

# **SHETLAND ISLANDS COUNCIL**

## **Abstract of Accounts**

**2009/10**

**SHETLAND ISLANDS COUNCIL - 2009/10 ABSTRACT OF ACCOUNTS**

**Contents**

**Page**

<b>Abstract of Accounts</b>	
Explanatory Foreword	3
Statement of Accounting Policies	7
Statement of Responsibilities for the Statement of Accounts	10
Financial Statements	
Income and Expenditure Account	11
Statement of Movement on General Fund Balance	12
Statement of Total Recognised Gains and Losses	13
Balance Sheet	14
Cash Flow Statement	16
Notes to the Core Financial Statements	18
Harbour Account	40
Housing Revenue Account	42
Council Tax Income Account	45
Non-Domestic Rate Income Account	47
Pension Fund Account	48
Statement of Group Accounting Policies	55
Group Income and Expenditure Account	57
Reconciliation of Council Surplus to Group Surplus	58
Group Statement of Total Recognised Gains and Losses	58
Group Balance Sheet	59
Group Cash Flow Statement	61
Notes to the Group Accounts	63
Statement on the System of Internal Financial Control	68
<b>Audit Certificate</b>	70

## **2009/10 Abstract of Accounts**

### **EXPLANATORY FOREWORD**

#### **1. Introduction**

The Council's accounts and the Group accounts for the year ended 31st March 2010 have been prepared to comply with statutory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

#### **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.

##### **Harbour Account**

This statement shows the expenditure and income for the Council's harbour operations under the Zetland County Council Act 1974 and the transfer of surpluses to the Reserve Fund.

##### **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. Financial Performance**

The Council's Reserves grew from under £200m in 1995 to an all time high of £345m in 2003. Since then the Reserves have declined to £273.6m in March 2010.

This major decline in the Reserves from 2003 is a trend that was recognised and built into Council financial policy in 2005. The Reserves Floor Policy requires the decline to be halted at a minimum level of Reserves of £250m and evidence shows that the decline in the Reserves has been significantly slowed down since the Policy was introduced.

The Policy is to try to make a soft landing for the Reserves at the minimum figure of £250m. This remains a feasible objective.

General Fund net revenue spending from Reserves was only £5.85m (compared with the policy target of £9.0m). The origins of the under-spend of £3.1m were widespread, reflecting the downward pressure on spending which has been achieved around the Council. The biggest areas of under-spending were in Community Care, Children's Services and Education Service, where employee costs budgets were all significantly under-spent. This was partly due to delays in the Montfield Care Home project, but was mainly due to all of these services operating throughout the year well below the budgeted level of employee numbers. Staff turnover, recruitment delays and vacancy levels were the main factors. Despite these challenges the indications are that managers and staff managed to maintain good service delivery throughout the year. There was also a transfer to revenue from the Capital programme of £5.119m for expenditure in the year not meeting the accounting definition of capital and a transfer of £6.71m of previous expenditure originally intended to create capital assets, requiring an overall contribution from reserves of £17.68m.

General Fund Capital Programme spending only required £6.13 million from the Reserves, £13.87 million less than expected. This was partly due to under-spending and slippage on capital projects, but also due to a new General Capital Grant (£4.152 million) from the Scottish Government, together with some unanticipated grants and capital receipts.

Harbour Account net income (which is contributed to the Reserve Fund) was close to budget at £2.53m. This was due to reduced impact of single status on employee costs than anticipated and better than expected income, notably from Blacksness Pier (some £0.3 million). However, there was also £0.48m of expenditure originally intended to create capital assets charged to the account, resulting in a Reserve Fund contribution of £2.05m.

Reserve Fund spending was £2.1m less than original target, at £12.9m. This mainly arose from slippage in development grant aid programmes.

Housing Revenue Account net expenditure was £0.24m over budget due mainly to higher spending on maintenance. This was partly offset by savings on support costs. As a result, the contribution from the Housing Repair and Renewal Fund of £0.31m was £0.123m over budget.

The Council's Significant trading operations both returned to surplus this year and were able to absorb the effects of the Single Status settlement. They are judged on a three year rolling basis and both have exceeded the break-even target.

The combined effects of under-spending from Reserves, aided by the better investment returns, left the Reserves at £273.6m at 31 March 2010, still some £23.6m above the Reserves Floor set by policy.

The UK has emerged from very deep recession. The new financial settlement for local government is likely to contain very challenging news for this Council. The prospect is a reduced financial settlement from the Scottish Government and any prospective new income streams for the Shetland Community from oil, gas and renewables projects are uncertain and some way off into the future.

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

Significant major capital work during 2009/10 included work on the new Mid Yell JHS (£4.28m) and other major capital spend included work on two new tugs for Sullom Voe (£10.26m).

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 2009/10, 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 2009/10 the Council conducted a tendering exercise with the result that a new banking contract was awarded to the Bank of Scotland from April 2010. The contract is for a period of five years and provides current overdraft facilities of £0.8m.

Major fixed asset disposals during 2009/10 occurred on Council house sales.

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

The Council has prudently built up extensive reserves of £273.6m 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 2010 of £258.7m (£279.7m at 31 March 2009). 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 Government £93.55m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £1.5m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.7m 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 £8.48m, £5.3m from rents and charges to Council house and hostel tenants and £11.9m 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 2010. This indicated a net pension liability of £147.17m compared to a net liability of £58.98m as at 31 March 2009.

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 2010. 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 5 to the Core Financial Statements.

10. **Trusts**

The Council's 2008/09 Accounts were qualified because, in the Auditor's opinion, the Council should have grouped its accounts with those of Shetland Charitable Trust.

The Shetland Charitable Trust had 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.

The issue has not been resolved for the 2009/10 accounts and it was one of the issues considered by the Accounts Commission at its hearing in June 2010 where they concurred with the view of the auditor.

## 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 2010.

### 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 2010, and the effective date for the valuation was 1 April 2009 unless the property became operational after that date. However for properties with a value of £1,000 or less, the effective date of valuation remains at 1 April 1996 and these will be updated during 2010/11.

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 made between 2007/08 and 2009/10. In addition all beacon valuations in the Shetland North area have been revised during 2009/10. 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 interest credited to the Income and Expenditure account for bonds is determined using the effective interest rate method, with the exception of index linked bonds. Interest received on these bonds was £0.12m (2008/09 £0.12m) and any adjustment under the EIR method would be immaterial.

Gains or losses on the sale of financial assets are credited or charged to the Income and Expenditure account.

The Council provided a zero interest bridging loan to Hjaltland Housing Association. This is a rolling loan where the Council advances monies in advance of Hjaltland receiving government funding. No adjustment has been made in the Income & Expenditure account for interest foregone as this is likely to be immaterial because of the short duration between advances and repayments. The facility is budgeted to continue until 2013/14.

#### 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 18 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 25.

## 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.

## 18. **Change in Accounting Policy**

The Council has adopted the effective interest method for valuing certain financial assets. This has in the current period reduced interest taken to the Income and Expenditure account by £0.38m, reduced the transfer to reserves by the same amount and adjusted the carrying value of the financial assets. The 2008/09 comparatives have been adjusted by £0.75m, affecting the same items as in the current period. For periods prior to 2008/09, an adjustment of £1.507m has been made between reserves and the available-for-sale financial instruments reserve in the current period.

The treatment of non-domestic rates has been amended so that the Abstract only reflects the amount due to or from the Scottish Government as a creditor or debtor in the Balance Sheet. The prior year comparatives have been adjusted, resulting in a decrease in creditors and debtors of £0.55m.

**SHETLAND ISLANDS COUNCIL**

**2009/10 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 2010.

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

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2010**

2008/09		Notes	2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000
(3,104)	Central services		3,437	(1,087)	2,350
42,575	Education services		56,652	(6,028)	50,624
5,317	Environmental services		12,486	(3,984)	8,502
1,173	Housing services		5,314	(3,898)	1,416
5,708	Cultural and related services		7,792	(925)	6,867
6,656	Planning and development services		13,697	(3,226)	10,471
10,375	Roads and transport services		15,547	(2,297)	13,250
9,399	Trading services		28,605	(16,821)	11,784
22,317	Social work		35,650	(8,976)	26,674
6,515	Corporate and democratic core		6,649	0	6,649
999	Non distributed costs		1,722	0	1,722
1,804	Police		1,972	0	1,972
2,212	Fire		2,196	0	2,196
(2,421)	Housing revenue account		4,904	(6,857)	(1,953)
<u>109,525</u>	Net Cost of Services		<u>196,623</u>	<u>(54,099)</u>	<u>142,524</u>
727	(Gain)/Loss on disposal of fixed assets				(44)
261	Net (Surplus)/Deficit trading undertakings	5			(615)
3,276	Interest payable and similar charges				1,767
(10,760)	Interest and investment income				(8,995)
498	Pension interest cost & expected asset return				5,059
<u>103,527</u>	NET OPERATING EXPENDITURE				<u>139,696</u>
(8,362)	Council Tax				(8,497)
(81,830)	Revenue Support Grant				(84,325)
(8,088)	Contribution from non-domestic rate pool				(9,189)
<u>5,247</u>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>				<u><b>37,685</b></u>

## SHETLAND ISLANDS COUNCIL

### 2009/10 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.

2008/09 £000		2009/10 £000
5,247	(Surplus)/Deficit on Income and Expenditure Account	37,685
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	
<u>(5,317)</u>		<u>(37,775)</u>
(70)	Increase in General Fund balance for the year	(90)
0	General Fund balance brought forward	(70)
<u><u>(70)</u></u>	General Fund balance carried forward	<u><u>(160)</u></u>

## SHETLAND ISLANDS COUNCIL

### 2009/10 Abstract of Accounts

#### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2008/09 £000		2009/10 £000
5,247	(Surplus)/Deficit on Income and Expenditure Account	37,685
(6,478)	(Surplus)/Deficit arising on revaluation of fixed assets	(20,308)
29,970	(Surplus)/Deficit arising on revaluation of available-for-sale financial assets	(43,410)
35,341	Actuarial (gains)/losses on pension fund assets and liabilities	85,355
5,836	Net liability assumed on a business combination	0
<u>69,916</u>	Total recognised (gains)/losses for the year	<u>59,322</u>

The Council has made a prior year adjustment in respect of the application of the effective interest rate method to certain financial assets. The amount in respect of 2008/09, £0.752m, has been adjusted in the comparatives shown, resulting in a revised Income and Expenditure Account deficit of £5.247m. The reduction in interest has been reflected in the reserves shown on the Balance Sheet.

The amount in respect of years prior to 2008/09, £1.507m, has been adjusted in the reserves balances in 2009/10.

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**BALANCE SHEET**

**AS AT 31 MARCH 2010**

31 March 2009 £000		Notes	31 March 2010 £000	31 March 2010 £000
1,016	Intangible Assets	10		689
	<b>TANGIBLE FIXED ASSETS</b>			
	Operational assets:			
59,931	Council dwellings		61,135	
104,233	Other land and buildings		117,562	
37,418	Vehicles, plant, furniture and equipment		36,233	
115,783	Infrastructure assets		119,614	
5,885	Community assets		<u>6,523</u>	
<u>323,250</u>				341,067
	Non-operational assets:			
4,328	Investment properties		4,503	
23,323	Assets under construction		22,905	
241	Surplus assets, held for disposal		<u>237</u>	
				<u>27,645</u>
<u>352,158</u>	TOTAL FIXED ASSETS	10		369,401
199,744	Long-term investments	31		218,959
3	Long-term debtors:Housing Loans			2
15	Long-term debtors:Other			11
<u>551,920</u>	TOTAL LONG-TERM ASSETS			<u>588,373</u>
	<b>CURRENT ASSETS</b>			
3,465	Stocks and work in progress		3,610	
11,803	Debtors, less bad debt provisions	15	10,349	
16,506	Short term investments	31	13,484	
9,953	Cash and bank		<u>7,422</u>	
<u>41,727</u>				34,865
<u>593,647</u>	TOTAL ASSETS			<u>623,238</u>
	<b>CURRENT LIABILITIES</b>			
(16,478)	Creditors	15		(14,032)
<u>577,169</u>	TOTAL ASSETS LESS CURRENT LIABILITIES			<u>609,206</u>
	<b>LONG-TERM LIABILITIES</b>			
(53)	Provision	16	(4)	
(12,533)	Government Grants-deferred		(15,751)	
<u>(58,979)</u>	Pension Asset/ (Liability)	25	<u>(147,169)</u>	
<u>(71,565)</u>				(162,924)
<u>505,604</u>	TOTAL ASSETS LESS LIABILITIES			<u>446,282</u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**BALANCE SHEET**

**AS AT 31 MARCH 2010**

31 March 2009 £000		Notes	31 March 2010 £000	31 March 2010 £000
	<b><u>FINANCED BY:</u></b>			
(258,075)	Capital Adjustment Account	18		(243,032)
(33,946)	Revaluation Reserve	18		(53,504)
22,145	Available-for-sale Financial Instruments Reserve	18		(23,148)
58,979	Pension Reserve	18		147,169
(18)	Capital Receipts Reserve	18		(13)
<u>(210,915)</u>				<u>(172,528)</u>
(114,290)	Capital Fund	18	(118,569)	
(92,719)	Repairs and Renewals Fund	18	(85,045)	
(87,391)	Reserve Fund	18	(69,726)	
(219)	Insurance Fund	18	<u>(254)</u>	
<u>(294,619)</u>				<u>(273,594)</u>
	<b>Balances</b>			
(70)	General Fund	18		(160)
<u><u>(505,604)</u></u>	<b>TOTAL NET WORTH</b>			<u><u>(446,282)</u></u>

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 30 September 2010.

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

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**CASHFLOW STATEMENT**

2008/09		2009/10	2009/10
£000		£000	£000
<b>REVENUE ACTIVITIES</b>			
<b>Cash Outflows</b>			
89,691	Cash paid to and on behalf of employees	99,097	
64,142	Other operating cash payments	79,242	
471	Housing Benefit paid out	653	
<u>154,304</u>		<u>        </u>	178,992
<b>Cash Inflows</b>			
(3,647)	Rents (after rebates)	(3,706)	
(7,707)	Council Tax receipts	(7,857)	
(81,830)	Revenue Support Grant	(84,694)	
(434)	DSS grants for benefits	(676)	
(11,715)	Other government grants	(13,679)	
(26,715)	Cash received for goods & services	(30,243)	
(16,965)	Other operating cash receipts	(10,256)	
<u>(149,013)</u>		<u>        </u>	(151,111)
<u>5,291</u>	<b>NET REVENUE CASH (IN)/OUTFLOW</b>	<u>        </u>	<u>27,881</u>
<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>			
<b>Cash Inflows</b>			
(2,315)	Dividends received		(2,120)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
<b>Cash Inflows</b>			
(5,542)	Interest received		(3,484)
<u>(2,566)</u>	<b>BALANCE c/f</b>	<u>        </u>	<u>22,277</u>



**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**CASHFLOW STATEMENT (continued)**

2008/09		2009/10	2009/10
£000		£000	£000
(2,566)	BALANCE b/f		22,277
<b>CAPITAL ACTIVITIES</b>			
<b>Cash Outflows</b>			
22,899	Purchase of fixed assets	24,578	
<u>114,767</u>	Purchase of long-term investments	<u>165,648</u>	
137,666			190,226
<b>Cash Inflows</b>			
(3,542)	Sale of fixed assets	(932)	
(125,520)	Sale of long-term investments	(192,051)	
(3,282)	Capital grants received	(4,348)	
<u>(4)</u>	Other capital cash receipts	<u>(4)</u>	
(132,348)			(197,335)
<u>2,752</u>	Net cash (inflow)/outflow before financing		<u>15,168</u>
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
(38)	Net Increase/decrease in short term deposits		(2,943)
(7,471)	Net Increase/decrease in other liquid resources		(9,694)
<u>(4,757)</u>	NET (INCREASE)/DECREASE IN CASH		<u>2,531</u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**NOTES TO THE CORE FINANCIAL STATEMENTS**

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

2008/09		2009/10 Expenditure £000	2009/10 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		
(12,246)	Depreciation and impairment of fixed assets	(18,901)	
583	Government Grants deferred amortisation	586	
(727)	Net gain/(loss) on sale of fixed assets	44	
(7,681)	Net charge made for retirement benefits in accordance with FRS17	(12,335)	
(20,071)			(30,606)
	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		
2,021	Principal Repayments	2,067	
2,461	Capital Expenditure financed from revenue	1,939	
7,986	Employer's contribution payable to the Pension Fund	9,500	
(7,603)			13,506
	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		
4,708	Transfer to Capital Fund		4,657
52	Transfer to Pilot Boat Renewal Fund		24
(3,656)	Transfer from Repair & Renewals Fund		(7,655)
(1,351)	Transfer from Housing Repair & Renewal Fund		(41)
8	Transfer to Quarry Repair & Renewal Fund		4
2,684	Transfer to/from Reserve Fund		(17,555)
(40)	Transfer from Marine Fund		(53)
(49)	Transfer from/to Insurance Fund		34
(70)	Transfer to earmarked balance		(90)
(5,317)	Net additional amount required to be credited to the General Fund Balance for the year		(37,775)

## SHETLAND ISLANDS COUNCIL

### 2009/10 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. Finance and Operating leases

##### Council as Lessee:

The following table summarises 2009/10 payments made for assets acquired under operating leases.

2008/09 £000		2009/10 £000
1,762	Land & Buildings	1,358
147	Other Assets	134
<u>1,909</u>	Total	<u>1,492</u>

The authority was committed at 31 March 2010 to making payments of £1,417,978 under operating leases in 2010/11, comprising the following elements:

	Land & Buildings	Other Assets
Leases expiring in 2010/11	£221,063	£50,463
Leases expiring between 2011/12 and 2014/15	£130,318	£20,162
Leases expiring after 2015/16	£939,115	£56,857

There were no finance lease payments in 2009/10 and there are no commitments in 2010/11.

##### Council as Lessor:

The aggregate rentals receivable in 2009/10 was £321,398. The gross value of assets held for use in operating leases was £2,094,890 with related accumulated depreciation charges of £30,650.

At 31 March 2010 the Council had no investments in finance leases as lessor and no assets were acquired for the purpose of letting under finance leases.

#### 4. Agency expenditure

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

##### Agency expenditure and income (included in the Income and Expenditure Account):

Net Income 2008/09 £000		Expenditure 2009/10 £000	Income 2009/10 £000	Net Income 2009/10 £000
<u>(59)</u>	Scottish Water	<u>0</u>	<u>(61)</u>	<u>(61)</u>
<u>(59)</u>	Total	<u>0</u>	<u>(61)</u>	<u>(61)</u>

5. **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.

	2007/08 £000	2008/09 £000	2009/10 £000	Cumulative Total £000
Highways				
Turnover	(6,618)	(6,776)	(6,518)	
(Surplus)/Deficit	(64)	154	(330)	(240)
Building Maintenance				
Turnover	(4,278)	(4,606)	(4,880)	
(Surplus)/Deficit	(83)	220	(285)	(148)

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.

6. **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: -

2008/09 £000		2009/10 £000
196	External Audit fees	200
63	Audit Scotland Fixed Charge	63
(13)	Rebate of prior year's fees	0
<u>246</u>		<u>263</u>

No other services were provided to the Council by Audit Scotland.

7. **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.

2008/09 £000		2009/10 £000
380	Allowances/Remuneration	392
96	Expenses	93
<u>476</u>		<u>485</u>

## 8. Officers' Emoluments

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

Remuneration Band	2008/09 No.	2009/10 No.
£50,000 - £59,999	49 (1)	54
£60,000 - £69,999	21 (8)	24 (8)
£70,000 - £79,999	3	2
£80,000 - £89,999	1	-
£90,000 - £99,999	1	-
£130,000 - £139,999	-	1

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

## 9. 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.

2008/09 £'000	<u>Central Government Grants</u>	2009/10 £'000
81,830	Revenue Support Grant	84,694
9,342	Non-Domestic Rates	9,189
2,421	Housing Benefit Subsidy	2,708
773	Council Tax Benefits Subsidy	792
1,755	Housing Support Grant	1,512
2,596	Other Government Grants	2,956
£'000	<u>Other Public Bodies Grants</u>	£'000
2,107	Scottish Further & Higher Education Council	2,270
7	NHS Shetland	1,932
0	Shetland Development Trust	713
0	Skills Development Scotland	364
196	Fairer Scotland Fund	348
53	Sports Scotland	201
165	Shetland Transport Partnership	165
171	Scottish Arts Council	128
75	Ship Safe Training Group	75
32	Lottery Grants	42
25	Shetland Charitable Trust	35
0	Scottish Ambulance Service	30
360	Highlands & Islands Enterprise	0
29	Learning & Teaching Scotland	0
10	Scottish Natural Heritage	0

During the year, the Council made payments of £4.46m (£4.32m in 2008/09) to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £7.53m (£10.14m in 2008/09) 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 £8.28m (£6.77m in 2008/09) in employers contributions and strain costs and charged the Fund £0.17m (£0.15m in 2008/09) in administration costs.

#### 10. 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 2009/10 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 2009	1,924	61,268	116,975	48,684	138,331	5,893	4,560	23,323	250	401,208
Accumulated Depreciation & Impairment	(908)	(1,337)	(12,742)	(11,266)	(22,548)	(8)	(232)	0	(9)	(49,050)
Net book Value of assets at 31 March 2009	1,016	59,931	104,233	37,418	115,783	5,885	4,328	23,323	241	352,158
<b>Movement in 2009/10</b>										
Additions	74	1,674	228	2,711	3,073	42	71	17,116	0	24,989
Disposals	0	(693)	(61)	(801)	(8)	0	(59)	(7,762)	0	(9,384)
Revaluations	0	(291)	8,328	(54)	0	0	(2,684)	226	0	5,525
Depreciation in year	(489)	(757)	(5,372)	(3,908)	(3,676)	(1)	(74)	0	(4)	(14,281)
Depreciation written back	0	232	9,195	809	1	0	157	0	0	10,394
Transfers/Appropriations	88	1,039	1,011	58	4,441	597	2,764	(9,998)	0	0
Net Book Value of Assets at 31 March 2009	689	61,135	117,562	36,233	119,614	6,523	4,503	22,905	237	369,401

Depreciation written back in the year of 10,394k consists of 788k in respect of asset disposals and 9,606k in respect of revaluations.

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 2009/10 to provide for the expenditure incurred.

**Sources of finance for capital accounts in 2009/10:**

2008/09 £000		2009/10 £000
1,066	Loans	11,229
3,608	Capital receipts	947
2,560	Grant receipts	4,721
15,547	Revenue/Other	8,066
<u>22,781</u>	Total	<u>24,963</u>

**11. Significant commitments under capital contracts beyond 31 March 2010**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2010. These amounts relate to contracts commenced but not concluded by the end of the financial year.

Outstanding Contractual Liability beyond 31/03/09 £000		Outstanding Contractual Liability beyond 31/03/10 £000
4,000	Mid Yell JHS	3,685
11,152	Tugs for Sullom Voe	3,342
0	Cinema & music venue	1,983
0	Tingwall airport	379
700	Lerwick Cruden houses phase 1	0
0	Little Tykes	347
342	Care Homes fire upgrade	318
0	Leog replacement	282
260	B9081 Mid Yell (Hillend section)	0
172	Vehicle & Plant replacements	250
0	Murraster depot	279
0	Energy Recovery plant	260
0	Sletts road sea wall	250
135	Ladies Drive office to flat conversion	0
120	IP Telephones	0
100	Replacement Esplanade toilets	0
100	Scalloway Cruden houses	151
60	Rova Head Reinstatement	0
0	Fetlar Burial Ground	78
30	Marinas	0
71	Knab dyke	0
13	Oversund Junction	0
0	Community grants	210
<u>17,255</u>	Total	<u>11,814</u>

## 12. 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 31/03/10</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	22,905	22,905
Valued at current value in:					
2009/10	8,562	72,391	N/A	1,578	82,531
2008/09	532	17,605	N/A	77	18,214
2007/08	60,321	8,448	N/A	1,380	70,149
2006/07	40,783	25,114	N/A	775	66,672
2005/06	41,739	2,200	N/A	0	43,939

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



13. **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 2010.

<b>2009</b>		<b>2010</b>
1,880	<b>Council Dwellings</b>	1,867
	<b>Community Assets</b>	
35	Burial Grounds	35
17	Museum Exhibits:	18
1	Other Community Assets	4
	<b>Non Operational Assets</b>	
42	General Non Operational Assets	43
13	Industrial Estate	13
6	Commercial Properties	5
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
3	Leisure Facilities	3
1	Libraries	1
3	Museums	3
17	Offices	17
25	Public Conveniences	25
35	Schools	35
8	Social Services Homes	8
29	Other Misc Land and Bldgs	32
	<b>Intangible Assets</b>	
26	Software	30
	<b>Vehicles Plant, Furniture and Equipment</b>	
1	Aircraft	1
260	Vehicles	270
156	Plant	166
13	Ferries	13
11	Boats/Tugs	12
104	Computer Equipment	113
	<b>Infrastructure Assets</b>	
1,047	Roads (km)	1,049
	<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.

#### 14. 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	50 - 100
Infrastructure Assets	0 - 60
Other Land & Buildings	0 - 120
Vehicles, plant, furniture & equipment	0 - 50
Non-operational Land & Buildings	0 - 50

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

<b>Asset</b>	<b>Depreciation</b>		<b>Cumulative Depreciation</b>	
	<b>2008/09</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Intangible Assets	467	490	907	1,397
Council Dwellings	715	757	1,338	1,862
Community Assets	1	1	8	9
Infrastructure Assets	3,384	3,676	22,548	26,223
Other Land & Buildings	3,345	5,372	12,741	8,919
Vehicles, plant, furniture & equipment	3,692	3,907	11,266	14,365
Non-operational Assets	71	78	242	162
	<b>11,675</b>	<b>14,281</b>	<b>49,050</b>	<b>52,937</b>

15. **Analysis of Debtors and Creditors**

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

31 March 2009 £000		31 March 2010 £000
<b>Debtors:</b>		
5,278	Sundry Debtors	4,604
177	Recoverable Costs	136
1,280	Value Added Tax	1,789
643	Council Tax	684
611	Non Domestic Rates	150
514	Rents	502
495	Payroll	484
333	Government Grants	312
2,990	Other Debtors	2,266
12,321	Gross debtors	10,927
(211)	Bad debt provision - Sundry Debtors	(213)
(180)	Bad debt provision - Council Tax	(197)
(127)	Bad debt provision - Rents	(168)
11,803	Net Debtors	10,349
<b>Creditors:</b>		
(8,830)	Sundry Creditors	(11,366)
(7)	Non Domestic Rates	(2)
(5,009)	Employee	(607)
(662)	Council Tax	(795)
(1,970)	Other Creditors	(1,262)
(16,478)		(14,032)

16. **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.

2008/09 £000		2009/10 £000
(358)	Opening balance-General Fund	(379)
56	Miscellaneous Invoices written off	77
32	Council Tax written off	44
(109)	(Charge)/Credit to General Fund for provision	(144)
(379)		(402)
(196)	Opening balance-Housing Revenue Account	(138)
15	Miscellaneous Income written off	5
27	Rents written off	54
16	(Charge)/Credit to HRA for provision	(96)
(138)		(175)

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 2010 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.

2008/09 £000		2009/10 £000
(214)	Opening balance	(53)
161	Release of provision no longer required	49
<u>(53)</u>		<u>(4)</u>

17. **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 2009 £000		31 March 2010 £000
258,075	Capital Adjustment Account	243,032
33,946	Revaluation Reserve	53,504
(22,145)	Available-for-sale Financial Instruments Reserve	23,148
(58,979)	Pension Reserve	(147,169)
0	Capital Receipts Reserve	0
18	Deferred Capital Receipts	13
195,762	General Fund	192,507
84,364	Reserve Fund	66,752
10,616	Housing Revenue Account	10,577
3,947	Harbour Accounts	3,918
<u>505,604</u>	Total	<u>446,282</u>

18. **Movements in Reserves**

	Balance as at 1/04/09	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/10
	£000	£000	£000	£000
Capital Adjustment Account	(258,075)	15,405	(362)	(243,032)
Revaluation Reserve	(33,946)	(18,101)	(1,457)	(53,504)
Available-for-sale Financial Instruments Reserve	22,145	(43,786)	(1,507)	(23,148)
Pension Reserve	58,979	88,190	0	147,169
Capital Receipts Reserve				
Capital Receipts Reserve	0	(943)	943	0
Deferred Capital Receipts	(18)	0	5	(13)
Capital Fund				
Capital Fund	(113,370)	(4,657)	402	(117,625)
Pilot Boat Renewal Fund	(920)	(24)	0	(944)
Repairs & Renewals Fund				
Repairs & Renewals Fund	(81,957)	(2,049)	9,688	(74,318)
Housing Repairs & Renewals Fund	(10,616)	(269)	308	(10,577)
Quarry Repairs & Renewals Fund	(146)	(4)	0	(150)
Reserve Fund				
Reserve Fund	(84,364)	(1,196)	18,808	(66,752)
Marine Superannuation Fund	(3,027)	(32)	85	(2,974)
Insurance Fund	(219)	(7)	(28)	(254)
General Fund				
General Fund	0	27,070	(27,070)	0
Central Energy Efficiency Fund	(70)	(7)	0	(77)
Hansel Funds	0	(83)	0	(83)
Housing Revenue Account	0	(185)	185	0
	<b>(505,604)</b>	<b>59,322</b>	<b>0</b>	<b>(446,282)</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, adjusted by the effective interest rate method, 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 £0.71m of Housing Revenue Account and £0.236m 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. £6.06m 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. £9.7m 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 net contribution of £0.31m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.49m to the Capital adjustment account to fund capital expenditure and produced a surplus of £0.18m 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 £2.05m was transferred to the fund and a transfer of £0.07m was made to the Capital Adjustment Account to fund capital expenditure. A transfer of £12.9m was made to the General Fund to cover planned expenditure programmes and £7.98m was also transferred to help cover the General Fund deficit.

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 £0.085m 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. A contribution from the General Fund in the year of £0.027m was made.

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 net contribution of £0.31m was received for that purpose.

## 19. Trust fund and third party funds administered by the Council

The Council administers, as sole trustee, 9 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. Details of the Shetland Development Trust can be found in note 1 to the Group Accounts. The funds do not represent assets of the Council and are not included in the Balance Sheet.

### Trust funds:

Fund Balance at 31/3/09 £000		Fund Balance at 31/3/10 £000
(17,716)	Shetland Development Trust	(16,910)
(637)	Zetland Educational Trust	(647)
(51)	Gilbertson Trust	(52)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(5)	Other	(5)
<u>(18,414)</u>	Total	<u>(17,619)</u>

The Shetland Development Trust, with an income of £1.35m, provides assistance to local industry. The Zetland Educational Trust, with an income of £20,932 and expenditure of £11,220, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £974, 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.

## 20. Statement of Authorisation of Issue

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 30 September 2010 by Graham Johnston B.Sc. (Hons.) C.P.F.A., Head of Finance for the Council.

## 21. 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.

## 22. 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 £1,831,640, 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.

The Council is currently involved in a legal dispute with the Lerwick Port Authority relating to the dredging of the north Lerwick Harbour. Their claim is being contested and is at present unresolved and not admitted.

**23. Pension Costs (Teachers)**

In 2009/10 the Council paid an employer's contribution of £2.5m (£2.23m in 2008/09) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 14.9% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2009/10 these amounted to £0.71m (£0.69m in 2008/09), representing 4.23% of teachers pensionable pay (2008/09 4.17%).

**24. 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.

2008/09 £000		2009/10 £000
6,188	Current service costs	5,554
869	Past service costs	1,722
126	Curtailments and settlements	0
(13,212)	Expected return on assets	(9,066)
13,710	Interest cost	14,125
7,986	Actual employers contributions payable	9,500

**25. 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 Government. 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 2009/10, 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 2008.

Although the net pension liability of £147.17m 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 £66.8m. 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.

The expected employer's contribution for the year to 31 March 2011 is £8.61m.

The actuarial loss recognised in the Statement of Total Recognised Gains and Losses is £85.4m and the cumulative loss is £102.2m.

The actual return on scheme assets is 40.3%.



## Net Pension Liability

The Council's assets and liabilities amounted to: -

2009		2010
£000		£000
134,353	Share of Pension Fund Assets	195,710
(175,197)	Less: Estimated liabilities Pension Fund	(318,653)
<u>(18,135)</u>	Estimated liabilities for discretionary pensions	<u>(24,226)</u>
<u>(58,979)</u>	Net pension asset/(liability)	<u>(147,169)</u>

	2006	2007	2008
	£000	£000	£000
Share of Pension Fund Assets	168,551	187,924	179,810
Less: Estimated liabilities Pension Fund	(204,497)	(202,373)	(178,602)
Estimated liabilities for discretionary pensions	<u>(19,510)</u>	<u>(20,684)</u>	<u>(19,315)</u>
Net pension asset/(liability)	<u>(55,456)</u>	<u>(35,133)</u>	<u>(18,107)</u>

## Reconciliation of Fair Value of Scheme Assets:

2009		2010
£000		£000
179,810	Opening balance (1 April)	134,353
13,212	Expected rate of return	9,066
(63,227)	Actuarial gains and losses	46,120
7,986	Employer contributions	9,500
2,801	Contributions by scheme participants	3,447
(8,126)	Benefits paid	(6,776)
<u>1,897</u>	Assets acquired in a business combination	<u>-</u>
<u>134,353</u>		<u>195,710</u>

## Reconciliation of Present Value of Scheme Liabilities

2009		2010
£000		£000
197,917	Opening balance (1 April)	193,332
6,188	Current service cost	5,554
13,710	Interest Cost	14,125
2,801	Contributions by scheme participants	3,447
(27,886)	Actuarial gains and losses	131,475
869	Past service costs	1,722
(8,126)	Benefits paid	(6,776)
126	Curtailments	-
<u>7,733</u>	Liabilities assumed in a business combination	<u>-</u>
<u>193,332</u>		<u>342,879</u>

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

<b>2009</b>			<b>2010</b>			
	Market Value	Expected rate of return		Market Value	Expected rate of return	
%	£'000	%		£'000	%	
79.0	106,139	7.0	Equity Investments	80.0	156,568	7.8
9.0	12,092	5.4	Bonds	8.0	15,657	5
6.0	8,061	4.9	Property	7.0	13,700	5.8
6.0	8,061	4.0	Cash	5.0	9,785	4.8
	<u>134,353</u>			<u>195,710</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: -

2009		2010
	%	%
3.1	Price increases	3.8
4.6	Salary Increases	5.3
3.1	Pension Increases	7.3
6.9	Discount Rate	5.5
70	Take-up of option to convert pension to lump sum	85

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 2009		31 March 2010
	£000	£000
(63,227)	Difference between the expected and actual return on assets	46,120
134,353	Value of assets	195,710
47.1%	Percentage of assets	23.6%
8,110	Experience gain/(loss) on liabilities	(6,331)
193,332	Present value of liabilities	342,879
4.2%	Percentage of the present value of liabilities	1.8%

	31 March 2006	31 March 2007	31 March 2008
	£000	£000	£000
Difference between the expected and actual return on assets	22,138	1,773	(28,053)
Value of assets	168,551	187,924	179,810
Percentage of assets	13.1%	0.9%	15.6%
Experience gain/(loss) on liabilities	102	(1,128)	(112)
Present value of liabilities	224,007	223,057	197,917
Percentage of the present value of liabilities	0.05%	0.5%	0.1%

## Mortality

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

	2009		2010	
	Males	Females	Males	Females
Current pensioners	20.7 years	23.8 years	21.5 years	24.9 years
Future pensioners	22.0 years	25.0 years	23.5 years	27.0 years

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

### Government grants received in 2009/10: -

2008/09 £000		2009/10 £000	2009/10 £000
(81,830)	Revenue Support Grant		(84,694)
	<b>Rebates Grants</b>		
(756)	Council Tax Rebate	(800)	
(1,900)	Rent Rebate	(2,064)	
<u>(434)</u>	Rent Allowance	<u>(676)</u>	
(3,090)			(3,540)
	<b>Other Revenue Grants</b>		
(1,755)	Housing Support Grant	(1,512)	
(1,899)	Further Education Grant	(1,830)	
(233)	Training Grants	(201)	
(10)	Milk Subsidy	(17)	
(91)	Housing Benefit Administration	(86)	
(47)	Council Tax Administration	(44)	
<u>(5,024)</u>	Other	<u>(7,125)</u>	
(9,059)			(10,815)
<u>(93,979)</u>	Total Revenue Grants		<u>(99,049)</u>
(3,282)	Capital Grants		(4,348)
<u>(97,261)</u>	Total		<u>(103,397)</u>

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

2008/09		2009/10	2009/10
£000		£000	£000
5,247	(Surplus)/Deficit for Year	37,685	
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance		
<u>(5,317)</u>		<u>(37,775)</u>	
(70)			(90)
	<u>Non cash transactions</u>		
7,516	Contributions to/from reserves	21,794	
(2,021)	Loans Fund principal repayments	(2,067)	
<u>(2,460)</u>	Capital from current revenue	<u>(1,939)</u>	
3,035			17,788
	<u>Items on an accruals basis</u>		
374	Movement in stocks	144	
1,598	Movement in debtors	(6,916)	
<u>(4,916)</u>	Movement in creditors	<u>8,217</u>	
(2,944)			1,445
	<u>Items classified elsewhere</u>		
(2,819)	Interest paid	(1,667)	
8,089	Other	10,405	
<u>5,270</u>			8,738
<u>5,291</u>			<u>27,881</u>

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

	Balance at 01/04/09 £000	Balance at 31/03/10 £000	Movement 2009/10 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	16,506	13,484	3,022
<b>Financing</b>			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Principal element of finance lease rental			0
			<u>0</u>

**Definition of Liquid Resources**

Liquid resources are defined as short term investments.

29. **Reconciliation of the movement in cash to the movement in Net Debt**

**Reconciliation to Net Debt**

2008/09		2009/10
£000		£000
(4,757)	(Increase)/decrease in Cash	2,531
0	Decrease in Debt Financing	0
<u>(365)</u>	(Increase)/decrease in Liquid Resources	<u>3,022</u>
(5,122)		5,553
<u>(21,337)</u>	Opening Net Debt as at 01/04/09	<u>(26,459)</u>
<u><u>(26,459)</u></u>	Closing Net Debt as at 31/03/10	<u><u>(20,906)</u></u>

**Analysis of Net Debt**

	Balance at 01/04/09	Cash Flow	Other Non Cash	Balance at 31/03/10
	£000	£000	£000	£000
Cash and bank	(9,953)	2,531	0	(7,422)
Overdraft	0	0	0	0
	<u>(9,953)</u>	<u>2,531</u>	<u>0</u>	<u>(7,422)</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	(16,506)	2,943	79	(13,484)
Total	<u><u>(26,459)</u></u>	<u><u>5,474</u></u>	<u><u>79</u></u>	<u><u>(20,906)</u></u>

30. **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

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 March 2010 the Council only had deposits with the Council’s own bank, amounting to £9.3m. 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 £231m at the 31 March 2010. 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 2010/11. 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 March 2010 is diversified between the following markets:

UK Equities	41%
Overseas Equities	26%
UK Government Bonds	27%
Overseas Bonds	1%
Corporate Bonds	0%
Cash	5%

Overseas equities comprise investments in North America, Europe, Japan, Pacific (ex 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 £4.7m for 2010/11.

### **Foreign Exchange Risk**

The authority has £63m 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.

## 31. **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 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000
Available-for-sale financial assets	199,744	217,952	16,115	13,205
Loans and receivables	0	1,007	391	279
	<u>199,744</u>	<u>218,959</u>	<u>16,506</u>	<u>13,484</u>

The total interest and dividends received in respect of available-for sale financial assets was £5.18m (08/09 £6.7m) and interest received on loans was £0.023m (08/09 £0).

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

Events of a material nature occurring between the Balance Sheet date of 31 March 2010 and the date of issue of the audited accounts of 30 September 2010 whose disclosure is required for the true and fair presentation of the financial statements are detailed below.

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.

## SHETLAND ISLANDS COUNCIL

### 2009/10 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 2009/10 the transfer to the Reserve Fund was £2.05m. Details of the Reserve Fund can be found in note 18 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

2008/09		2009/10	2009/10	2009/10
£'000		Expenditure £'000	Income £'000	Net £'000
(4,512)	Sullom Voe Harbour	11,016	(14,623)	(3,607)
751	Other Harbours	1,861	(681)	1,180
<u>(3,761)</u>	Net Cost of Harbour Services	<u>12,877</u>	<u>(15,304)</u>	<u>(2,427)</u>
(1)	(Gain)/Loss on disposal of fixed assets			(1)
99	Interest Payable and similar charges			262
46	Pension interest cost & expected asset return			347
<u>(3,617)</u>	(Surplus) for the year on Harbour Services			<u>(1,819)</u>

#### STATEMENT OF MOVEMENT ON HARBOUR ACCOUNT BALANCE

2008/09		2009/10
£'000		£'000
(3,617)	(Surplus)/Deficit on Harbour Income and Expenditure Account	(1,819)
3,617	Net additional amount required by statute to be debited or credited to the Harbour balance for the year	1,819
<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**

**2009/10 Abstract of Accounts**

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

2008/09		2009/10	2009/10
£'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		
(1,343)	Depreciation and impairment of Harbour fixed assets	(1,469)	
2	Government grants deferred amortisation	2	
1	(Gain)/Loss on sale of assets	1	
(621)	Net charge for external benefits under FRS17	(728)	
(1,961)			(2,194)
	Items not included in the Harbour Income and Expenditure Account but included in the revenue on Harbour Account balance for the year		
78	Loans Fund Principal	120	
1,618	Capital expenditure financed from revenue	1,272	
742	Employer's contribution to Pension Fund	652	
2,438			2,044
	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.		
(87)	Transfer from Marine Fund		(85)
3,227	Transfer to Reserve Fund		2,054
3,617	Net additional amount required by statute to be debited to the Harbour Account balance for the year		1,819

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT**

2008/09 £000		2009/10 £000	2009/10 £000
	<b>INCOME</b>		
(5,000)	Dwelling rents (gross)	(5,145)	
(216)	Non-dwelling rents (gross)	(195)	
(1,755)	Housing Support Grant	(1,512)	
(24)	Other Income	(5)	
<u>(6,995)</u>	<b>Total Income</b>	<u>(5)</u>	(6,857)
	<b>EXPENDITURE</b>		
2,900	Repairs and maintenance	2,324	
407	Supervision and management	563	
980	Depreciation & impairment of fixed assets	1,679	
(16)	Bad or doubtful debts	96	
220	Other expenditure	136	
<u>4,491</u>	<b>Total expenditure</b>	<u>4,798</u>	4,798
(2,504)	Net cost of HRA services per Authority Income and Expenditure Account		(2,059)
83	HRA share of Corporate & Democratic Core		106
<u>(2,421)</u>	<b>Net Cost of HRA Services</b>		<u>(1,953)</u>
	HRA share of operating income and expenditure included in Authority Income and Expenditure Account		
(172)	Gain on sale of HRA fixed assets		(20)
2,843	Interest payable and similar charges		1,456
8	Pension interest cost & expected return on assets		59
<u>258</u>	<b>(Surplus)/Deficit for the year on HRA services</b>		<u>(458)</u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**STATEMENT OF MOVEMENT ON THE HRA BALANCE**

2008/09 £000		2009/10 £000
258	(Surplus)/Deficit on the HRA Income and Expenditure Account	(458)
(258)	Net additional amount required by statute to be debited or credited to the HRA balance for the year	458
0	(Increase)/decrease in the HRA balance	0
0	Housing Revenue account balance brought forward	0
0	Housing Revenue Account balance carried forward	0

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

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

2008/09 £000		2009/10 £000	2009/10 £000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year		
(995)	Depreciation and impairment of HRA fixed assets	(1,693)	
14	Government Grants deferred amortisation	14	
172	Gain on sale of HRA fixed assets	20	
(111)	Net charge for external benefits under FRS17	(124)	
(920)			(1,783)
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,943	Loans Fund principal		1,947
	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		
356	Capital Expenditure funded by the HRA		494
(1,770)	Transfer from Housing Repair & Renewal Fund		(311)
133	Employer's contribution to Pension Fund		111
(258)	Net additional amount required by statute to be credited to the HRA Balance for the year		458

2. **Number and types of dwelling**

**Housing stock:**

31 March 2009			31 March 2010	
No.			No.	
84	1 Apartment		88	
409	2 Apartment		406	
548	3 Apartment		550	
705	4 Apartment		696	
39	5 Apartment		39	
0	6 Apartment		0	
2	8 Apartment		2	
<u>1,787</u>	Total		<u>1,781</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 but the amount of arrears has dropped.

**Rent arrears: -**

2009		2010
132	Amount (£000)	125
351	Number of properties in arrears (No.)	374
20.0	Properties in arrears as share of total stock (%)	21.5
378	Average amount per property in arrears (£)	334

4. **Provision for bad debts**

The following table summarises the movements on the bad debt provision during 2009/10

**Bad debt provision: -**

2008/09 £000		2009/10 £000	2009/10 £000
(196)	Balance as at 1st April		(138)
	Bad rent debt written off		
17	Over £1,000 (Council approved)	41	
10	Under £1,000 (delegated authority)	13	
<u>27</u>			54
15	Miscellaneous bad debt written off		5
<u>(154)</u>			<u>(79)</u>
16	Contribution to/(from) Housing Revenue Account		(96)
<u>(138)</u>	Balance as at 31st March		<u>(175)</u>

## **SHETLAND ISLANDS COUNCIL**

### **2009/10 Abstract of Accounts**

#### **COUNCIL TAX INCOME ACCOUNT**

2008/09		2009/10
£000		£000
(9,588)	Gross Council Tax levied and contributions in lieu	(9,729)
<u>(9,588)</u>		<u>(9,729)</u>
(6)	Council Tax benefits (net of Government grant)	(4)
1,166	Other discounts and reductions	1,156
32	Provision for bad and doubtful debts	60
34	Adjustment to previous years' Council Tax	20
<u>(8,362)</u>	Transfer to General Fund	<u>(8,497)</u>

#### **1. Council tax base**

Overleaf is the analysis of the Council Tax base used to set the 2009/10 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-one's sole or main residence, the bill may be cut by up to 50%. If the property is a second home or long term empty the discount will only be 10%. Certain persons will not be counted when establishing the number of residents, these 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 2009/10

	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.)		3,087	1,780	2,552	1,614	1,113	209	47	1	<b>10,403</b>
Gross Tax Base (Properties x Weighting)		18,522	12,460	20,416	14,526	12,243	2,717	705	18	<b>81,607</b>
Adjusted Properties (Band D Equivalents)		2058.00	1384.44	2268.44	1614.00	1360.33	301.89	78.33	2.00	<b>9,067</b>
Vacant Properties (No.):										
Mandatory Standard Exemptions		(172)	(70)	(58)	(50)	(11)	(3)	(2)	(1)	<b>(367)</b>
Chargeable Dwellings subject to Disabled Reduction (No.)		(13)	(6)	(15)	(11)	(6)	(1)	(1)	0	<b>(53)</b>
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	13	6	15	11	6	1	1	0	0	<b>53</b>
Class 18 (MoD) Dwellings (No.)	0	0	0	0	0	1	0	0	0	<b>1</b>
Revised Total Properties (No.)	13	2,908	1,719	2,490	1,559	1,098	206	44	0	<b>10,037</b>
Types of Property (No.):										
Single Discount (25%)	5	1,253	702	907	340	163	17	9	0	<b>3,396</b>
Double Discount (50%)	0	308	111	65	36	22	3	3	0	<b>548</b>
No Discount (0%)	8	1,347	906	1,518	1,183	913	186	32	0	<b>6,093</b>
	13	2,908	1,719	2,490	1,559	1,098	206	44	0	<b>10,037</b>
Properties Subject to Council Tax (No.)	11.75	2,440.75	1,488.00	2,230.75	1,456.00	1,046.25	200.25	40.25	0.00	<b>8,914.00</b>
Net Tax Base (Properties x Weighting)	59	14,645	10,416	17,846	13,104	11,509	2,603	604	0	<b>70,784</b>
Adjusted Properties (Band D Equivalents)	6.53	1,627.17	1,157.33	1,982.89	1,456.00	1,278.75	289.25	67.08	0.00	<b>7,865.00</b>
<b>COUNCIL TAX 2009/10:</b>										
<b>General Fund Charge</b>										
Tax Yield (£)	8,249	1,713,407	1,218,672	2,087,982	1,533,168	1,346,524	304,580	70,639	0	<b>8,283,220</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**

### **2009/10 Abstract of Accounts**

#### **NON-DOMESTIC RATE INCOME ACCOUNT**

2008/09 £000		2009/10 £000
(14,047)	Gross rates levied and contribution in lieu	(15,478)
<u>(14,047)</u>		<u>(15,478)</u>
2,506	Reliefs and other deductions (net)	3,310
31	Payment of interest	11
33	Provision for bad and doubtful debts	38
<u>(11,477)</u>	Contribution to national non-domestic rate pool	<u>(12,119)</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 2009/10 was £0.481 (2008/09 £0.458).

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 2009/10 this supplement will be 0.4p (0.4p in 2008/09) on the rate poundage of all properties with a rateable value above £29,000, therefore the rate will be 48.5p in the pound.

<b>Category</b>	<b>No. of Subjects</b>	<b>Rateable Value</b>
		£000
Commercial	561	5,986
Industrial	493	17,275
Other	836	8,733
<b>TOTAL</b>	<u>1,890</u>	<u>31,994</u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**PENSION FUND ACCOUNT 2009/10**

**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010**

2008/09 £000		Notes	2009/10 £000	2009/10 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>			
	<b>Contributions</b>			
	From Employers			
(7,872)	Normal	6	(9,687)	
(390)	Augmentation		0	
(8,262)				(9,687)
	From Members			
(3,317)	Normal	6		(3,984)
	<b>Transfers in</b>			
0	Group transfers in from other schemes		(1,776)	
(1,780)	Individual transfers in from other schemes		(1,330)	
(1,780)				(3,106)
	<b>Other income</b>			
(23)	Other income			(26)
	<b>Benefits Payable</b>			
4,763	Pensions	6	5,209	
2,094	Commutation of pension and lump sum retirement benefits	6	946	
114	Lump sum death benefits	6	43	
6,971				6,198
	<b>Payments to and on account of leavers</b>			
18	Refunds of contributions		25	
17	State Scheme Premiums		18	
119	Individual transfer out to other schemes		700	
154				743
	<b>Administrative expenses</b>			
226	Administrative expenses	8		202
(6,031)	<b>NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>			(9,660)



**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**PENSION FUND ACCOUNT 2009/10**

**NET ASSETS STATEMENT AS AT 31 MARCH 2010**

2008/09 £000	Notes	2009/10 £000	2009/10 £000
<b>RETURNS ON INVESTMENTS</b>			
<b>Investment income</b>			
(114)	Quoted UK - interest on fixed interest securities	0	
(2,543)	Quoted UK - dividends from equities	(8)	
(1,487)	Quoted overseas - dividends from equities	0	
(154)	Unquoted UK - income from pooled investment vehicles	(218)	
(66)	Unquoted overseas - income pooled investment vehicles	(88)	
(912)	Interest on cash deposits	(132)	
(212)	Other	(15)	
(5,488)			(461)
52,358	<b>Change in market value of investments</b>		(59,511)
74	<b>Taxation - irrecoverable withholding tax</b>		0
748	<b>Investment management expenses</b>	8	305
47,692	<b>Net returns on investments</b>		(59,667)
41,661	<b>Net (increase)/decrease in the fund during the year</b>		(69,327)
(199,761)	Add : Opening net assets of the scheme		(158,100)
(158,100)	<b>Closing net assets of the scheme</b>		(227,427)

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract Accounts**

**PENSION FUND ACCOUNT 2009/10**

**NET ASSETS STATEMENT AS AT 31 MARCH 2010**

2008/09 £000		Notes	2009/10 £000	2009/10 £000
<b>INVESTMENT ASSETS</b>				
(6)	Equities		0	
(130,593)	Pooled Investment Vehicles (Unit Trusts)		(193,666)	
(7,701)	Pooled Investment Vehicles (Property Unit Trusts)		(14,976)	
(5,850)	Cash Deposits		(7,383)	
(2,353)	Other investment		(2,143)	
<u>(146,503)</u>		5	<u>(218,168)</u>	
	Other investment balances			
0	Dividends receivable		(6)	
(148)	Tax recoverable		(148)	
			<u>(154)</u>	
(146,651)	Total investment assets			(218,322)
Net current assets and liabilities				
(3,776)	Bank and cash - external		(3,051)	
(7,269)	Bank and cash - internal		(5,595)	
(1,221)	Debtors	10	(1,167)	
817	Creditors	11	<u>708</u>	
(11,449)	Net current assets			(9,105)
<u>(158,100)</u>	<b>Net Assets</b>			<u>(227,427)</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**

### **2009/10 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 3,067 members (2008/09 3,325) including 330 (2008/09 375) who are members of other admitted bodies and 11 (2008/09 12) who are members of a scheduled body. 832 (2008/09 801) pensioners, 159 (2008/09 162) dependants and 1,177 (2008/09 1,026) deferred members. These figures do not include teachers, who are covered by the Scottish Public Pension Agency.

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 (until 20 December 2009)  
Shetland Charitable Trust  
Atlantic Ferries (closed Agreement)

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. 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 2010.

The custodian, the Northern Trust Company, has valued all investments. In accordance with the SORP, valuations at 31 March 2010 are at bid market values.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2010.

##### **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. From 1 April 2009 tiered employee contribution rates have been introduced in respect of all scheme members. The tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay. Shetland Islands Council as an employer contributed, during 2009/10, an

additional 15.5% of pensionable pay with admitted bodies paying between 15.1% and 20.8% of pensionable pay. 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 is 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

The Pension Fund's investments are managed by BlackRock Investment Management (UK) Limited (formerly Barclays Global Investors (BGI) who combined with BlackRock, 1/12/09, to create the previously mentioned new independent company), 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.

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 31.3.09 £000	Investment Sector	Market Value at 31.3.10 £000
(6)	Equities Quoted - Overseas	0
(71,776)	Pooled Investment Vehicles (Unit Trusts) Unquoted - UK	(103,079)
(58,817)	Unquoted - Overseas	(90,587)
(2,970)	Pooled Investment Vehicles (Property Unit Trusts) Unquoted - UK	(10,839)
(4,731)	Unquoted - Overseas	(4,137)
(5,850)	Cash Deposits UK	(7,383)
(2,353)	Other Investments UK	(2,143)
<u>(146,503)</u>		<u>(218,168)</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	
	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10
Contributions receivable						
employers	(6,733)	(8,284)	(64)	(63)	(1,075)	(1,340)
members	(2,842)	(3,447)	(21)	(20)	(454)	(517)
Benefits payable						
pensions	4,427	4802	17	52	319	355
lump sums	1,839	891	101	-	154	55
lump sum death benefits	114	7	-	-	-	36

## 7. Purchases and sales during the year

The value of purchases and sales in 2009/10 were £22m and £12m respectively as compared to £202m and £184m in 2008/09.

	Purchases		Sales (incl Gains/Losses)		Direct Transaction Costs	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Fixed interest securities-Govt						
Quoted-UK	6,854	0	10,074	0	0	0
Unit Trusts						
Unquoted-UK	14,353	2,392	6,008	0	0	0
Unquoted-Other	1,820	0	4,288	0	0	0
Equities						
Quoted-UK	25,043	0	75,208	0	165	0
Quoted-Other	26,460	0	83,678	10	80	0
Quoted Pref Shares-Other	116	0	63	0	0	0
Unit Trusts						
Unquoted-UK	60,588	3,895	1,469	5,137	0	0
Unquoted-Other	59,573	7,082	1,522	3,738	0	0
Unquoted-Property UK		4764	1,312	751	0	0
Unquoted-Property Other	1,523	386	0	0	0	0
Currency - UK	0	2,354	0	2,354	0	0
Cash						
Deposits	5,850	1,533	0	0	0	0
	<u>202,180</u>	<u>22,406</u>	<u>183,622</u>	<u>11,990</u>	<u>245</u>	<u>0</u>

The Funds are all invested within pooled funds therefore there are no direct trading costs.

## 8. Fund administration costs

Expenses of the Fund in 2009/10 include an administration charge from the Council of £173,971 (2008/09 £147,891). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

The management fee for BlackRock was £133,071 (2008/09 £36,451)

The fees for Record Currency Management Limited are £48,779 (2008/09 £104,147) and for Schrodgers are £30,000 (2008/09 £30,000).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2009/10 amounted to £17,113 (2008/09 £94,906). 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.

9. **Investment return**

BlackRock achieved a return for 2009/10 of +43.8% versus the benchmark return of +43.3%. Record Currency Management achieved a return of -8.9% versus the benchmark of +0.5%. Schroders achieved a return of -2.4% versus the benchmark of +11.6%.

10. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £280,949 for employee contributions (2008/09 £240,218) and £675,475 for employer contributions (2008/09 £569,350).

11. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £97,131 for administration recharge costs (2008/09 £139,144).

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 2010 was £4,059,289 (2008/09 £3,286,847) and total purchases for 2009/10 were £693,895 (2008/09 £682,818). 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. The last actuarial valuation as at 16 June 2009 indicated a funding shortfall of £8.346m.

## **SHETLAND ISLANDS COUNCIL**

### **Abstract of Accounts 2009/10**

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2009: 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 has been consolidated into the Group Statements as a 'subsidiary'. 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 19 on page 31

The position regarding the grouping of Council accounts with the Shetland Charitable Trust is detailed in note 10 on page 6

##### **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.

##### **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.

6. **Employee Statutory Adjustment Account**

Regulations have previously been introduced which effectively moved injury benefits (firefighters' and police officers' compensation schemes) outwith the formal fire pension schemes. A consequence of this was that, under existing legislation, the Pensions Reserve could no longer be used to offset the required accounting treatment of these benefits.

The Scottish Government have now issued statutory guidance which allows the affected organisations to use an Employee Statutory Adjustment Account to achieve the same neutralisation of the accounting treatment. This therefore ensures that the regulations which were introduced do not impact upon General Fund balances.



**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**GROUP INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2010**

2008/09		2009/10	2009/10	2009/10
£000		Expenditure £000	Income £000	Net £000
2,721	Central services	3,437	(404)	3,033
42,575	Education services	56,652	(6,028)	50,624
5,317	Environmental services	12,486	(3,984)	8,502
1,173	Housing services	5,314	(3,898)	1,416
5,708	Cultural and related services	7,792	(925)	6,867
9,326	Planning and development services	15,070	(3,233)	11,837
10,375	Roads and transport services	15,547	(2,297)	13,250
9,399	Trading services	28,605	(16,821)	11,784
22,317	Social work	35,650	(8,976)	26,674
6,520	Corporate and democratic core	6,649	0	6,649
999	Non distributed costs	1,722	0	1,722
1,804	Police	1,972	0	1,972
2,212	Fire	2,196	0	2,196
(2,421)	Housing revenue account	4,904	(6,857)	(1,953)
149	Share of operating results of Associates	7,592	(7,724)	(132)
118,174	Net Cost of Services	205,588	(61,147)	144,441
727	(Gain)/Loss on disposal of fixed assets			(44)
14	(Gain)/Loss on disposal of fixed assets of Associates			6
261	Net (Surplus)/Deficit trading undertakings			(615)
3,276	Interest payable and similar charges			1,767
129	Interest payable and similar charges of Associates			112
(9,961)	Interest and investment income			(10,311)
(39)	Interest and investment income of Associates			(4)
498	Pension interest cost & expected asset return			5,059
1,489	Pension interest cost & expected asset return of Associates			1,719
480	Taxation of group entities			374
115,048	NET EXPENDITURE			142,504
(8,362)	Council Tax			(8,497)
(81,830)	Revenue Support Grant			(84,325)
(8,088)	Contribution from non-domestic rate pool			(9,189)
16,768	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<b>40,493</b>

**SHETLAND ISLANDS COUNCIL****2009/10 Abstract of Accounts****RECONCILIATION OF COUNCIL SURPLUS TO GROUP SURPLUS**

2008/09 £000		2009/10 £000
5,247	(Surplus)/Deficit on Council's Income and Expenditure Account	37,685
<u>5,857</u>	Adjustments for transactions with group entities (Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Council	<u>683</u>
11,104		38,368
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to:	
1,742	Associates	1,701
<u>3,922</u>	Subsidiary	<u>424</u>
<u><u>16,768</u></u>	Group Account (Surplus)/Deficit for the year	<u><u>40,493</u></u>

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

2008/09 £000		2009/10 £000
16,768	Net (Surplus)/Deficit for the year	40,493
(6,477)	Surplus arising on revaluation of fixed assets	(20,935)
30,722	Surplus arising on revaluation of Available-for-sale Financial Assets	(43,409)
32,019	Actuarial (gains)/losses on pension fund assets and liabilities.	98,569
0	Actuarial (gains)/losses on injury benefits	76
5,836	Net liability assumed on a business combination	0
<u><u>78,868</u></u>	Total recognised gains for the year	<u><u>74,794</u></u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**GROUP BALANCE SHEET**

**AS AT 31 MARCH 2010**

31 March 2009 £000		31 March 2010 £000	31 March 2010 £000
	<b>INTANGIBLE ASSETS</b>		
1,016	Purchased software licences	689	
<u>11,064</u>	Licences, trademarks and artistic originals	<u>10,118</u>	10,807
12,080			
	<b>TANGIBLE FIXED ASSETS</b>		
	Operational assets		
59,931	Council dwellings	61,135	
104,233	Other land and buildings	117,562	
37,438	Vehicles, plant, furniture and equipment	36,243	
115,783	Infrastructure assets	119,614	
5,885	Community assets	<u>6,523</u>	
<u>323,270</u>			341,077
	Non-operational assets:		
4,328	Investment properties	4,503	
23,323	Assets under construction	22,905	
241	Surplus assets, held for disposal	<u>237</u>	27,645
<u>363,242</u>	<b>TOTAL FIXED ASSETS</b>		<u>379,529</u>
(34,496)	Investments in Associates		(48,859)
200,593	Long-term investments		219,498
3	Long-term debtors:Housing Loans		2
15	Long-term debtors:Other		11
<u>529,357</u>	<b>TOTAL LONG-TERM ASSETS</b>		<u>550,181</u>
	<b>CURRENT ASSETS</b>		
3,465	Stocks and work in progress	3,610	
11,816	Debtors, less bad debt provisions	10,626	
20,535	Short term investments	16,767	
<u>12,569</u>	Cash and bank	<u>11,357</u>	
48,385			42,360
577,742	<b>TOTAL ASSETS</b>		<u>592,541</u>
	<b>CURRENT LIABILITIES</b>		
(17,353)	Creditors		(15,587)
<u>560,389</u>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>576,954</u>
	<b>LONG-TERM LIABILITIES</b>		
(12,533)	Government Grants-deferred	(15,751)	
(53)	Provision	(4)	
<u>(58,979)</u>	Pension Asset/ (Liability)	<u>(147,169)</u>	
(71,565)			(162,924)
<u><u>488,824</u></u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u><u>414,030</u></u>

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**GROUP BALANCE SHEET**

**AS AT 31 MARCH 2010**

31 March 2009 £000		31 March 2010 £000	31 March 2010 £000
	<b><u>FINANCED BY:</u></b>		
(260,833)	Capital Adjustment Account		(245,853)
(33,946)	Revaluation Reserve		(53,504)
22,145	Available-for-Sale Financial Assets Reserve		(23,148)
97,091	Pension Reserve		199,970
(398)	Capital Receipts Reserve		(226)
(301)	Share of revaluation reserve of associates/group entities		(918)
(176,242)			(123,679)
(114,290)	Capital Fund	(118,569)	
(92,719)	Repairs and Renewals Fund	(85,045)	
(87,391)	Reserve Fund	(69,726)	
(219)	Insurance Fund	(254)	
(294,619)			(273,594)
	<b>Balances</b>		
5,787	General Fund		508
(24,002)	Share of profit & loss of associates/group entities		(17,740)
252	Employee statutory adjustment account		475
(488,824)	<b>GROUP BALANCES AND RESERVES</b>		(414,030)

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

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT**

2008/09		2009/10	2009/10
£000		£000	£000
5,928	NET CASH (INFLOW)/OUTFLOW FROM REVENUE ACTIVITIES		28,168
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(6,065)	Interest received		(3,933)
(2,475)	Dividends received from investments		(2,193)
355	<b>TAXATION</b>		312
<hr/>			<hr/>
(2,257)	BALANCE c/f		22,354

**SHETLAND ISLANDS COUNCIL**

**2009/10 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT**

2008/09		2009/10	2009/10
£000		£000	£000
(2,257)	BALANCE b/f		22,354
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
<b>Cash Outflows</b>			
22,899	Purchase of fixed assets	24,578	
116,197	Purchase of long-term investments	165,746	
7,173	Other capital cash payments	982	
<u>146,269</u>		<u>191,306</u>	
<b>Cash Inflows</b>			
(3,542)	Sale of fixed assets	(932)	
(131,256)	Sale of long-term investments	(192,051)	
(3,282)	Capital grants received	(4,348)	
(3,103)	Other capital cash receipts	(2,470)	
<u>(141,183)</u>		<u>(199,801)</u>	
<u>2,829</u>	Net cash (inflow)/outflow before financing		<u>13,859</u>
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
(38)	Net Increase in short term deposits		(2,953)
(7,471)	Net Increase in other liquid deposits		(9,694)
<u>(4,680)</u>	NET (INCREASE)/DECREASE IN CASH		<u>1,212</u>

## SHETLAND ISLANDS COUNCIL

### 2009/10 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 2009/10, Shetland contributed 51.8% (2008/09 51%) of the Board's costs and its share of the year-end net liability of £1.015m (2008/09 £0.441m) 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 2009/10, Shetland contributed 6.42% (2008/09 6.61%) of the Board's costs and its share of the year-end net liability of £453.68m (2008/09 £280.14m) 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 9.16% (2008/09 8.97%) of the Board's costs and its share of the year-end net liability of £78.79m (2008/09 £46.9m) 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 89.55% (2008/09 90.78%) and net year-end liability was zero.

The Shetland Development Trust has been included as a subsidiary within the Group Accounts. 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: -

2008/09 £000	<b>Northern Joint Police Board</b>	2009/10 £000
3,730	Turnover	3,782
150	Profit before Tax	71
0	Taxation	0
150	Profit after Tax	71
3,097	Fixed assets	3,099
1,043	Current assets	789
(624)	Liabilities due within one year	(451)
(22,033)	Liabilities due after one year or more	(32,563)

2008/09		2009/10
£000	<b>Highlands and Islands Fire Board</b>	£000
2,098	Turnover	2,238
(20)	Profit before Tax	60
0	Taxation	0
(20)	Profit after Tax	60
3,587	Fixed assets	4,248
293	Current assets	377
(255)	Liabilities due within one year	(382)
(7,846)	Liabilities due after one year or more	(11,483)

2008/09		2009/10
£000	<b>Orkney and Shetland Valuation Joint Board</b>	£000
310	Turnover	290
14	Profit before Tax	1
0	Taxation	0
14	Profit after Tax	1
0	Fixed assets	0
5	Current assets	11
(5)	Liabilities due within one year	(11)
(225)	Liabilities due after one year or more	(526)

2008/09		2009/10
£000	<b>Shetland Transport Partnership (ZetTrans)</b>	£000
1,624	Turnover	1,414
5	Profit before Tax	0
0	Taxation	0
5	Profit after Tax	0
0	Fixed assets	0
1,523	Current assets	1,353
(1,523)	Liabilities due within one year	(1,353)
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 £32.25m, 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.

	<b>Long-term</b>		<b>Current</b>	
	31 March 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000
Available-for-sale financial assets	199,744	217,952	16,115	13,205
Loans and receivables	0	1,007	391	279
Loans & receivables-Shetland Development Trust	849	539	4,029	3,283
	<b>200,593</b>	<b>219,498</b>	<b>20,535</b>	<b>16,767</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.

2008/09 £000		2009/10 £000
(358)	Opening balance-General Fund	(379)
56	Miscellaneous Invoices written off	77
32	Council Tax written off	44
0	Cash received on debts written off	0
<u>(109)</u>	(Charge)/Credit to General Fund for provision	<u>(144)</u>
<u><u>(379)</u></u>		<u><u>(402)</u></u>
(196)	Opening balance-Housing Revenue Account	(138)
15	Miscellaneous Income written off	5
27	Rents written off	54
<u>16</u>	(Charge)/Credit to HRA for provision	<u>(96)</u>
<u><u>(138)</u></u>		<u><u>(175)</u></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 2010 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.

2008/09 £000		2009/10 £000
(214)	Opening balance	(53)
161	Release of provision no longer required	49
<u>(53)</u>		<u>(4)</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.

2008/09 £000		2009/10 £000
9,778	Opening balance-Loans	9,853
75	Movement in provision	(938)
<u>9,853</u>		<u>8,915</u>
6,544	Opening balance-Equity investments	6,847
303	Movement in provision	311
<u>6,847</u>		<u>7,158</u>

The Northern Joint Police Board has a provision for time off in lieu of £0.252m (2008/09 £0.252m) of which the Council's share is £0.017m (2008/09 £0.017m).

5. **Intangible Assets**

	<b>Purchased Software and Licences</b>	<b>Fish Quota</b>	<b>Fishing Boat Licence</b>	<b>Total per Balance Sheet</b>	<b>Share of Associates' Intangible Assets</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Cost at 31 March 2009	1,924	17,967	592	20,483	27	20,510
Accumulated Depreciation & Impairment	(908)	(7,318)	(177)	(8,403)	(4)	(8,407)
Net book Value of assets at 31 March 2009	1,016	10,649	415	12,080	23	12,103
<b>Movement in 2009/10</b>						
Additions	74	0	0	74	11	85
Disposals	0	0	0	0	0	0
Depreciation in year	(489)	(916)	(30)	(1,435)	(5)	(1,440)
Depreciation written back	0	0	0	0	0	0
Transfers/Appropriations	88	0	0	88	0	88
Net Book Value of Assets at 31 March 2010	689	9,733	385	10,807	29	10,836

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

	Balance at 01/04/09 £000	Balance at 31/03/10 £000	Movement 2009/10 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	20,535	16,767	3,768
<b>Financing</b>			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Principal element of finance lease rental			<u>0</u>
			<u>0</u>

**Definition of Liquid Resources**

Liquid resources are defined as short term investments.

7. **Reconciliation of the movement in cash to the movement in Net Debt**

**Reconciliation of Net Debt**

2008/09 £000		2009/10 £000
(4,680)	(Increase)/decrease in Cash	1,212
0	Decrease in Debt Financing	0
<u>7,512</u>	(Increase)/decrease in Liquid Resources	<u>3,768</u>
2,832		4,980
<u>(35,936)</u>	Opening Net Debt as at 01/04/09	<u>(33,104)</u>
<u>(33,104)</u>	Closing Net Debt as at 31/03/10	<u>(28,124)</u>

**Analysis of Net Debt**

	Balance at 01/04/09 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/03/10 £000
Cash and bank	(12,569)	1,212	0	(11,357)
Overdraft	0	0	0	0
	<u>(12,569)</u>	<u>1,212</u>	<u>0</u>	<u>(11,357)</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	(20,535)	2,953	815	(16,767)
Total	<u>(33,104)</u>	<u>4,165</u>	<u>815</u>	<u>(28,124)</u>

## **SHETLAND ISLANDS COUNCIL**

### **2009/10 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 regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. 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 and clearly defined guidelines

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 2009/10 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. This assumes that issues identified and agreed are or have been addressed.

My review of 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, key issues identified in Transport and Legal in 2008/09 had not been addressed. Of particular concern are further identified breaches of Standing Orders and in one case EU regulations within Transport. Audit & Scrutiny have requested a progress report within 6 months for both Services. The audit of Economic Development identified a number of key audit issues. However, commitment has been made to resolve these. Other audits have revealed a number of key issues but commitment to resolve has been received from relevant management. Pervasive council wide issues still include disclosure checks not always being in place, performance reviews not being undertaken and absence management requirements not being routinely performed. In addition Risk Registers throughout the Council are still not completed.

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.

There were still some problems with the software used for the capital accounting system. The Council is in continuing contact with the software supplier to seek further improvements for next year.

The Accounts Commission held a Hearing in Lerwick at the end of June 2010 into the governance of the Council. The Commission's findings were released on the 16 August and the Council has three months to respond. As an initial step, the Council has agreed with the Chief Executive's recommendation that an improvement planning and implementation process should be its highest corporate priority.

.....  
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 2010 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 Harbour Account Income and Expenditure Account, Statement of Movement on Harbour Account Balances, 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 2009 - A Statement of Recommended Practice (the 2009 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 for Scotland.

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 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I 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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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.

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

The 2009 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 accounts 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.

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

- a surplus position of approximately £2 million to the Group Income and Expenditure Account (resulting from income of £18 million and expenditure of £16 million);
- net assets of approximately £176 million to the Group Balance Sheet (resulting from fixed assets of £27 million, investments and loans of £150 million, net current assets of £1 million and long term liabilities of £2 million).

Except for the omission of the results of Shetland Charitable Trust from the group accounts; in my opinion the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Shetland Islands Council and its group as at 31 March 2010 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

*Fiona Mitchell-Knight FCA  
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**30 September 2010**