted the need to group Council and Development Trust accounts. Accordingly, they are included in the group accounts section of this Abstract.

The Controller of Audit made a statutory report to the Accounts Commission under section 102 of the Local Government (Scotland) Act 1973. On the basis of that report, the Accounts Commission decided not to hold a hearing on the grouping of accounts issue but made findings that included their expectation that the Council would take all appropriate action without further delay to resolve this situation during the 2008/09 financial year. The Council received these findings at its meeting of 19 February 2009, noted them and agreed to endorse the action of the (then) Chief Executive to communicate the Council's requirements to the Shetland Charitable Trust with the intention of acquiring the required information from the Trust, such that the council would comply with the Accounts Commission's findings.

The Shetland Charitable Trust declined the Council's request for the required information and, irrespective of the principles involved, the grouping of their accounts remains a practical impossibility while the Trust exercises its independence and withholds its cooperation.

## 11. **Economic Situation**

The council makes most of its investments through external fund managers and these are shown in the Balance Sheet under long and short term investments. Due to the widespread recession, the market value of these investments has fallen, as reflected in the movement on the Available-for-Sale reserve.

The income from investments was around £6.5m lower than expected. However, the Council has been pursuing a strategy of reducing the draw on reserves to fund revenue expenditure and significant under-spending on most fronts, and some examples of greater than expected income meant that the draw on reserves was less than expected. Details can be found in note 3 of the Foreword.

Overall, the Council's reserves are in a better than anticipated state, with the economic situation not unduly affecting the Council's policies or its delivery of services.

## STATEMENT OF ACCOUNTING POLICIES

### 1. **Introduction**

The accounting policies presented below apply to all statements, including the Group Accounts unless replaced by a separate group accounting policy, in this abstract, with the exception of the Pension Fund which has a separate statement of accounting policies.

The accounts have been prepared on a historic cost basis, other than changes resulting from the revaluation of certain categories of fixed assets.

### 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 2009.

### 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 depreciation for the use of assets.

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

Although the Harbour account, shown under Trading Services includes depreciation, the charges to the users of Council harbours and the balancing of the account by Reserve Fund contributions are based on actual 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. The £10,000 applies to individual assets or planned programmes where individual assets are below £10,000 but the programme exceeds £10,000, e.g. plant purchases.

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 investment assets and surplus assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value. Infrastructure, community assets, intangible assets and assets under construction have been included at historic cost, net of depreciation.

Depreciation is charged to revenue, to the services that use the asset, on a straight-line basis over the useful life of the asset. Depreciation is not normally charged on freehold land, non-operational investment properties or assets under construction.

### 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 2009, and the effective date for the valuation was 1 April 2008 unless the property became operational after that date. However for properties with a value of £3,000 or less, the effective date of valuation remains at 1 April 1996 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 all revalued as at 1 April 2007 based on 'beacon properties' in ward/geographical areas, adjusted for different numbers of apartments. These valuations have also been adjusted to reflect all disposals during 2008/09. 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 the non-operational and operational properties (including Council dwellings) were carried out by Alan Rolfe MRICS of the Asset and Properties Unit of the Council's Legal and Administrative Services.

7. **Stocks and Work in Progress**

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

8. **Financial Assets**

All investments are classified as Available-for-sale and are shown at fair value which is based on the quoted market bid price provided by the Council's external fund managers. Changes in fair value are balanced by an entry in the Available-for-sale financial instruments reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses.

The Council provided a zero interest bridging loan to Hjalmland Housing Association. No adjustment has been made in the Income & Expenditure account for interest foregone as this is likely to be immaterial because of the loan's short duration.

9. **Interest in Companies**

Any interest in a company or other entity that have the nature of subsidiaries, associates or joint ventures is recorded in the Council's single entity accounts as an investment.

The Council owns Shetland Towage. Its functions were transferred to the Council and it is no longer operational. It has current assets of £0.2m but is likely to incur costs in the wind up of its pension scheme. As these assets are regarded as immaterial, its shares have been valued at zero.

10. **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. The Council made equal pay offers to staff but a number of them declined to accept these offers. The Council has accordingly made provision for possible costs should the staff who did not accept an offer pursue the matter at an Employment tribunal.

11. **Reserves**

The Council has set aside specific amounts as reserves for future policy purposes. These reserves are listed in and further information is provided in note 20 in the Notes to the Core Financial Statements.

Any expenditure that is to be financed from a reserve is charged to the appropriate service revenue account in the Net Cost of Services in the Income and Expenditure Account. The reserve contribution is then made back into the General Fund balance so that there is no net charge against council tax for the expenditure.

The Revaluation Reserve and Capital Adjustment Account are kept for the purposes of fixed asset accounting and the Pension Reserve for the purpose of retirement benefits. These reserves do not represent usable resources for the Council.

Other than those mentioned above, reserves are invested in the Council's Loans Fund and/or are invested by fund managers in bonds, equities and cash.

12. **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 the proceeds can be credited to the Capital Receipts Reserve, providing the potential for more flexible use than applies to the Capital Fund.

13. **Grants**

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



Capital grants are treated as capital income, credited to the Government grants deferred account and released to individual service revenue accounts to match the charge for depreciation.

14. **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.

15. **Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Assets acquired are capitalised together with a liability to pay outstanding rentals. Payments are apportioned between the finance charge and the reduction of the outstanding obligation with the finance charge being charged to revenue over the term of the lease.

Other leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to revenue in accordance with the terms of the lease.

16. **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 bid-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 27.

17. **Contingent Assets and Liabilities**

The Council has identified and disclosed any contingent assets and liabilities where the inflow of a receipt or economic benefit is probable or if there is a possible obligation which may require a payment or a transfer of economic benefits. The Council discloses the nature of the contingency, a brief description, an estimate of its financial effect where possible and any uncertainties relating to the amount or timing of any outflow.

Contingent assets and liabilities are shown as a note and are not recognised within the accounting statements.

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**STATEMENT OF 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 in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

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 local authority SORP.

The Head of Finance has also:

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 a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2009.

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

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2009**

2007/08		2008/09 Expenditure £000	2008/09 Income £000	2008/09 Net £000
£000				
2,739	Central services	2,912	(6,016)	(3,104)
38,248	Education services	47,974	(5,399)	42,575
5,287	Environmental services	9,364	(4,047)	5,317
1,725	Housing services	4,355	(3,182)	1,173
5,470	Cultural and related services	6,436	(728)	5,708
7,988	Planning and development services	7,796	(1,140)	6,656
9,576	Roads and transport services	12,532	(2,157)	10,375
9,775	Trading services	28,246	(18,847)	9,399
19,198	Social work	29,569	(7,252)	22,317
5,745	Corporate and democratic core	6,515	0	6,515
414	Non distributed costs	999	0	999
1,946	Police	1,805	(1)	1,804
2,099	Fire	2,212	0	2,212
(2,014)	Housing revenue account	4,571	(6,992)	(2,421)
<b>108,196</b>	<b>Net Cost of Services</b>	<b>165,286</b>	<b>(55,761)</b>	<b>109,525</b>
(30)	(Gain)/Loss on disposal of fixed assets			727
(84)	Net (Surplus)/Deficit trading undertakings			261
3,501	Interest payable and similar charges			3,276
(25,803)	Interest and investment income			(11,512)
(2,063)	Pension interest cost & expected asset return			498
<b>83,717</b>	<b>NET OPERATING EXPENDITURE</b>			<b>102,775</b>
(8,216)	Council Tax			(8,362)
(71,842)	Revenue Support Grant			(81,830)
(8,031)	Contribution from non-domestic rate pool			(8,088)
<b>(4,372)</b>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<b>4,495</b>

## SHETLAND ISLANDS COUNCIL

### 2008/09 Abstract of Accounts

#### STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2007/08 £000		2008/09 £000
(4,372)	(Surplus)/Deficit on Income and Expenditure Account	4,495
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	
<u>4,372</u>		<u>(4,495)</u>
0	Decrease in General Fund balance for the year	0
0	General Fund balance brought forward	0
<u>0</u>	General Fund balance carried forward	<u>0</u>

**SHETLAND ISLANDS COUNCIL**

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**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

2007/08 £000		2008/09 £000
(4,372)	(Surplus)/Deficit on Income and Expenditure Account	4,495
(29,519)	(Surplus)/Deficit arising on revaluation of fixed assets	(6,478)
(7,825)	(Surplus)/Deficit arising on revaluation of available-for-sale financial assets	30,722
(16,970)	Actuarial (gains)/losses on pension fund assets and liabilities	35,341
0	Net liability assumed on a business combination	5,836
<u>(58,686)</u>	Total recognised (gains)/losses for the year	<u>69,916</u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**BALANCE SHEET**

**AS AT 31 MARCH 2009**

31 March 2008 £000		31 March 2009 £000	31 March 2009 £000
1,424	Intangible Assets		1,016
	<b><u>TANGIBLE FIXED ASSETS</u></b>		
	Operational assets:		
60,440	Council dwellings	59,931	
97,409	Other land and buildings	104,233	
39,331	Vehicles, plant, furniture and equipment	37,418	
115,784	Infrastructure assets	115,783	
5,104	Community assets	<u>5,885</u>	
<u>318,068</u>			323,250
	Non-operational assets:		
4,444	Investment properties	4,328	
15,360	Assets under construction	23,323	
245	Surplus assets, held for disposal	<u>241</u>	
			<u>27,892</u>
339,541	<b>TOTAL FIXED ASSETS</b>		<u>352,158</u>
241,125	Long-term investments		199,744
4	Long-term debtors:Housing Loans		3
18	Long-term debtors:Other		15
<u>580,688</u>	<b>TOTAL LONG-TERM ASSETS</b>		<u>551,920</u>
	<b><u>CURRENT ASSETS</u></b>		
3,092	Stocks and work in progress	3,465	
11,243	Debtors, less bad debt provisions	12,356	
16,141	Short term investments	16,506	
5,196	Cash and bank	<u>9,953</u>	
<u>35,672</u>			<u>42,280</u>
<u>616,360</u>	<b>TOTAL ASSETS</b>		<u>594,200</u>
	<b><u>CURRENT LIABILITIES</u></b>		
(12,312)	Creditors		(17,031)
<u>604,048</u>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>577,169</u>
	<b><u>LONG-TERM LIABILITIES</u></b>		
(214)	Provision	(53)	
(10,207)	Government Grants-deferred	(12,533)	
(18,107)	Pension Asset/ (Liability)	<u>(58,979)</u>	
<u>(28,528)</u>			<u>(71,565)</u>
<u>575,520</u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>505,604</u>

**SHETLAND ISLANDS COUNCIL**

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**BALANCE SHEET**

**AS AT 31 MARCH 2009**

31 March 2008 £000		31 March 2009 £000	31 March 2009 £000
	<b><u>FINANCED BY:</u></b>		
(252,323)	Capital Adjustment Account		(258,075)
(28,012)	Revaluation Reserve		(33,946)
(7,825)	Available-for-sale Financial Instruments Reserve		22,897
18,107	Pension Reserve		58,979
<u>(22)</u>	Capital Receipts Reserve		<u>(18)</u>
(270,075)			(210,163)
(116,545)	Capital Fund	(114,591)	
(101,317)	Repairs and Renewals Fund	(92,959)	
(87,220)	Reserve Fund	(87,601)	
<u>(267)</u>	Insurance Fund	<u>(220)</u>	
(305,349)			(295,371)
	<b>Balances</b>		
(96)	General Fund		(70)
<u><u>(575,520)</u></u>	<b>TOTAL NET WORTH</b>		<u><u>(505,604)</u></u>

The unaudited accounts were issued on 30 June 2009 and the audited accounts were authorised for issue on 30 September 2009.

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

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**CASHFLOW STATEMENT**

2007/08		2008/09	2008/09
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
85,088	Cash paid to and on behalf of employees	89,691	
68,061	Other operating cash payments	64,142	
398	Housing Benefit paid out	471	
<u>4,210</u>	National Non-Domestic Rate payments to national Pool	<u>4,081</u>	
157,757			158,385
	<b>Cash Inflows</b>		
(3,561)	Rents (after rebates)	(3,647)	
(7,526)	Council Tax receipts	(7,707)	
(12,180)	Non-domestic rate receipts	(11,552)	
(71,273)	Revenue Support Grant	(81,830)	
(417)	DSS grants for benefits	(434)	
(16,455)	Other government grants	(11,715)	
(27,404)	Cash received for goods & services	(26,715)	
<u>(10,002)</u>	Other operating cash receipts	<u>(16,965)</u>	
(148,818)			(160,565)
<u>8,939</u>	<b>NET REVENUE CASH (IN)/OUTFLOW</b>		<u>(2,180)</u>
	<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>		
	<b>Cash Inflows</b>		
(2,214)	Dividends received		(2,315)
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(6,413)	Interest received		(5,542)
<u>312</u>	<b>BALANCE c/f</b>		<u>(10,037)</u>



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**CASHFLOW STATEMENT (continued)**

2007/08		2008/09	2008/09
£000		£000	£000
312	BALANCE b/f		(10,037)
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
18,582	Purchase of fixed assets	22,899	
401,700	Purchase of long-term investments	114,767	
<u>420,282</u>			137,666
	<b>Cash Inflows</b>		
(1,767)	Sale of fixed assets	(3,542)	
(413,763)	Sale of long-term investments	(125,520)	
(2,893)	Capital grants received	(3,282)	
(4)	Other capital cash receipts	(4)	
<u>(418,427)</u>		<u>(4)</u>	(132,348)
<u>2,167</u>	Net cash (inflow)/outflow before financing		<u>(4,719)</u>
	<b>MANAGEMENT OF LIQUID RESOURCES</b>		
(893)	Net Increase/decrease in short term deposits		(38)
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
0	Capital element of finance lease rental payments		0
<u><u>1,274</u></u>	NET (INCREASE)/DECREASE IN CASH		<u><u>(4,757)</u></u>

**SHETLAND ISLANDS COUNCIL**

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**NOTES TO THE CORE FINANCIAL STATEMENTS**

**1. RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

2007/08		2008/09 Expenditure £000	2008/09 Income £000
£000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(13,221)	Depreciation and impairment of fixed assets	(12,246)	
566	Government Grants deferred amortisation	583	
30	Net gain/(loss) on sale of fixed assets	(727)	
(7,433)	Net charge made for retirement benefits in accordance with FRS17	(7,681)	
<u>(20,058)</u>		<u></u>	(20,071)
	Amount not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
2,023	Principal Repayments	2,021	
1,781	Capital Expenditure financed from revenue	2,461	
7,489	Employer's contribution payable to the Pension Fund	7,986	
<u>(8,765)</u>		<u></u>	12,468
	Transfers to and from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
5,149	Transfer to Capital Fund		5,009
48	Transfer to Pilot Boat Renewal Fund		52
8,421	Transfer to Repair & Renewals Fund		(3,440)
(432)	Transfer from Housing Repair & Renewal Fund		(1,327)
8	Transfer to Quarry Repair & Renewal Fund		8
(363)	Transfer from Reserve Fund		2,889
308	Transfer to Marine Fund		(35)
(2)	Transfer from Insurance Fund		(48)
<u>4,372</u>	Net additional amount required to be credited to the General Fund Balance for the year		<u>(4,495)</u>

## **SHETLAND ISLANDS COUNCIL**

### **2008/09 Abstract of Accounts**

#### **2. Service Expenditure Analysis of Services**

The service lines within the Net cost of services section of the Income and Expenditure account are as per 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.

#### **3. 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. Currently the Council does not have any Finance leases.

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 2008/09 payments made for assets acquired under operating leases.

##### **Operating Lease Payments:**

2007/08		2008/09 Land & Buildings	2008/09 Other Assets	2008/09 Total
£000		£000	£000	£000
1,920	Operating leases	1,762	147	1,909
<u>1,920</u>	Total	<u>1,762</u>	<u>147</u>	<u>1,909</u>

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2009/10	£1,317,055	£86,381	£1,403,436
2010/11- 2013/14	£3,951,783	£86,869	£4,038,652
2014/15 onwards	£10,201,323	£99,876	£10,301,199

#### **4. Publicity expenditure**

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2008/09 expenditure.

##### **Publicity expenditure**

2007/08		2008/09
£000		£000
133	Recruitment advertising	191
209	Other advertising	188
<u>342</u>	Total	<u>379</u>

5. **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 Income and Expenditure Account):**

Net Income 2007/08 £000		Expenditure 2008/09 £000	Income 2008/09 £000	Net Income 2008/09 £000
(57)	Scottish Water	0	(59)	(59)
<u>(57)</u>	<u>Total</u>	<u>0</u>	<u>(59)</u>	<u>(59)</u>

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

Section 2 (2) of the Local Authorities (Goods and Services) Act 1970 allows the Council to provide goods and services to other public bodies and keep a separate account of agreements entered into under this legislation. 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 2007/08 £000		Expenditure 2008/09 £000	Income 2008/09 £000	Net Expenditure 2008/09 £000
0	Northern Joint Police Committee	36	(36)	0
0	Highlands & Islands Fire Board	9	(9)	0
<u>0</u>	<u>Total</u>	<u>45</u>	<u>(45)</u>	<u>0</u>

## 7. 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 cumulative total is shown in the table below and both operations have met the target.

	2006/07 £000	2007/08 £000	2008/09 £000	Cumulative Total £000
Highways				
Turnover	(7,561)	(6,618)	(6,776)	
(Surplus)/Deficit	(219)	(64)	154	(129)
Building Maintenance				
Turnover	(4,131)	(4,278)	(4,606)	
(Surplus)/Deficit	(218)	(83)	220	(81)

The Roads and Building operations deficits for 2008/09 contain respectively £0.19m and £0.45m in respect of unbudgeted prior year costs relating to the settlement of the Single Status agreement.

## 8. Audit Costs

The fees for audit services undertaken in accordance with the 'Code of Audit Practice' are paid to Audit Scotland and were as follows: -

2007/08 £000		2008/09 £000
198	External Audit fees	196
61	Audit Scotland Fixed Charge	63
0	Rebate of prior year's fees	(13)
<u>259</u>		<u>246</u>

## 9. Members' Allowances/Remuneration and Expenses

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

2007/08 £000		2008/09 £000
365	Allowances/Remuneration	380
82	Expenses	96
<u>447</u>		<u>476</u>

#### 10. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was: -

Remuneration Band	2007/08 No.	2008/09 No.
£50,000 - £59,999	47 (1)	49 (1)
£60,000 - £69,999	14 (10)	21 (8)
£70,000 - £79,999	2	3
£80,000 - £89,999	1	1
£90,000 - £99,999	-	1

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

#### 11. Related Parties

Related parties are organisations that the Council can control or influence or who can control or influence the Council. Central Government has effective control over the general operations of the Council, providing the statutory framework within which the Council operates and also providing the majority of funding in the form of various grants.

2007/08 £'000	<u>Central Government Grants</u>	2008/09 £'000
71,842	Revenue Support Grant	81,830
9,342	Non-domestic rates	9,342
2,503	Housing Benefit Subsidy	2,421
791	Council Tax Benefits Subsidy	773
2,012	Housing Support Grant	1,755
9,301	Other Government Grants	2,596
£'000	<u>Other Public Bodies Grants</u>	£'000
1,984	Scottish Further & Higher Education Council	2,107
324	Highlands & Islands Enterprise	360
-	Fairer Scotland Fund	196
158	Scottish Arts Council	171
447	Shetland Transport Partnership	165
332	Sports Scotland	53
65	Lottery Grants	32
-	Learning & Teaching Scotland	29
61	Scottish Natural Heritage	10

During the year, the Council made payments of £4.32m (£4.33m in 2007/08) to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £10.14m (£4.87m in 2007/08) to bodies on which Council members are represented or for which they have declared an interest.

The Council is Trustee for its Pension Fund. During the year, it paid £6.77m (£7.39m in 2007/08) in employers contributions and strain costs and charged the Fund £0.15m (£0.14m in 2007/08) in administration costs.

12. **Summary of Capital Expenditure and Fixed Asset Disposal**

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

**Movements in fixed assets in 2008/09 were:**

	Intangible Assets	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Investment Assets	Assets Under Construction	Surplus Assets	Total All Assets
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Certified valuation at 31 March 2008	1,864	61,094	107,442	47,728	134,948	5,111	4,617	15,360	250	378,414
Accumulated Depreciation & Impairment	(440)	(654)	(10,033)	(8,397)	(19,164)	(7)	(173)	0	(5)	(38,873)
Net book Value of assets at 31 March 2008	1,424	60,440	97,409	39,331	115,784	5,104	4,444	15,360	245	339,541
<b>Movement in 2008/09</b>										
Additions	59	1,612	3,973	1,898	2,409	76	0	12,664	0	22,691
Disposals	0	(1,486)	(5)	(646)	0	0	(84)	(2,674)	0	(4,895)
Revaluations	0	(299)	5,565	(297)	0	0	27	0	0	4,996
Depreciation in year	(467)	(715)	(3,345)	(3,692)	(3,384)	(1)	(67)	0	(4)	(11,675)
Depreciation written back	0	32	636	824	0	0	8	0	0	1,500
Transfers/Appropriations	0	347	0	0	974	706	0	(2,027)	0	0
Net Book Value of Assets	1,016	59,931	104,233	37,418	115,783	5,885	4,328	23,323	241	352,158

The Council has no assets subject to a finance lease or the Private Finance Initiative (PFI).  
The intangible assets consist of purchased software and software licences.

The table below analyses the sources of finance utilised in 2008/09 to provide for the expenditure incurred.

**Sources of finance for capital accounts in 2008/09:**

2007/08 £000		2008/09 £000
0	Loans	1,066
1,771	Capital receipts	3,608
(211)	Capital receipts-used to repay debt	0
2,989	Grant receipts	2,560
14,236	Revenue/Other	15,547
<u>18,785</u>	Total	<u>22,781</u>

13. **Significant commitments under capital contracts beyond 31 March 2009**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2009. These amounts relate to contracts commenced but not concluded by the end of the financial year.

Outstanding Contractual Liability beyond 31/03/08 £000		Outstanding Contractual Liability beyond 31/03/09 £000
700	Anderson High School	49,000
0	Tugs for Sullom Voe	11,152
200	Mid Yell JHS	4,000
0	Lerwick Cruden houses phase 1	700
0	Care Homes fire upgrade	342
0	B9081 Mid Yell (Hillend section)	260
0	Vehicle & Plant replacements	172
0	Ladies Drive office to flat conversion	135
0	IP Telephones	120
15	Replacement Esplanade toilets	100
0	Scalloway Cruden houses	100
2500	Uyeasound Pier	0
1900	Rova Head Reinstatement	60
500	Sandwick ASN	0
475	Marinas	30
300	Cinema & music venue	0
271	Knab dyke	71
260	Oversund Junction	13
200	Feasability Studies	0
<u>7,321</u>	Total	<u>66,255</u>



#### 14. 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 Properties Unit.

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

<b>GBV as at 31/03/09</b>	<b>Council Dwellings</b>	<b>Other land and Buildings</b>	<b>Vehicles, Vessels, Plant &amp; Equipment</b>	<b>Non-Operational Assets</b>	<b>Total All Assets</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Valued at historical cost	0	0	N/A	23,287	23,287
Valued at current value in:					
2008/09	532	17,605	N/A	77	18,214
2007/08	60,321	8,448	N/A	1380	70,149
2006/07	40,783	25,114	N/A	775	66,672
2005/06	41,739	2,200	N/A	0	43,939
2004/05	43,151	60,012	N/A	1,875	105,038

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

## 15. Information on Assets Held

The Table below gives information on the numbers of some of the Fixed Assets held by the Council as at 31 March 2009.

<b>2008</b>		<b>2009</b>
1,920	<b>Council Dwellings</b>	1,880
	<b>Community Assets</b>	
32	Burial Grounds	35
16	Museum Exhibits:	17
1	Other Community Assets	1
	<b>Non Operational Assets</b>	
43	General Non Operational Assets	42
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	<b>Other Land and Buildings</b>	
1	Airstrips	1
1	Bus Stations	1
4	Car Parks	4
1	Town Hall	1
1	Leisure Facilities	3
1	Libraries	1
3	Museums	3
17	Offices	17
26	Public Conveniences	25
35	Schools	35
8	Social Services Homes	8
29	Other Misc Land and Bldgs	29
	<b>Intangible Assets</b>	
25	Software	26
	<b>Vehicles Plant, Furniture and Equipment</b>	
1	Aircraft	1
270	Vehicles	260
151	Plant	156
13	Ferries	13
11	Boats/Tugs	11
80	Computer Equipment	104
	<b>Infrastructure Assets</b>	
1,047	Roads (km)	1,047
	<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.

## 16. 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 has been determined by Alan Rolfe MRICS of the Asset and Properties Unit.

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

<b>Asset</b>	<b>Years</b>
Intangible Assets	3 - 7
Council Dwellings	0 - 50
Community Assets	100
Infrastructure Assets	0 - 60
Other Land & Buildings	0 - 120
Vehicles, plant, furniture & equipment	0 - 50
Non-operational Land & Buildings	0 - 60

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

<b>Asset</b>	<b>Depreciation</b>		<b>Cumulative Depreciation</b>	
	<b>2007/08</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Intangible Assets	440	467	440	907
Council Dwellings	664	715	655	1,338
Community Assets	0	1	7	8
Infrastructure Assets	3,158	3,384	19,164	22,548
Other Land & Buildings	3,168	3,345	10,033	12,741
Vehicles, plant, furniture & equipment	2,808	3,692	8,397	11,266
Non-operational Assets	72	71	178	242
	<b>10,310</b>	<b>11,675</b>	<b>38,874</b>	<b>49,050</b>

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

This note shows the main constituents of debtors and creditors in the Balance Sheet.

31 March 2008 £000		31 March 2009 £000
<b>Debtors:</b>		
3,156	Sundry Debtors	5,278
122	Recoverable Costs	177
1,628	Value Added Tax	1,280
646	Council Tax	643
376	Non Domestic Rates	1,326
505	Rents	514
485	Payroll	495
2,050	Government Grants	333
2,966	Other Debtors	2,990
11,934	Gross debtors	13,036
(197)	Bad debt provision - Sundry Debtors	(211)
(180)	Bad debt provision - Council Tax	(180)
(137)	Bad debt provision - Non-domestic Rates	(162)
(177)	Bad debt provision - Rents	(127)
11,243	Net Debtors	12,356
<b>Creditors:</b>		
(6,812)	Sundry Creditors	(8,830)
(454)	Non Domestic Rates	(560)
(41)	Government Grants	0
(1,018)	Employee	(5,009)
(580)	Council Tax	(662)
(3,407)	Other Creditors	(1,970)
(12,312)		(17,031)

## 18. **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.

2007/08 £000		2008/09 £000
(544)	Opening balance-General Fund	(495)
7	Miscellaneous Invoices written off	56
46	Non-domestic Rates written off	7
38	Council Tax written off	32
(42)	(Charge)/Credit to General Fund for provision	(142)
(495)		(542)
(174)	Opening balance-Housing Revenue Account	(196)
14	Miscellaneous Income written off	15
10	Rents written off	27
(46)	(Charge)/Credit to HRA for provision	16
(196)		(138)

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2009 for possible bonus payments. During the year, a considerable number of staff accepted equal pay offers which meant that a large part of the provision was no longer required.

2007/08 £000		2008/09 £000
(342)	Opening balance	(214)
128	Release of provision no longer required	161
<u>(214)</u>		<u>(53)</u>

19. **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 2008 £000		31 March 2009 £000
252,323	Capital Adjustment Account	258,075
28,012	Revaluation Reserve	33,946
7,825	Available-for-sale Financial Instruments Reserve	(22,897)
(18,107)	Pension Reserve	(58,979)
0	Capital Receipts Reserve	0
22	Deferred Capital Receipts	18
205,390	General Fund	196,280
84,152	Reserve Fund	84,569
11,967	Housing Revenue Account	10,640
3,936	Harbour Accounts	3,952
<u>575,520</u>	Total	<u>505,604</u>

20. **Movements in Reserves**

	Balance as at 1/04/08	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/09
	£000	£000	£000	£000
Capital Adjustment Account	(252,323)	14,536	(20,288)	(258,075)
Revaluation Reserve	(28,012)	(7,067)	1,133	(33,946)
Available-for-sale Financial Instruments Reserve	(7,825)	30,722	0	22,897
Pension Reserve	18,107	40,872	0	58,979
Capital Receipts Reserve				
Capital Receipts Reserve	0	(3,604)	3,604	0
Deferred Capital Receipts	(22)	0	4	(18)
Capital Fund				
Capital Fund	(115,677)	(5,009)	7,015	(113,671)
Pilot Boat Renewal Fund	(868)	(52)	0	(920)
Repairs & Renewals Fund				
Repairs & Renewals Fund	(89,212)	(3,068)	10,107	(82,173)
Housing Repairs & Renewals Fund	(11,967)	(443)	1,770	(10,640)
Quarry Repairs & Renewals Fund	(138)	(8)	0	(146)
Reserve Fund				
Reserve Fund	(84,152)	(1,910)	1,493	(84,569)
Marine Superannuation Fund	(3,068)	(52)	88	(3,032)
Insurance Fund	(267)	(12)	59	(220)
General Fund				
General Fund	0	3,571	(3,571)	0
Central Energy Efficiency Fund	(96)	26	0	(70)
Housing Revenue Account	0	1,414	(1,414)	0
	<b>(575,520)</b>	<b>69,916</b>	<b>0</b>	<b>(505,604)</b>

The balances on the Revaluation Reserve and Capital Adjustment Account 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 Available-for-sale Financial Instruments Reserve shows the difference between the purchase cost of an investment and its market value at the balance sheet date.

Deferred capital receipts were created by the Capital Fund reimbursing the Loans Fund and are released to the Capital receipts reserve as repayments are received. Receipts of £0.004m were released in the year.

The 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. All receipts received in the year were applied to fund £1.655m of Housing Revenue Account and £1.95m of General Fund capital expenditure.

The Pension Reserve shows the surplus or deficit on pensions as calculated according to 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 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. £7.02m of capital expenditure was funded during the year.

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. There was no expenditure during the year.

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. £3.6m of capital expenditure and £6.5m of revenue expenditure was funded during the year.

The Housing 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's Housing Revenue Account. During the year, a contribution of £1.77m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.355m to the Capital adjustment account to fund capital expenditure and covered a deficit of £1.415m on the overall account.

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. There was no expenditure during the year.

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. During the year, a Harbour Account surplus of £3.23m was transferred to the fund and a transfer of £2.47m was made to the Capital Adjustment Account to fund capital expenditure. A transfer of £2.25m was made to the General Fund to cover planned expenditure programmes. This transfer was lower than budgeted due to income from the Shetland Development Trust of £5.825m. The Trust was originally financed by the Reserve Fund.

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. It made a contribution of £0.087m to the Harbour Account during the year.

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. It made a contribution to the General Fund in the year of £0.059m.

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

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund. A contribution of £1.415m was received for that purpose.

21. **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 Balance Sheet.

**Trust funds:**

Fund Balance at 31/3/08 £000		Fund Balance at 31/3/09 £000
(642)	Zetland Educational Trust	(637)
(50)	Gilbertson Trust	(51)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(5)	Other	(5)
<u>(702)</u>	Total	<u>(698)</u>

The Zetland Educational Trust, with an income of £24,083 and expenditure of £29,216, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,173, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £100 whilst the William Strong Bequest makes an annual payment to the ten oldest persons in Fair Isle when sufficient funds are available. These and the Samuel Mullay Bequest are registered with the Office of the Scottish Charity Regulator. The other trusts are, due to their low annual income, dormant.

22. **Statement of Authorisation of Issue**

The unaudited accounts were issued on 30 June 2009 and the audited accounts were authorised for issue on 30 September 2009 by Graham Johnston B.Sc. (Hons.) C.P.F.A., Head of Finance for the Council.

23. **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 is 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.

24. **Contingent Assets and Liabilities**

The Council successfully agreed a single status agreement with the majority of employees in April 2009. However although the Council has made provision within the financial statements where an equal pay offer has been made but not accepted, it continues to be vulnerable to further claims that cannot as yet be quantified.

The Council has provided security cover, in the form of a irrevocable letter of credit for £1,916,812, to National Grid Electricity Transmission plc in respect of its agreement with Viking Energy in relation to an inter connector cable to Shetland. The sum would only be payable if Viking Energy withdrew from the wind farm project and therefore would not need a grid connection.



The pension benefits accruing to the staff of Shetland Towage up until 10 February 2006 were transferred to the Shetland Islands Council pension fund. The assets of Shetland Towage's Pension Scheme that funded these benefits were also transferred with the Council agreeing to cover any funding shortfall. The amount of any shortfall will depend upon when the Council chooses to fund it but an actuarial valuation as at 16 June 2009 indicated a funding shortfall of £8.346m.

25. **Pension Costs (Teachers)**

In 2008/09 the Council paid an employer's contribution of £2.23m (£2.2m in 2007/08) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 13.5% 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 2008/09 these amounted to £0.69m (£0.67m in 2007/08), representing 4.17% of teachers pensionable pay (2007/08 4.0%).

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

The Local Government Pension Scheme is a funded defined benefit 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 Income and Expenditure Account.

2007/08 £000		2008/09 £000
9,082	Current service costs	6,188
224	Past service costs	869
190	Curtailments and settlements	126
(14,311)	Expected return on assets	(13,212)
12,248	Interest cost	13,710
7,489	Actual employers contributions payable	7,986

27. **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 2008/09, pension costs have been charged to the Income and Expenditure 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 2005.

Although the net pension liability of £58.98m exceeds the General Fund balance which, by Council policy, is balanced to zero each year, the Council has other funds available including a Reserve Fund of £84.6m. 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: -

2008		2009
£000		£000
179,810	Share of Pension Fund Assets	134,353
(178,602)	Less: Estimated liabilities Pension Fund	(175,197)
<u>(19,315)</u>	Estimated liabilities for discretionary pensions	<u>(18,135)</u>
<u>(18,107)</u>	Net pension asset/(liability)	<u>(58,979)</u>

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

2008			2009			
%	Market Value £'000	Expected rate of return %		%	Market Value £'000	Expected rate of return %
83.6	150,389	7.7	Equity Investments	79.0	106,139	7.0
5.8	10,452	5.7	Bonds	9.0	12,092	5.4
4.7	8,394	5.7	Property	6.0	8,061	4.9
5.9	10,575	4.8	Cash	6.0	8,061	4.0
	<u>179,810</u>				<u>134,353</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: -

2008		2009
%		%
3.6	Price increases	3.1
5.1	Salary Increases	4.6
3.6	Pension Increases	3.1
6.9	Discount Rate	6.9

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 and liabilities.

31 March		31 March
2008		2009
£000		£000
(28,053)	Difference between the expected and actual return on assets	(63,227)
179,810	Value of assets	134,353
15.6%	Percentage of assets	47.1%
(112)	Experience gain/(loss) on liabilities	8,110
197,917	Present value of liabilities	193,332
0.1%	Percentage of the present value of liabilities	4.2%

	31 March <b>2005</b> £000	31 March <b>2006</b> £000	31 March <b>2005</b> £000
Difference between the expected and actual return on assets	3,300	22,138	1,773
Value of assets	126,600	168,551	187,924
Percentage of assets	2.6%	13.1%	0.9%
Experience gain/(loss) on liabilities	(800)	102	(1,128)
Present value of liabilities	174,300	224,007	223,057
Percentage of the present value of liabilities	0.05%	0.05%	0.5%

### Mortality

The average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current pensioners	20.7 years	23.8 years
Future pensioners	22.0 years	25.0 years

## 28. Reconciliation of the movement in cash to the movement in Net Debt

### Reconciliation to Net Debt

2007/08 £000		2008/09 £000
1,274	(Increase)/decrease in Cash	(4,757)
0	Decrease in Debt Financing	0
(207)	(Increase)/decrease in Liquid Resources	(365)
<u>1,067</u>		<u>(5,122)</u>
(22,404)	Opening Net Debt as at 01/04/07	(21,337)
<u>(21,337)</u>	Closing Net Debt as at 31/03/08	<u>(26,459)</u>

### Analysis of Net Debt

	Balance at 01/04/08 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/03/09 £000
Cash and bank	(5,196)	(4,757)	0	(9,953)
Overdraft	0	0	0	0
	<u>(5,196)</u>	<u>(4,757)</u>	<u>0</u>	<u>(9,953)</u>
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Current Investments	(16,141)	38	(403)	(16,506)
Total	<u>(21,337)</u>	<u>(4,719)</u>	<u>(403)</u>	<u>(26,459)</u>

29. **Reconciliation of the net deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Cash Flow Statement**

2007/08		2008/09	2008/09
£000		£000	£000
(4,372)	(Surplus)/Deficit for Year	4,495	
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance	(4,495)	
<u>4,372</u>		<u>(4,495)</u>	
0			0
	<b><u>Non cash transactions</u></b>		
11,968	Contributions to/from reserves	7,446	
(2,023)	Loans Fund principal repayments	(2,021)	
<u>(2,537)</u>	Capital from current revenue	<u>(2,460)</u>	
7,408			2,965
	<b><u>Items on an accruals basis</u></b>		
272	Movement in stocks	374	
1,236	Movement in debtors	1,598	
<u>1,919</u>	Movement in creditors	<u>(4,916)</u>	
3,427			(2,944)
	<b><u>Items classified elsewhere</u></b>		
(2,721)	Interest paid	(2,819)	
<u>825</u>	Other	<u>618</u>	
<u>(1,896)</u>			(2,201)
<u>8,939</u>			<u>(2,180)</u>

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

	Balance at 01/04/08 £000	Balance at 31/03/09 £000	Movement 2008/09 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	16,141	16,506	(365)
<b>Financing</b>			
Bank Loans	0	0	0
Building Society Loans	<u>0</u>	<u>0</u>	<u>0</u>
	0	0	0
Principal element of finance lease rental			<u>0</u>
			<u>0</u>

**Definition of Liquid Resources**

Liquid resources are defined as short term investments.

### 31. Analysis of government grants in the Cash Flow Statement

#### Government grants received in 2008/09: -

2007/08 £000		2008/09 £000	2008/09 £000
(71,273)	Revenue Support Grant		(81,830)
	<b>Rebates Grants</b>		
(781)	Council Tax Rebate	(756)	
(2,066)	Rent Rebate	(1,900)	
(417)	Rent Allowance	(434)	
<u>(3,264)</u>		<u>(434)</u>	(3,090)
	<b>Other Revenue Grants</b>		
(2,012)	Housing Support Grant	(1,755)	
(1,511)	Further Education Grant	(1,899)	
(267)	Training Grants	(233)	
(14)	Milk Subsidy	(10)	
(88)	Housing Benefit Administration	(91)	
(46)	Council Tax Administration	(47)	
(9,670)	Other	(5,024)	
<u>(13,608)</u>		<u>(5,024)</u>	(9,059)
<u>(88,145)</u>	Total Revenue Grants		<u>(93,979)</u>
(2,893)	Capital Grants		(3,282)
<u>(91,038)</u>	Total		<u>(97,261)</u>

### 32. Risks arising from Financial Instruments

The authority's investments and financial activities expose it to a variety of financial risks: -

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements
- Foreign Exchange risk – the possibility that financial loss might arise for the authority as a result of changes in the price of various currencies

The authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Service, under policies approved by the Council in the annual Treasury Management Strategy Statement.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks or financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least a –AA long term Fitch IBCA rating
- Bank of Scotland – Council's own bank
- Any bank which is a wholly owned subsidiary of the above
- Any Local Authority

The –AA long term rating is defined by Fitch IBCA (International Bank Credit Association) as a “low expectation of investment risk ..... adverse changes in business, economic or financial conditions may increase risk, albeit not very significantly”.

The authority has a policy of not lending more than £3m of its surplus balances to any single organisation at any one time, apart from the Council’s own bank.

At the 31<sup>st</sup> March 2009 the Council only had deposits with the Council’s own bank, amounting to £13.2m. The Council’s exposure to credit risk on these current deposits is very low based on the last five financial years experience, where no default or loss has occurred. No credit limits were exceeded during the reporting period and the authority does not expect any losses or default in relation to these current deposits.

### **Liquidity Risk**

The authority has external investments with fund managers amounting to £257m at the 31<sup>st</sup> March 2009. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

There are no current capital borrowings and there is no requirement for capital borrowings during 2009/10. All trade and other payables are due to be paid in less than one year.

### **Market Risk**

The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority’s investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31<sup>st</sup> March 2009 is diversified between the following markets:

UK Equities	32%
Overseas Equities	19%
UK Government Bonds	33%
Overseas Bonds	9%
Cash	7%

Overseas equities comprise investments in North America, Europe, Japan, Pacific (excl Japan) and Emerging Markets.

The authority’s external investments are all classified as ‘available for sale’, meaning that all movements in price will impact on gains and losses recognised by the Statement of Total Recognised Gains and Losses (STRGL). The largest investment is in UK Equities and any movement of the UK market will have the greatest impact on any gains or losses. A general shift of 5% in the UK Stock Market (positive or negative) would result in a gain or loss being recognised in the STRGL in the region of £3.5m for 2008/09.

### **Foreign Exchange Risk**

The authority has £54m invested in overseas equities and bonds which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates are greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

## 33. **Financial Investments**

The investments disclosed in the Balance Sheet are made up of the following categories of financial investment.

	<b>Long-term</b>		<b>Current</b>	
	31 March 2008 £000	31 March 2009 £000	31 March 2008 £000	31 March 2009 £000
Available - for-sale financial assets	241,125	199,744	16,141	16,115
Loans and receivables	0	0	0	391
	<u>241,125</u>	<u>199,744</u>	<u>16,141</u>	<u>16,506</u>

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

Events of a material nature occurring between the Balance Sheet date of 31 March 2009 and the date of issue of the audited accounts of 30 September 2009 whose disclosure is required for the true and fair presentation of the financial statements are detailed below.

The Assets under construction line in the Fixed Assets section of the Balance Sheet contains £3.07m in respect of expenditure on the new Anderson High School at the Knab Road site. The decision of the Services Committee on 3 September 2009, affirmed by the Council, to move the new school to a different site will mean that some or all of the expenditure to 31 March 2009 will be written off through the Income and Expenditure Account in 2009/10.

## SHETLAND ISLANDS COUNCIL

### 2008/09 Abstract of Accounts

#### HARBOUR ACCOUNT

The Zetland County Council Act 1974 permits the Council to operate harbours and to maintain a separate harbour account. Any surplus on the harbour account can be carried to the credit of a reserve fund which can be used for any purpose which in the opinion of the Council is solely in the interests of the county and its inhabitants. The Council balances the Harbour account to zero each financial year by such transfers. In 2008/09 the transfer to the Reserve Fund was £3.23m. Details of the Reserve Fund can be found in note 20 to the core financial statements.

The Council exercises control over most harbours in Shetland with the exception of Lerwick and Broonies Taing at Sandwick. As can be seen below, most revenue is generated by the Sullom Voe harbour which services the Sullom Voe Oil terminal.

The Harbour account is included within the Trading Services line in the main Council Income and Expenditure Account.

#### Income and Expenditure Account

2007/08		2008/09 Expenditure £'000	2008/09 Income £'000	2008/09 Net £'000
(4,961)	Sullom Voe Harbour	12,159	(16,671)	(4,512)
1,280	Other Harbours	1,460	(709)	751
<u>(3,681)</u>	Net Cost of Harbour Services	<u>13,619</u>	<u>(17,380)</u>	<u>(3,761)</u>
5	(Gain)/Loss on disposal of fixed assets			(1)
88	Interest Payable and similar charges			99
(267)	Pension interest cost & expected asset return			46
<u>(3,855)</u>	(Surplus) for the year on Harbour Services			<u>(3,617)</u>

#### STATEMENT OF MOVEMENT ON HARBOUR ACCOUNT BALANCE

2007/08		2008/09 £'000
(3,855)	(Surplus)/Deficit on Harbour Income and Expenditure Account	(3,617)
3,855	Net additional amount required by statute to be debited or credited to the Harbour balance for the year	3,617
<u>0</u>	(Increase)/decrease in the Harbour balance	<u>0</u>
0	Harbour Account balance brought forward	0
<u>0</u>	Harbour Account balance carried forward	<u>0</u>



**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**Note to the Statement of Movement on the Harbour Account Balance**

2007/08		2008/09	2008/09
£'000		£'000	£'000
	Items included in the Harbour Account Income and Expenditure Account but excluded from the revenue on the Harbour Account balance for the year		
(1,342)	Depreciation and impairment of Harbour fixed assets	(1,343)	
2	Government grants deferred amortisation	2	
(5)	(Gain)/Loss on sale of assets	1	
(907)	Net charge for external benefits under FRS17	(621)	
<hr/>		<hr/>	
(2,252)			(1,961)
	Items not included in the Harbour Income and Expenditure Account but included in the revenue on Harbour Account balance for the year		
74	Loans Fund Principal	78	
1,312	Capital expenditure financed from revenue	1,618	
968	Employer's contribution to Pension Fund	742	
<hr/>		<hr/>	
2,354			2,438
	Transfers to and from the Harbour Account balance that are required to be taken into account when determining the Movement on the Harbour Account balance for the year.		
(43)	Transfer from Marine Fund		(87)
3,796	Transfer to Reserve Fund		3,227
<hr/>		<hr/>	
3,855	Net additional amount required by statute to be debited to the Harbour Account balance for the year		3,617
<hr/> <hr/>		<hr/> <hr/>	

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT**

2007/08		2008/09	2008/09
£000		£000	Income £000
	INCOME		
(4,999)	Dwelling rents (gross)	(5,000)	
(371)	Non-dwelling rents (gross)	(216)	
(2,012)	Housing Support Grant	(1,755)	
<u>(69)</u>	Other Income	<u>(24)</u>	
<u>(7,451)</u>	Total Income		(6,995)
	EXPENDITURE		
2,790	Repairs and maintenance	2,900	
359	Supervision and management	407	
1,643	Depreciation & impairment of fixed assets	980	
47	Bad or doubtful debts	(16)	
<u>424</u>	Other expenditure	<u>220</u>	
<u>5,263</u>	Total expenditure		<u>4,491</u>
(2,188)	Net cost of HRA services per Authority Income and Expenditure Account		(2,504)
<u>174</u>	HRA share of Corporate & Democratic Core		<u>83</u>
<u>(2,014)</u>	Net Cost of HRA Services		<u>(2,421)</u>
	HRA share of operating income and expenditure included in Authority Income and Expenditure Account		
(126)	Gain on sale of HRA assets		(172)
2,791	Interest payable and similar charges		2,843
<u>(54)</u>	Pension interest cost & expected return on assets		<u>8</u>
<u>597</u>	(Surplus)/Deficit for the year on HRA services		<u>258</u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**STATEMENT OF MOVEMENT ON THE HRA BALANCE**

2007/08		2008/09
£000		£000
597	(Surplus)/Deficit on the HRA Income and Expenditure Account	258
(597)	Net additional amount required by statute to be debited or credited to the HRA balance for the year	(258)
<hr/>		<hr/>
0	(Increase)/decrease in the HRA balance	0
0	Housing Revenue account balance brought forward	0
<hr/>		<hr/>
<u>0</u>	Housing Revenue Account balance carried forward	<u>0</u>

**NOTES TO THE HOUSING REVENUE ACCOUNT CORE FINANCIAL STATEMENTS**

**1. Note to the Statement of Movement on HRA Balance**

£000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year.		
(1,647)	Depreciation and impairment of HRA fixed assets	(995)	
14	Government Grants deferred amortisation	14	
126	Gain on sale of assets	172	
(185)	Net charge for external benefits under FRS17	(111)	
<hr/>		<hr/>	
(1,692)			(920)
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,949	Loans Fund principal		1,943
	Transfers to and from the HRA Balance that are required to be taken into account when determining the Movement on the HRA Balance for the year		
469	Capital Expenditure funded by the HRA		356
(1,520)	Transfer from Housing Repair & Renewal Fund		(1,770)
197	Employer's contribution to Pension Fund		133
<hr/>			<hr/>
(597)	Net additional amount required by statute to be credited to the HRA Balance for the year		(258)
<hr/>			<hr/>

2. **Number and types of dwelling**

**Housing stock:**

31 March 2008		31 March 2009	
No.		No.	
84	1 Apartment	84	
406	2 Apartment	409	
561	3 Apartment	548	
720	4 Apartment	705	
40	5 Apartment	39	
1	6 Apartment	0	
2	8 Apartment	2	
<u>1,814</u>	Total	<u>1,787</u>	

3. **Amount of rent arrears**

The table below summarises the rent arrears position for Housing Revenue Account dwellings and the Ladies Drive hostel.

The trend shown below is of a small increase in the number of properties in arrears by 19 and in the total amount of arrears.

**Rent arrears: -**

31 March 2008		31 March 2009	
126	Amount (£000)	132	
332	Number of properties in arrears (No.)	351	
18.3	Properties in arrears as share of total stock (%)	20.0	
379	Average amount per property in arrears (£)	378	

4. **Provision for bad debts**

The following table summarises the movements on the bad debt provision during 2008/09.

**Bad debt provision: -**

2007/08 £000		2008/09 £000	2008/09 £000
(174)	Balance as at 1st April		(196)
	Bad rent debt written off		
8	Over £1,000 (Council approved)	17	
<u>2</u>	Under £1,000 (delegated authority)	<u>10</u>	
10			27
14	Miscellaneous bad debt written off		15
<u>(150)</u>			<u>(154)</u>
(46)	Contribution to/(from) Housing Revenue Account		16
<u>(196)</u>	Balance as at 31st March		<u>(138)</u>

## SHETLAND ISLANDS COUNCIL

### 2008/09 Abstract of Accounts

#### COUNCIL TAX INCOME ACCOUNT

2007/08		2008/09
£000		£000
(9,460)	Gross Council Tax levied and contributions in lieu	(9,588)
<u>(9,460)</u>		<u>(9,588)</u>
(14)	Council Tax benefits (net of Government grant)	(6)
1,189	Other discounts and reductions	1,166
21	Provision for bad and doubtful debts	32
48	Adjustment to previous years' Council Tax	34
<u>(8,216)</u>	Transfer to General Fund	<u>(8,362)</u>

#### 1. Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2008/09 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 2008/09

	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.)		3,096	1,781	2,549	1,573	1,073	196	44	1	<b>10,313</b>
Gross Tax Base (Properties x Weighting)		18,576	12,467	20,392	14,157	11,803	2,548	660	18	<b>80,621</b>
Adjusted Properties (Band D Equivalents)		2064.00	1385.22	2265.78	1573.00	1311.44	283.11	73.33	2.00	<b>8,958</b>
Vacant Properties (No.):										
Mandatory Standard Exemptions		(172)	(73)	(67)	(36)	(12)	(3)	(3)	(1)	<b>(367)</b>
Chargeable Dwellings subject to Disabled Reduction (No.)		(11)	(6)	(12)	(13)	(6)	(1)	(1)	0	<b>(50)</b>
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	11	6	12	13	6	1	1	0	0	<b>50</b>
Class 18 (MoD) Dwellings (No.)	0	0	0	0	0	1	0	0	0	<b>1</b>
Revised Total Properties (No.)	<b>11</b>	<b>2,919</b>	<b>1,714</b>	<b>2,483</b>	<b>1,530</b>	<b>1,057</b>	<b>193</b>	<b>40</b>	<b>0</b>	<b>9,947</b>
Types of Property (No.):										
Single Discount (25%)	5	1,272	694	888	340	164	13	9	0	<b>3,385</b>
Double Discount (50%)	0	318	103	79	32	17	2	1	0	<b>552</b>
No Discount (0%)	6	1,329	917	1,516	1,158	876	178	30	0	<b>6,010</b>
	<b>11</b>	<b>2,919</b>	<b>1,714</b>	<b>2,483</b>	<b>1,530</b>	<b>1,057</b>	<b>193</b>	<b>40</b>	<b>0</b>	<b>9,947</b>
Properties Subject to Council Tax (No.)	9.75	2,442.00	1,489.00	2,221.50	1,429.00	1,007.50	188.75	37.25	0.00	<b>8,824.75</b>
Net Tax Base (Properties x Weighting)	49	14,652	10,423	17,772	12,861	11,083	2,454	559	0	<b>69,851</b>
Adjusted Properties (Band D Equivalents)	5.42	1,628.00	1,158.11	1,974.67	1,429.00	1,231.39	272.64	62.08	0.00	<b>7,761.31</b>
<b>COUNCIL TAX 2008/09:</b>										
<b>General Fund Charge</b>										
Tax Yield (£)	6,845	1,714,284	1,219,491	2,079,324	1,504,737	1,296,653	287,089	65,374	0	<b>8,173,796</b>
<b>Charge per Property (£)</b>	<b>702.00</b>	<b>702.00</b>	<b>819.00</b>	<b>936.00</b>	<b>1,053.00</b>	<b>1,287.00</b>	<b>1,521.00</b>	<b>1,755.00</b>	<b>2,106.00</b>	

## SHETLAND ISLANDS COUNCIL

### 2008/09 Abstract of Accounts

#### NON-DOMESTIC RATE INCOME ACCOUNT

2007/08		2008/09
£000		£000
(14,555)	Gross rates levied and contributions in lieu	(14,047)
<u>(14,555)</u>		<u>(14,047)</u>
2,346	Reliefs and other deductions (net)	2,506
2	Payment of interest	31
48	Provision for bad and doubtful debts	33
<u>(12,159)</u>	Contribution to national non-domestic rate pool	<u>(11,477)</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 Government. The national Non-Domestic Rate poundage set for 2008/09 was £0.458 (2007/08 £0.441).

The Small Business Bonus Scheme was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme. The new scheme applies to properties with a rateable value of £15,000 or less. The Small Business Bonus Scheme is similar to the former Small Business Rate Relief Scheme in that larger businesses will continue to contribute to the cost of the scheme by paying a supplement on the rate poundage for all subjects with a rateable value above £29,000. In 2008/09 this supplement will be 0.4p (0.3p in 2007/08) on the rate poundage of all properties with a rateable value above £29,000, therefore the rate will be 46.2p in the pound.

Category	No. of Subjects	Rateable Value
		£000
Commercial	568	6,217
Industrial	490	18,345
Other	818	8,716
TOTAL	<u>1,876</u>	<u>33,278</u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**PENSION FUND ACCOUNT 2008/09**

**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009**

2007/08		Notes	2008/09	2008/09
£000			£000	£000
	<b>Dealings with members, employers and others directly involved in the scheme</b>			
	<b>Contributions</b>			
	From Employers			
(7,385)	Normal	6	(7,872)	
(278)	Augmentation		(390)	
<u>(7,663)</u>				(8,262)
	From Members			
(3,111)	Normal	6		(3,317)
	<b>Transfers in</b>			
(2,356)	Individual transfers in from other schemes		<u>(1,780)</u>	(1,780)
	<b>Other income</b>			
(21)	Other income			(23)
	<b>Benefits Payable</b>			
4,363	Pensions	6	4,763	
1,691	Commutation of pension and lump sum retirement benefits	6	2,094	
13	Lump sum death benefits	6	<u>114</u>	
<u>6,067</u>				6,971
	<b>Payments to and on account of leavers</b>			
16	Refunds of contributions		18	
22	State Scheme Premiums		17	
422	Individual transfer out to other schemes		<u>119</u>	
<u>460</u>				154
	<b>Administrative expenses</b>			
172	Administrative expenses	8		226
<u>(6,452)</u>	<b>NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>			<u>(6,031)</u>



**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**PENSION FUND ACCOUNT 2008/09**

**NET ASSETS STATEMENT AS AT 31 MARCH 2009**

2007/08	Notes	2008/09	2008/09
£000		£000	£000
<b>RETURNS ON INVESTMENTS</b>			
<b>Investment income</b>			
(167)	Quoted UK - interest on fixed interest securities	(114)	
(4,521)	Quoted UK - dividends from equities	(2,543)	
(1,640)	Quoted overseas - dividends from equities	(1,487)	
(51)	Unquoted UK - income from pooled investment vehicles	(154)	
0	Unquoted overseas - income pooled investment vehicles	(66)	
(688)	Interest on cash deposits	(912)	
(154)	Other	(212)	
<u>(7,221)</u>			(5,488)
24,481	<b>Change in market value of investments</b>		52,358
78	<b>Taxation - irrecoverable withholding tax</b>		74
1,071	<b>Investment management expenses</b>	8	748
<u>18,409</u>	<b>Net returns on investments</b>		<u>47,692</u>
11,957	<b>Net (increase)/decrease in the fund during the year</b>		41,661
(211,718)	Add : Opening net assets of the scheme		(199,761)
<u><u>(199,761)</u></u>	<b>Closing net assets of the scheme</b>		<u><u>(158,100)</u></u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract Accounts**

**PENSION FUND ACCOUNT 2008/09**

**NET ASSETS STATEMENT AS AT 31 MARCH 2009**

2007/08	Notes	2008/09	2008/09
£000		£000	£000
<b>INVESTMENT ASSETS</b>			
(3,147) Fixed interest securities (Public sector)		0	
(152,283) Equities		(6)	
(11,934) Pooled Investment Vehicles (Unit Trusts)		(130,593)	
(9,030) Pooled Investment Vehicles (Property Unit Trusts)		(7,701)	
<u>(3,293) Other investment</u>		<u>(2,353)</u>	
(179,687)	5	(140,653)	
Other investment balances			
(27) Interest receivable		0	
(1,018) Dividends receivable		0	
<u>(68) Tax recoverable</u>		<u>(148)</u>	
		(148)	
(180,800) Total investment assets			(140,801)
Net current assets and liabilities			
(12,446) Bank and cash - external		(9,626)	
(5,870) Bank and cash - internal		(7,269)	
(1,196) Debtors	10	(1,221)	
<u>551 Creditors</u>	11	<u>817</u>	
(18,961) Net current assets			(17,299)
<u><u>(199,761) Net Assets</u></u>			<u><u>(158,100)</u></u>

These financial statements 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.

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

## **SHETLAND ISLANDS COUNCIL**

### **2008/09 Abstract of Accounts**

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

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

The Pension Fund is a pool into which employees' and employers' contributions and income from investments are paid in and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) Regulations.

The Council is Trustee for a Pension Fund covering 3,325 members (2007/08 3,206) including 375 (2007 /08 361) who are members of other admitted bodies and 12 (2007/08 14) who are members of a scheduled body, 801 (2007/08 756) pensioners, 162 (2007/08 153) dependants and 1,026 (2007/08 939) deferred members. These figures do not include teachers, who are covered by the Scottish Teachers Pension Scheme.

The scheduled body is: -

Orkney and Shetland Valuation Joint Board

The admitted bodies are: -

Lerwick Port Authority  
Shetland Amenity Trust  
Shetland Arts Development Agency  
Shetland Recreational Trust  
Shetland Fisheries Training Centre Trust  
Shetland Islands Tourism  
Shetland Enterprise Company  
Shetland Alcohol Trust  
ABA Services  
Shetland Youth Information Service  
Shetland Seafood Quality Control Ltd  
Advocacy Shetland  
Shetland Voluntary Care Forum  
Disability Shetland  
Shetland Development Trust  
Shetland Charitable Trust  
Atlantic Ferries (closed Agreement)

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.

##### **2. Accounting Policies**

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 2009.

The custodian, the Northern Trust Company, has valued all investments. In accordance with the SORP, valuations at 31 March 2009 are now at bid market values but those at 31 March 2008 remain at mid market values, the difference between the valuations being immaterial. Revision of the 2007/08 figures would mean changing the asset values and the change in the market value of investments in the net assets statement.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2009.

##### **3. Accounting treatment**

The accounts 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).

#### 4. 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 2008/09, an additional £2.40 (admitted bodies paying between £2.00 and £3.40) for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 2008 indicated a funding level of 88%. As a result, the rate of employer's contribution for Shetland Islands Council will be 15.5%, 16.6% and 17.7% for years 2009/10, 2010/11 and 2011/12 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	4.5% p.a.
Salary increases	5.1% p.a.
Pension increases	3.6% p.a.
Price Inflation	3.6% p.a.

Actuarial valuations and fund management advice are provided by Hymans Robertson. At the date of the last actuarial valuation (31 March 2008) the market value of the Scheme's assets was £199.8m.

#### 5. Investments

On 22 October 2008 it was agreed to appoint Barclays Global Investors (BGI) to replace Capital International to manage the Fund's investments, along with Record Currency Management and Schroder Property Investment Management Limited. 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. Since the end of the financial year BlackRock have been negotiating to acquire BGI.

The investment strategy which has been adopted is to invest in a portfolio that aims for a split along the following guidelines: U.K. Equities 38.75%; Overseas Equities 38.75%; Bonds 10%; Property 10%; and Currency 2.5%.

The Fund also uses the services of a custodian, The Northern Trust Company. The table below gives details of investments held.

##### Investments held:

Market Value at 31.3.08 £'000	Investment Sector	Market Value at 31.3.09 £'000
(3,147)	Fixed interest securities - public sector	
	Quoted - UK	0
(75,540)	Equities	
(76,743)	Quoted - UK	0
	Quoted - Overseas	(6)
	Pooled Investment Vehicles (Unit Trusts)	
(8,604)	Unquoted - UK	(71,776)
(3,330)	Unquoted - Overseas	(58,817)
	Pooled Investment Vehicles (Property Unit Trusts)	
(6,164)	Unquoted - UK	(2,970)
(2,866)	Unquoted - Overseas	(4,731)
	Other Investments	
(3,293)	UK	(2,353)
<u>(179,687)</u>		<u>(140,653)</u>

## 6. 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	
	2009	2008	2009	2008	2009	2008
Contributions receivable						
employers	(6,733)	(6,336)	(64)	(63)	(1,075)	(986)
members	(2,842)	(2,670)	(21)	(20)	(454)	(421)
Benefits payable						
pensions	4,427	4,064	17	17	319	282
lump sums	1,839	1,563	101	-	154	128
lump sum death benefits	114	13		-		-

## 7. Purchases and sales during the year

The value of purchases and sales in 2008/09 were £202m and £184m respectively as compared to £155.0m and £154.0m in 2007/08.

### **Purchases and Sales 2008/09**

	Purchases £000	Sector (incl Gains/Losses) £000	Direct Transaction Costs £000
Fixed interest securities-Govt			
Quoted-UK	6,854	10,074	
Unit Trusts			
Unquoted-UK	14,353	6,008	
Unquoted-Other	1,820	4,288	
Equities			
Quoted-UK	25,043	75,208	165
Quoted-Other	26,460	83,678	80
Quoted Pref Shares-Other	116	63	
Unit Trusts			
Unquoted-UK	60,588	1,469	
Unquoted-Other	59,573	1,522	
Unquoted-Property UK		1,312	
Unquoted-Property Other	1,523		
Cash			
Deposits	5,850		
	<b>202,180</b>	<b>183,622</b>	<b>245</b>

### **Fund administration costs**

Expenses of the Fund in 2008/09 include an administration charge from the Council of £147,891 (2007/08 £142,947). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2008/09 amounted to £432,225 (2007/08 £800,130).

Barclays Global Investors have operated as fund manager since 26 November 2008 with fees of £36,451.

The fees for Record Currency Management Limited are £104,147 (2007/08 £105,183) and for Schroders are £30,000 (2007/08 £21,583).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2008/09 amounted to £94,906 (2007/08 £100,348). 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**

BGI achieved a return for 2008/09 of -9.1% versus the benchmark return of -9.1%. Record Currency Management achieved a return of -28.5% versus the benchmark of +2.9%. Schroders achieved a return of -9.6% versus the benchmark of -33.7%.

9. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £240,218 for employee contributions (2007/08 £229,019) and £569,350 for employer contributions (2007/08 £542,750).

10. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £139,144 for administration recharge costs (2007/08 £142,947).

12. **Statement of Investment Principles**

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

13. **Funding Strategy Statement**

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

14. **Additional Voluntary Contributions**

Prudential and Equitable Life manage the Additional Voluntary Contributions investments. The market value of these investments at 31 March 2009 was £3,286,847 (2007/08 £2,746,818) and total purchases for 2008/09 were £682,818 (2007/08 £351,000). The amounts are not included in the Pension Fund Accounts in accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) regulations 1998 (SI 1998 No. 1831).

15. **Contingent Asset**

The pension benefits accruing to the staff of Shetland Towage up until 10 February 2006 were transferred to the Shetland Islands Council pension fund. The assets of Shetland Towage's Pension Scheme that funded these benefits were also transferred with the Council agreeing to cover any funding shortfall.

The amount due to the Pension Fund depends upon when the payment is actually made. An actuarial valuation as at 16 June 2009 indicated a funding shortfall of £8.346m.

## **SHETLAND ISLANDS COUNCIL**

### **Abstract of Accounts 2008/09**

#### **STATEMENT OF GROUP ACCOUNTING POLICIES**

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP) requires Councils to consider their interests in external organisations including limited companies and other statutory bodies. Where such interests are considered material, the Council is required to prepare group financial statements in addition to those of Shetland Islands Council.

##### **2. Combining Entities**

The Council has identified four bodies where, according to the definitions in the SORP, the Council exerts a significant influence over them without support from other participants. These bodies are:

- Northern Joint Police Board
- Highlands and Islands Fire Board
- Orkney and Shetland Valuation Joint Board
- Zetland Transport Partnership (ZetTrans)

Accordingly, the Council has treated these bodies as 'associates' and included them in its Group Statements.

The Council also identified two organisations in which the Council holds a majority of equity capital or equivalent voting rights. These are:

- Shetland Towage
- Shetland Development Trust

The Shetland Development Trust had previously been excluded from the group but following changes in the governance of the Trust resulting in all the trustees being councillors, it has now been consolidated into the Group Statements as a 'subsidiary', with the exception of the Group Cash flow statement as detailed in section 3 below. It is intended that most of the assets and liabilities of the Trust will transfer to the Council during 2009/10. Shetland Towage has been excluded as it is not currently operational nor does it hold significant assets.

The Trusts that the Council manages have not been included in the Group Statements on the grounds of materiality. Information on these can be found in Note 21 on page 32.

The position regarding the grouping of Council accounts with the Shetland Charitable Trust is detailed in note 10 on page 5.

##### **3. Basis of Consolidation**

The four bodies are all subject to the SORP, as is the Council, and so their single entity accounts were already in a SORP compliant format. These associates have been incorporated using the equity method where an opening investment is recognised in the Group Balance Sheet and is adjusted each year by the Council's share of the associate's operating results and other gains and losses. The Shetland Development Trust's accounts have been converted to a SORP compliant basis where material (except as detailed below) and have been included in the group statements using the acquisition method.

The opening investment in 2005/06 was established by taking the Council's share in the same percentage as its share of voting rights in each body. Its share of the operating results for the year was determined by its share of the total requisitions paid to fund each body by their constituent members. ZetTrans was only established in 2006/07 and the opening investment in it was determined by the percentage funding provided by the Council.

The Shetland Development Trust has been included for the first time in 2008/09 and so the comparative figures for 2007/08 have been amended to include the Trust's results for that year. However, the group cash flow statement does not include the Trust's 2008/09 figures or the comparatives for 2007/08. In effect the group cash flow statement only discloses the single entity figures as reported earlier on pages 16 and 17 of the financial statements.

##### **4. Financial Assets**

All investments are classified as Available-for-sale and are shown at fair value which is based on the quoted market bid price, except for investments held by the Shetland Development Trust. These are valued at cost less provision for impairment where evidence exists.

5. **Provision for Pensions**

Pension assets and liabilities have been included in the accounts on the basis of Financial Reporting Standard No.17. The Shetland Development Trust is exempt from FRS 17 and no adjustment has been made in the Trust's accounts for it.



**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**GROUP INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2009**

2007/08		2008/09	2008/09	2008/09
£000		Expenditure £000	Income £000	Net £000
2,739	Central services	2,912	(191)	2,721
38,248	Education services	47,974	(5,399)	42,575
5,287	Environmental services	9,364	(4,047)	5,317
1,725	Housing services	4,355	(3,182)	1,173
5,470	Cultural and related services	6,436	(728)	5,708
11,717	Planning and development services	10,401	(1,075)	9,326
9,576	Roads and transport services	12,532	(2,157)	10,375
9,775	Trading services	28,246	(18,847)	9,399
19,198	Social work	29,569	(7,252)	22,317
5,774	Corporate and democratic core	6,520	0	6,520
414	Non distributed costs	999	0	999
1,946	Police	1,805	(1)	1,804
2,099	Fire	2,212	0	2,212
(2,014)	Housing revenue account	4,571	(6,992)	(2,421)
165	Share of operating results of Associates	7,911	(7,762)	149
<u>112,119</u>	<b>Net Cost of Services</b>	<u>175,807</u>	<u>(57,633)</u>	<u>118,174</u>
(30)	(Gain)/Loss on disposal of fixed assets			727
(28)	(Gain)/Loss on disposal of fixed assets of Associates			14
(84)	Net (Surplus)/Deficit trading undertakings			261
3,501	Interest payable and similar charges			3,276
153	Interest payable and similar charges of Associates			129
(27,060)	Interest and investment income			(10,713)
(72)	Interest and investment income of Associates			(39)
(2,063)	Pension interest cost & expected asset return			498
1,571	Pension interest cost & expected asset return of Associates			1,489
598	Taxation of group entities			480
<u>88,605</u>	<b>NET EXPENDITURE</b>			<u>114,296</u>
(8,216)	Council Tax			(8,362)
(71,842)	Revenue Support Grant			(81,830)
(8,031)	Contribution from non-domestic rate pool			(8,088)
<u><b>516</b></u>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<u><b>16,016</b></u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**RECONCILIATION OF COUNCIL SURPLUS TO GROUP SURPLUS**

2007/08 £000		2008/09 £000
(4,372)	(Surplus)/Deficit on Council's Income and Expenditure Account	4,495
<u>73</u>	Adjustments for transactions with group entities	<u>5,857</u>
(4,299)	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Council	10,352
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to:	
1,789	Associates	1,742
<u>3,026</u>	Subsidiary	<u>3,922</u>
<u><u>516</u></u>	Group Account (Surplus)/Deficit for the year	<u><u>16,016</u></u>

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

2007/08 £000		2008/09 £000
516	Net (Surplus)/Deficit for the year	16,016
(29,458)	Surplus arising on revaluation of fixed assets	(6,477)
(7,825)	Surplus arising on revaluation of Available-for-sale Financial Assets	30,722
(20,368)	Actuarial (gains)/losses on pension fund assets and liabilities.	32,019
0	Net liability assumed on a business combination	5,836
<u><u>(57,135)</u></u>	Total recognised gains for the year	<u><u>78,116</u></u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**GROUP BALANCE SHEET**

**AS AT 31 MARCH 2009**

31 March 2008 £000		31 March 2009 £000	31 March 2009 £000
13,438	Intangible assets		12,080
	<b><u>TANGIBLE FIXED ASSETS</u></b>		
	Operational assets		
60,440	Council dwellings	59,931	
97,409	Other land and buildings	104,233	
39,361	Vehicles, plant, furniture and equipment	37,438	
115,784	Infrastructure assets	115,783	
5,104	Community assets	<u>5,885</u>	
<u>318,098</u>			323,270
	Non-operational assets:		
4,444	Investment properties	4,328	
15,360	Assets under construction	23,323	
245	Surplus assets, held for disposal	<u>241</u>	
			27,892
<u>351,585</u>	<b>TOTAL FIXED ASSETS</b>		<u>363,242</u>
(36,076)	Investments in Associates		(34,496)
242,782	Long-term investments		200,593
4	Long-term debtors:Housing Loans		3
18	Long-term debtors:Other		15
<u>558,313</u>	<b>TOTAL LONG-TERM ASSETS</b>		<u>529,357</u>
	<b><u>CURRENT ASSETS</u></b>		
3,092	Stocks and work in progress	3,465	
11,289	Debtors, less bad debt provisions	17,497	
28,047	Short term investments	20,535	
<u>7,889</u>	Cash and bank	<u>12,569</u>	
50,317			54,066
608,630	<b>TOTAL ASSETS</b>		<u>583,423</u>
	<b><u>CURRENT LIABILITIES</u></b>		
(13,163)	Creditors		(23,034)
<u>595,467</u>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>560,389</u>
	<b><u>LONG-TERM LIABILITIES</u></b>		
(10,207)	Government Grants-deferred	(12,533)	
(214)	Provision	(53)	
<u>(18,107)</u>	Pension Asset/ (Liability)	<u>(58,979)</u>	
(28,528)			(71,565)
<u>566,939</u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>488,824</u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**GROUP BALANCE SHEET**

**AS AT 31 MARCH 2009**

31 March 2008 £000		31 March 2009 £000	31 March 2009 £000
	<b><u>FINANCED BY:</u></b>		
(255,248)	Capital Adjustment Account		(260,833)
(28,012)	Revaluation Reserve		(33,946)
(7,825)	Available-for-sale Financial Instruments Reserve		22,897
58,246	Pension Reserve		97,343
(404)	Capital Receipts Reserve		(398)
(303)	Share of revaluation reserve of associates/group entities		(301)
<u>(233,546)</u>			<u>(175,238)</u>
(116,545)	Capital Fund	(114,591)	
(101,413)	Repairs and Renewals Fund	(92,959)	
(87,220)	Reserve Fund	(87,601)	
(267)	Insurance Fund	(220)	
<u>(305,445)</u>		<u>(295,371)</u>	
	<b>Balances</b>		
(96)	General Fund		(70)
(27,852)	Share of profit & loss of associates/group entities		(18,145)
<u>(566,939)</u>	<b>GROUP BALANCES AND RESERVES</b>		<u>(488,824)</u>

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

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT**

2007/08		2008/09	2008/09
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
85,088	Cash paid to and on behalf of employees	89,691	
68,061	Other operating cash payments	64,142	
398	Housing Benefit paid out	471	
<u>4,210</u>	National Non-Domestic Rate payments to national Pool	<u>4,081</u>	
157,757			158,385
	<b>Cash Inflows</b>		
(3,561)	Rents (after rebates)	(3,647)	
(7,526)	Council Tax income (after rebates)	(7,707)	
(12,180)	Non-domestic rate receipts	(11,552)	
(71,273)	Revenue Support Grant	(81,830)	
(417)	DSS grants for benefits	(434)	
(16,455)	Other government grants	(11,715)	
(27,404)	Cash received for goods & services	(26,715)	
<u>(10,002)</u>	Other operating cash receipts	<u>(16,965)</u>	
(148,818)			(160,565)
<u>8,939</u>	<b>NET CASH INFLOW/OUTFLOW FROM REVENUE ACTIVITIES</b>		<u>(2,180)</u>
	<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>		
	<b>Cash Inflows</b>		
(2,214)	Dividends received		(2,315)
	<b>RETURNS ON INVESTMENTS ANDSERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(6,413)	Interest received		(5,542)
<u>312</u>	<b>BALANCE c/f</b>		<u>(10,037)</u>

**SHETLAND ISLANDS COUNCIL**

**2008/09 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT (continued)**

2007/08		2008/09	2008/09
£000		£000	£000
312	BALANCE b/f		(10,037)
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
18,582	Purchase of fixed assets	22,899	
<u>401,700</u>	Purchase of long-term investments	<u>114,767</u>	
420,282			137,666
	<b>Cash Inflows</b>		
(1,767)	Sale of fixed assets	(3,542)	
(413,763)	Sale of long-term investments	(125,520)	
(2,893)	Capital grants received	(3,282)	
<u>(4)</u>	Other capital cash receipts	<u>(4)</u>	
(418,427)			(132,348)
<u>2,167</u>	Net cash (inflow)/outflow before financing		<u>(4,719)</u>
	<b>MANAGEMENT OF LIQUID RESOURCES</b>		
(893)	Net Increase in short term deposits		(38)
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
0	Capital element of finance lease rental payments		0
<u><u>1,274</u></u>	NET (INCREASE)/DECREASE IN CASH		<u><u>(4,757)</u></u>

## SHETLAND ISLANDS COUNCIL

### 2008/09 Abstract of Accounts

#### NOTES TO THE GROUP ACCOUNTS

The notes required for the accounts of Shetland Islands Council itself are disclosed in the preceding pages. The following notes provide additional information where required on the other group entities.

#### 1. Details of other Group Entities

The following entities have been included as associates within the Group Accounts: -

Orkney and Shetland Valuation Joint Board  
Northern Joint Police Board  
Highlands and Islands Fire Board  
Zetland Transport Partnership (ZetTrans)

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government reorganisation. The Board provides the valuation service for Orkney and Shetland and is funded by the two Councils who share running costs and any surpluses or deficits. In 2008/09, Shetland contributed 51% (2007/08 51.8%) of the Board's costs and its share of the year-end net liability of £0.441m (2007/08 £0.055m) is included in the Group Balance Sheet.

Northern Joint Police Board was established at local government reorganisation in 1975 and provides a range of policing services to the four local authorities in the Highlands and Islands. In 2008/09, Shetland contributed 6.61% (2007/08 6.77%) of the Board's costs and its share of the year-end net liability of £279.9m (2007/08 £300.9m) is included in the Group Balance Sheet.

Highlands and Islands Fire Board was established at local government reorganisation in 1975 and provides fire services on behalf of the four local authorities in the Highlands and Islands. In 2008/09, Shetland contributed 8.97% (2007/08 9.34%) of the Board's costs and its share of the year-end net liability of £46.5m (2007/08 £51.7m) is included in the Group Balance Sheet.

Zetland Transport Partnership (ZetTrans) was established in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005. In 2008/09 Shetland contributed 90.78% (2007/08 64.1%) and net year-end liability was zero.

The Shetland Development Trust has been included as a subsidiary within the Group Accounts, with the exception of the Group cash flow statement as detailed in section 3 above. It is a public non-charitable trust constituted under a Deed of Trust registered in Edinburgh on 8 January 1996. The object of the Trust is to assist local business in the Shetland Islands which it does through making loans, purchasing equity or leasing assets, mainly fish quota. Following a reorganisation of the Trust whereby all the Trustees were all Shetland Islands Council councillors, the Council exercises 100% of the Trust's voting rights.

Under Financial Reporting Standard 9 on associates, the following information has to be disclosed, showing the Council's share of the results of the other entities: -

2007/08		2008/09
£000	<b>Northern Joint Police Board</b>	£000
3,963	Turnover	3,730
36	Profit before Tax	150
0	Taxation	0
36	Profit after Tax	150
4,476	Fixed assets	3,097
1,098	Current assets	1,043
(520)	Liabilities due within one year	(624)
(35,939)	Liabilities due after one year or more	(22,033)

2007/08			2008/09
£000	<b>Highlands and Islands Fire Board</b>		£000
2,099	Turnover		2,098
116	Profit before Tax		(20)
0	Taxation		0
116	Profit after Tax		(20)
3,939	Fixed assets		3,587
349	Current assets		293
(311)	Liabilities due within one year		(255)
(9,173)	Liabilities due after one year or more		(7,846)
2007/08			2008/09
£000	<b>Orkney and Shetland Valuation Joint Board</b>		£000
291	Turnover		310
3	Profit before Tax		14
0	Taxation		0
3	Profit after Tax		14
0	Fixed assets		0
9	Current assets		5
(9)	Liabilities due within one year		(5)
(18)	Liabilities due after one year or more		(225)
2007/08			2008/09
£000	<b>Shetland Transport Partnership (ZetTrans)</b>		£000
1,176	Turnover		1,624
9	Profit before Tax		5
0	Taxation		0
9	Profit after Tax		5
0	Fixed assets		0
1,324	Current assets		1,523
(1,324)	Liabilities due within one year		(1,523)
0	Liabilities due after one year or more		0

## 2. Financial Impact of Consolidation

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £16.8m, representing the Council's share of the entities net liabilities. The liability mainly arises due to the pension liabilities of the associates calculated under FRS17, partly offset by the surplus in the Shetland Development Trust.

## 3. Financial Investments

The investments disclosed in the Balance Sheet are made up of the following categories of financial investment.

	Long-term		Current	
	31 March 2008 £000	31 March 2009 £000	31 March 2008 £000	31 March 2009 £000
Available - for-sale financial assets	241,125	199,744	16,141	16,115
Loans and receivables	0	0	0	391
Loans & receivables-Shetland Development Trust	1,657	849	11,906	4,029
	<b>242,782</b>	<b>200,593</b>	<b>28,047</b>	<b>20,535</b>



#### 4. **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.

2007/08 £000		2008/09 £000
(544)	Opening balance-General Fund	(495)
7	Miscellaneous Invoices written off	56
46	Non-domestic Rates written off	7
38	Council Tax written off	32
0	Cash received on debts written off	0
(42)	(Charge)/Credit to General Fund for provision	(142)
<u>(495)</u>		<u>(542)</u>
(174)	Opening balance-Housing Revenue Account	(196)
14	Miscellaneous Income written off	15
10	Rents written off	27
(46)	(Charge)/Credit to HRA for provision	16
<u>(196)</u>		<u>(138)</u>

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2009 for possible bonus payments. During the year, a considerable number of staff accepted equal pay offers which meant that a large part of the provision was no longer required.

2007/08 £000		2008/09 £000
(342)	Opening balance	(214)
128	Release of provision no longer required	161
<u>(214)</u>		<u>(53)</u>

The Shetland Development Trust has made provision for irrecoverable loans made and for equity investments where there is a risk of the business failing.

2007/08 £000		2008/09 £000
9,835	Opening balance-Loans	9,778
(57)	Movement in provision	75
<u>9,778</u>		<u>9,853</u>
4,867	Opening balance-Equity investments	6,544
1,677	Movement in provision	303
<u>6,544</u>		<u>6,847</u>

The Northern Joint Police Board has a provision for time off in lieu of £0.252m (2007/08 £0.252m) of which the Council's share is £0.017m (2007/08 £0.017m).

#### 5. **Police and Fire Accounts**

The latest set of audited accounts for the Police and Fire Board are for the year to 31 March 2009 and both contain a qualified audit certificate. The qualifications have arisen due to a legislative omission in respect of the new Police and Fire Pension Schemes which became operational in April 2006 and their impact on the accounting requirements of FRS 17 'Retirement Benefits'. It is anticipated that legislation will be corrected during the 2009/10 financial year.

6. Intangible Assets

	Purchased Software and Licences	Fish Quota	Fishing Boat Licence	Total per Balance Sheet	Share of Associates' Intangible Assets	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Cost at 31 March 2008	1,864	17,967	537	20,368	14	20,382
Accumulated Depreciation & Impairment	(440)	(6,402)	(88)	(6,930)	0	(6,930)
Net book Value of assets at 31 March 2008	1,424	11,565	449	13,438	14	13,452
<b>Movement in 2008/09</b>						
Additions	59	0	200	259	10	269
Disposals	0	0	(145)	(145)	0	(145)
Depreciation in year	(467)	(916)	(95)	(1,478)	(4)	(1,482)
Depreciation written back	0	0	6	6	0	6
Transfers/Appropriations	0	0	0	0	3	3
Net Book Value of Assets at 31 March 2009	1,016	10,649	415	12,080	23	12,103

## **SHETLAND ISLANDS COUNCIL**

### **2008/09 Abstract of Accounts**

#### **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. Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, the Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing and operates in accordance with the ISO 9001:2000 quality standard for systems based audit work.

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 6-year risk based Strategic Audit Plan. The plan requires the approval of the Management Team and the Council's Audit & Scrutiny Committee. Six monthly reports are made to the Committee to monitor progress against the annual audit plan and report on key audit findings.

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2008/09 was that the Council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

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

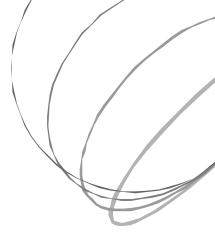
Notwithstanding the above, issues surrounding disclosure checks continue to be a problem. Controls around school funds and comfort funds have still to be resolved. Issues surrounding standing orders being applied in relation to contractible services continue to be identified. The Transport audit identified a significant number of key audit issues. However commitment has been made to resolve these. In addition, Back to Work interviews, performance reviews and the adequate retention and destruction of records are not routinely performed. Due to a lack of progress as a result of a follow up audit on the Schools Service, Audit and Scrutiny Committee has requested a progress report for September 2009. Other audits have revealed a number of key issues but commitment to resolve has been received from relevant management. There was also further work done on the revision of risk registers by the Safety and Risk service. These identify areas where the Council runs significant risks and will inform the allocation of resources towards the management of these risks and audit of the system of control.

The Council identified four entities that it treats as 'associates' and has included them within its Group Accounts. Two of these entities, the Orkney and Shetland Valuation Joint Board and the Shetland Transport Partnership (ZetTrans) are operated by the officers of the Council using the systems of the Council and are therefore effectively covered by its systems of internal financial control. The other two entities, the Northern Joint Police Board and Highlands and Islands Fire Board, are operated by Highland Council and so the Council's influence over their systems of internal financial control is limited to the involvement of the members that represent the Council on these boards. The Council also identified the Shetland Development Trust as an entity to be included in its Group Accounts as a 'subsidiary' as its trustees are all councillors. The activities of the Trust are now effectively run through the Council via its Development Committee and Economic Development Unit. However, the Trust is still currently

accounted for as a separate entity using systems outside the scope of the Council's internal audit process. It is intended to transfer all the staff and most of the assets and liabilities of the Trust to the Council during 2009/10.

There were continuing problems with the software used for the capital accounting system although this had improved compared to the previous year. This meant that some of the notional capital entries were wrongly calculated and correction of these caused delay in the completion of the capital accounting entries. The Council is in continuing contact with the software supplier to seek improvements for next year.

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



## **Independent Auditor's Report**

### **Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account, Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Pension Fund Account and the related notes and the Statement of Accounting Policies together with the Group Accounts. 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 for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Head of finance and auditor**

The Head of finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

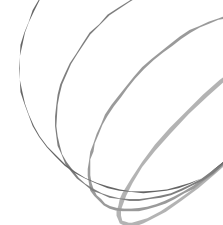
My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Shetland Islands Council and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I 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 Explanatory Foreword. I consider the implications for my report if I become aware of any apparent mis-statements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



## **Basis of audit opinion**

I conducted my 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. My 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 Head of finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements. In relation to the valuation of investments in bonds the council has not provided me with an assessment of the differences between its approach to valuation and income recognition and that required by the 2008 SORP.

## **Qualified opinion arising from disagreement about the accounting treatment of Shetland Charitable Trust**

The 2008 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. Group financial statements are required to give a true and fair view and a full picture of the authority's activity and financial position.

The council's group accounts do not include the Shetland Charitable Trust, and its subsidiaries. In my opinion, the substance of the council's relationship with this body represents a significant interest and their omission results in a material mis-statement of the group accounts.

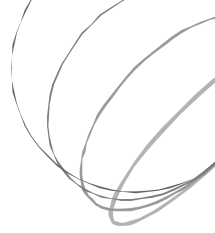
In February 2009 the council's elected members approved a recommendation from the Chief Executive for the results of the Shetland Charitable Trust to be requested from the trust for inclusion in the council's group accounts. In March 2009 the same councillors acting in their capacity as trustees of the Shetland Charitable Trust voted against providing the information required by the council to facilitate the consolidation of the trust's results into the group accounts. A new Chief Executive has been in post since June 2009. He is currently reviewing the council's position on this issue.

Based on prior year financial statements, I estimate that the Shetland Charitable Trust and its subsidiaries would contribute:

- a deficit position of approximately £3 million to the Group Income and Expenditure Account (resulting from income of £13 million and expenditure of £16 million);
- net assets of approximately £219 million to the Group Balance Sheet (resulting from fixed assets of £23 million, investments and loans of £200 million, net current assets of £2 million and long term liabilities of £2 million).

## **Qualified opinion arising from the limitation of scope of the audit on the accounting treatment of financial assets**

The council has total investments of £216.25 million in the balance sheet (£257.27 million at 31 March 2008), which are financial assets. Since 2007/08 the SORP has required that the effective interest rate method be applied to financial assets to determine the interest and investment income to be included within the income and expenditure account together with associated prior year adjustments. Included in these investments are bonds of £90.08 million. More specifically, it is necessary to formally calculate an effective interest rate where a bond has been purchased at a premium or a discount to ensure this is amortised over the life of the bond.



Since 2007/08 the council has used a nominal interest rate in valuing its financial assets and bond calculations instead of the effective interest rate required by the SORP. During the audit of the 2007/08 financial statements the council provided calculations which estimated that the difference between the nominal interest rate used by the council and the effective interest rate resulted in a difference of approximately £1.43 million as at 31 March 2008. The net effect of which was to overstate the general fund balance by £1.43 million and understate the available for sale reserve by the corresponding amount. Despite assurances at this time that the council would apply the effective interest rate in the 2008/09 financial statements, this was not undertaken. Nor has the council produced calculations to enable me to calculate the value of this error at 31 March 2009. I am therefore unable to determine whether the accounts are materially correct.

Except for

- the omission of the results of Shetland Charitable Trust from the group accounts; and
- any adjustment that might be required to the accounting treatment of financial assets,

in my opinion the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Shetland Islands Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In respect solely of the accounting treatment of financial assets I have not received all the information and explanations necessary for my audit.

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*30 September 2009*