Shetland
Islands Council

REPORT

To: **Audit Scrutiny Committee** **30 November 2007**

Shetland Islands Council **12 December 2007**

From: **Head of Finance**

Abstract of Accounts 2006/07

Report No: F-032-07-F

1. Introduction

1.1 The 2006/07 Abstract of Accounts is enclosed with this report.

1.2 Enclosed as Appendix A is the Report to Members and the Controller of Audit by the Council's external auditor, Audit Scotland, regarding the audit of the accounts for the year ended 31 March 2007.

1.3 The Assistant Director of Audit (Local Government) Fiona Mitchell-Knight and Audit Manager Mark Ferris from Audit Scotland will be at the Council meeting on 12 December 2007 to present their report to the Council and answer any questions from members.

1.4 This report is intended to provide members with a final version of the Abstract of Accounts 2006/07 and to provide any officer comment on the Audit Scotland's report.

2. 2006/07 Abstract of Accounts

2.1 This document is the final formal statement of the Council's financial affairs for the year ended 31 March 2007. It is this document which is subject to scrutiny by the external auditor and upon which there is comment in the audit certificate and the report to members.

2.2 The enclosed Abstract represents the Council's attempt to comply with the continually changing requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice for 2006/07 introduced substantial changes to the presentation of the Council's accounts and I have outlined these in section 3 below.

Despite these changes and the inclusion for the first time of group accounts, I am pleased to report that, as in the previous thirteen years, the Abstract was submitted to the Scottish Government and the external auditor in accordance with the statutory deadline.

2.3 As in 2005/06, the audit opinion on the Council's Abstract has been qualified on the issue of group accounts. Although this year group accounts were prepared, the auditor was of the view that they should have also included the Shetland Charitable Trust and the Shetland Development Trust.

3. Revised Abstract of Accounts

3.1 As I commented in 2.2, the Code of Practice for 2006/07 introduced substantial changes to the presentation of the Abstract, both in the layout of the document and the statements required.

3.2 The core financial statements are now grouped together and they can be found on pages 9 to 16 of the Abstract.

These statements are:

- Income and Expenditure Account
- Statement of Movement on the General Fund Balance
- Statement of Total Recognised Gains and Losses
- Balance Sheet
- Cash Flow Statement

and these are followed by the notes to the core financial statements on pages 17 to 35 and then the other Council statements. The group accounts, which combine the Council's accounts with those of the Police, Fire and Valuation boards, are on pages 48 to 56.

3.3 The first three statements listed in 3.2 are new statements that have replaced the Consolidated Revenue Account and the Statement of Total Movement on Reserves from previous years.

In line with the general convergence of accounting standards for the public and private sectors, the Income and Expenditure Account shows the Council's operating result for the year, a deficit of £403,000, on an accounting basis similar to that of a large unlisted private company. However as a local authority, the Council is required to account on a different basis for the resources it raises from council tax payers. The adjustment to that basis is shown in the Statement of Movement on the General Fund Balance on page 10, with the detail shown in the reconciling items note on page 11 of the Abstract.

The statement shows a nil General Fund balance in line with the Council's policy of bringing the General Fund to nil by making fund contribution, in 2006/07 an amount of £4.92 million as described in note 3 on page 4.

The third new statement, the Statement of Total Recognised Gains and Losses, shows the factors that change the Council's balance sheet but which do not arise from normal operating activity through the Income and Expenditure Account.

3.4 The Housing Revenue Account, on pages 36 to 38, is also presented in the same fashion with an Income and Expenditure Account and a Statement of Movement on the HRA Balance.

The Housing Revenue Account is, by Council policy, brought to zero by a contribution from the Housing Repair and Renewal Fund.

4. Report to Members and the Controller of Audit

4.1 As noted in 1.3, Audit Scotland staff will present their report to the Council and in doing so will highlight what they consider to be the major issues.

4.2 On the issue of group accounts and following last years auditor's report, I wrote to both the Shetland Charitable Trust and Shetland Development Trust, seeking their opinion on whether they should be involved in the Council's group accounts process and also seeking their co-operation. Both organisations were of the view that they should not be regarded as part of the Council's group and that, further, they would not co-operate with the Council in providing the information the Council would require to produce group accounts.

As noted in paragraph 148 of the auditor's report, the legal opinion being sought on this and on the wider matter of the Council's relationship with the Trusts may provide the means to resolve the group accounts issue and avoid future Audit qualification.

5. Financial Implication

5.1 This report on the Abstract and Report to Members has no financial implications, at least in form of requiring decisions over proposals to incur expenditure.

6. Policy and Delegated Authority

6.1 As the final statement of the council's financial affairs for 2006/07, the Abstract of Accounts is presented to the Audit and Scrutiny Committee for the attention of members, allowing them to express their view on it to the Council.

7. Conclusions

7.1 I would wish to record my thanks to Audit Scotland and their staff for the work done.

8. Recommendations

8.1 It is recommended that the Committee recommend to the Council that they should note the contents of this report, Appendix A and the Abstract of Accounts for 2006/07 and undertake to keep under review the issues raised in the report to members by the external auditor and in particular the action plan contained therein.

Our Ref: DAH/JG/A/9/29 Report NO: F-032-07
Date: 23 November 2007

Shetland Islands Council

Report to Members and the Controller of Audit

on the 2006/07 Audit

AUDIT SCOTLAND

October 2007

Shetland Islands Council

Report to Members and the Controller of Audit

on the 2006/07 Audit -

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Key Messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given a **qualified** opinion on the financial statements of Shetland Islands Council for 2006/07. The council are of the view that the results of the Shetland Development Trust and the Shetland Charitable Trust should not be included in the group's financial statements. In our opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material mis-statement of the group accounts.

The council has recognised that it is not sustainable in the long-term to utilise its substantial reserves for the delivery of services and has set a target to reduce and then maintain a reserves balance of £250 million. The unallocated balance on reserves at 31 March 2007 was £287 million. The council's 2007/08 budget forecasts the use of £12.724 million from the reserve fund (£5.0 million to meet the general fund deficit and £7.724 million to meet planned expenditure).

The council's corporate plan 2004 - 2008 sets out a vision for Shetland to be a sustainable and self sufficient community where everyone works together towards the same goals.

Audit Scotland issued a report on the council's best value arrangements in 2005. A progress report in January 2007 concluded that the council has made a start in addressing the council's improvement plan which was drafted in response to the best value report. However a number of initiatives are relatively recent and consequently are not fully embedded and have not yet had an impact in terms of improved service delivery or outcomes.

The best value progress report highlighted that the council has established a performance management system which links with its new service planning framework. This has improved the quality of performance information provided to officers and members, providing a firmer base from which to take decisions. However, more work is needed to ensure that the council's arrangements are consistently implemented within services, and to develop a corporate performance management culture.

The delivery of public services in Shetland is characterised by a unique infrastructure of local trusts working alongside the council. The council is continuing to build effective working relationships with its partners to identify opportunities for shared services and streamlining of bureaucracy. These complex patterns of service delivery however, make it more difficult to co-ordinate activity, ensure resources are properly matched to the needs of the community and secure accountability of council funds.

Outlook for future audits

The issues reported in the best value reports will be incorporated in to the council's corporate improvement plan for 2007 - 2011, which is currently being finalised. This plan will be the key mechanism for driving improvement and change and we have recommended that this plan is finalised at the earliest opportunity.

The council aims to reduce its continued reliance on reserves to deliver services whilst facing increased financial pressures. In addition, it is not yet clear what impact the new Scottish Government will have on local government finance, particularly in relation to the local government settlement and council tax funding. The council's financial plans will need to be closely monitored to take account of such pressures.

During 2006/07 the council made equal pay compensation payments of £1.8 million, and a provision for £0.342 million has been recognised in the 2006/07 financial statements, based on the most up to date information available. The planned implementation of the single status agreement in the council has been delayed until April 2008. Until single status is implemented significant financial risks remain while existing pay and reward structures are in place.

The council have recently introduced a structured approach to managing and prioritising its heavily over-subscribed capital programme. The council is developing asset management systems, and procedures for compiling fixed asset information to support the capital programme and the efficient use of resources.

As part of the work to progress the corporate improvement plan resulting from the best value audit, the council is continuing to improve the linkages between service plans and corporate aims and objectives. The council have also taken positive steps towards a comprehensive policy-led approach to budgeting by aligning the timing of budget preparation and service planning to improve linkages. Further progress is needed, however, to ensure service plans and budgets are consistent.

The council has more work to do to identify efficiency savings to meet the target set by the Scottish Government. The potential for large-scale savings through the development of more efficient procurement practice remains to be explored and developed across all parts of the council as part of a procurement strategy, which is under development.

The council are continuing to develop systems for measuring and monitoring customer satisfaction levels across each service. This will assist the council in demonstrating that efficiency savings do not have a detrimental impact on services.

Changes to accounting rules has had a major impact on the presentation of the 2006/07 annual financial statements. Going forward the council should review the presentation of its budget and summary financial results to councillors and the wider public to ensure transparency.

The co-operation and assistance given to us by Shetland Islands Council staff during our audit is gratefully acknowledged.

Audit Scotland
October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of Shetland Islands Council, the first year of a five year appointment. Findings are in four sections: performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.

2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Chief Executive in March 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the council and described the work we planned to carry out:

   - sustainability and efficient use of resources
   - using performance management to drive service improvement
   - supporting political governance
   - effective partnership working
   - workforce planning
   - effective management of assets
   - demonstrating financial accountability.

3. We also undertook a number of detailed exercises during the year which resulted in separate audit reports, for example, a review of housing and council tax benefits, local taxation and housing; computer services review; your business @ risk – information security survey; and a review of the statutory performance indicators. Within this report, where appropriate, we highlight key messages from those separate reports for the consideration of members.

4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report and the action planned by management to address them.

5. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers during the course of our audit work.

Performance

Introduction

6. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

7. The council's corporate plan for 2004 – 2008 sets out a vision for Shetland 'to be a sustainable and self sufficient community where everyone works together towards the same goals' with the following four themes:

- sustainable economic development
- benefiting people and communities
- looking after where we live
- celebrating Shetland's cultural identity.

8. A total of 28 priorities are established across these themes within the 2007-08 corporate improvement plan. These priorities include the following pledges:

- providing a vibrant, healthy, safe and inclusive society
- ensuring that the environment is conserved and enhanced
- developing a culture that is celebrated and promoted
- promoting an economy that is prosperous, competitive and diverse
- ensuring that the council is organised, efficiently run and sustainable.

9. The council's corporate improvement plan is the key mechanism for driving improvement and change for the delivery of the council's priorities and vision.

10. Following the May 2007 elections, all 22 elected members are independent councillors, 13 of whom are new members. The previous administration was made up of 17 independent councillors and 5 Liberal Democrats. The new council are currently in the process of developing a new corporate improvement plan for 2007- 2011. This plan will set out the council's key priority areas for the next

four years and once agreed, all committee reports and key decisions during the term of the council should seek to show how they are contributing to the achievement of the priorities within the plan.

11. The issues raised in this report remain relevant for the council moving forward under its new corporate plan.

Overview of performance in 2006/07

Annual report

12. The annual public performance report is in the form of a calendar issued to every household on the islands. Information is easily obtainable, indicates both good performance and areas where improvement is required, and shows recognisable outcomes and targets. The 2006/07 calendar will be issued soon.

13. A performance management update was presented to the council by the Head of Organisational Development at the end of March 2007. The report covers all services and describes aspects of performance and achievements across each of the corporate improvement plan pledges, examples include:

- **A society that is vibrant, healthy and diverse:** progress is being made in ensuring that all secondary schools will sell no confectionary in their cafeterias with 60% of schools meeting this target.
- **A society that is conserved and enhanced:** the cleanliness index monitoring system has rated Shetland as the third cleanest council in Scotland.
- **A culture that is celebrated and promoted:** all service plans now outline customer pledges and monitor customer satisfaction.
- **An economy that is prosperous, competitive and diverse:** to promote skills development the council attracted 87 new starts against a target of 100 new starts to the modern apprenticeship and skill seeker programmes.
- **A council that is organised, efficiently run and sustainable:** the council has completed the Shetland profile and community profile (baseline information and community planning indicators) from which targets can be established and geographic planning can be based.

Statutory performance indicators

14. Within Shetland Islands Council, performance is measured using both local and statutory performance indicators. We reported to the council in September 2007 following the annual audit of the SPIs. Our report outlines that the council failed to report three indicators and seven indicators

were concluded to be unreliable. This is a deterioration from the 2005/06 position where the council failed to report two indicators and three were concluded to be unreliable.

15. The three indicators which the council failed to report are:

- the average time taken to provide community care services from first identification of need to first service provision
- the proportion of street lighting columns that are over 30 years old
- the cleanliness index achieved following inspection of a sample of streets and other relevant land.

16. The seven indicators classified as unreliable based on external audit's review and internal audit work are:

- the number and value of civil liability claims incurred by the council in the year
- the number of attendances per 1,000 population for pools
- the number of attendances per 1,000 population for other indoor sports and leisure facilities, excluding pools in a combined complex
- visits to and use of museums
- the number of planning appeals that were successful
- the number of establishments requiring food safety hygiene inspection during the year and the percentage of the inspections that were undertaken within the prescribed period
- the number of abandoned vehicles that require to be removed by the council, and the percentage removed within 14 days.

17. Following our early discussions with the Head of Organisational Development a letter was issued in December 2006 to all SPI co-ordinators outlining the arrangements for recording, collecting and publishing the SPIs for 2006-07, including key dates for submission. It is therefore disappointing that during the audit process a number of departments failed to supply the data by the due date. It was also highlighted that the quality of working papers provided to support the SPIs varied significantly with no back up information being provided to support some of the reported figures.

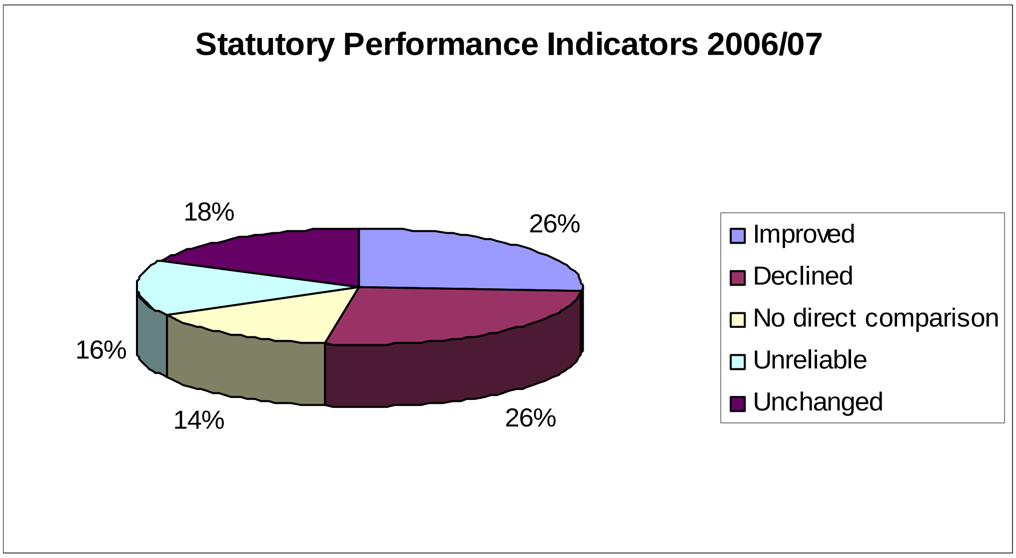
18. The council have now agreed to the following recommendations to ensure its statutory requirement to produce these indicators is met in 2007/08:

- a proforma sign off document will be introduced in 2007/08 that will require to be completed and submitted by the coordinator for each SPI. The sign-off report requires the coordinator to certify each SPI and to attach working papers to support the reported figure

- working papers will be provided to support all SPIs in line with guidance issued by the Head of Organisational Development.

Key risk area 1

19. The 2006/07 SPIs are summarised below:



20. The council's indicators show improvements in some areas, for example:

- the number of people age 65+ receiving homecare
- the average number of hours per week to complete community orders
- the number and percentage of buildings from which the council delivers services that are suitable for, and accessible to, disabled people
- percentage of invoices sampled and paid within 30 days
- the number of learning centre users expressed as a percentage of the resident population
- the percentage of rent due in the year that was lost due to voids
- the average time to re-let houses.

21. However, the following indictors are examples of where the council's performance has declined:

- the proportion of probationers seen by a supervising officer within one week
- the gross administration cost per case for benefits administration
- the average time to process new benefit claims and changes of circumstances
- the percentage of days lost due to sickness absence for chief officers and teachers

- the number of library borrowers expressed as a percentage of the resident population
- processing time for planning applications.

The council should ensure that the SPI performance is reviewed and areas for improvement reflected in service improvement plans.

Key risk area 2

Best value audit

22. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

23. The results of the first best value audit were reported by Audit Scotland in March 2005. The report described a council that had been slow to address its statutory duties on best value:

    - while there was a clear vision of achieving financial sustainability, the council was struggling to translate this into a practical programme of action. High level strategies were not prioritised and matched to resources
    - members showed a marked tendency to represent the interests of their individual wards, at the expense of their wider corporate role
    - service plans and targets were not properly established and, as a result, managers and members were unable to systematically monitor service performance and identify areas for improvement.

24. A progress report was issued by Audit Scotland in January 2007 which outlined the improvement actions taken by the council. This report concluded that the council had made a start in addressing the issues raised, but that a number of initiatives are relatively recent. Consequently they are not fully embedded and have not yet had an impact in terms of improved service delivery or outcomes.

25. The issues reported in the best value report were incorporated into the council's corporate improvement plan. It has been agreed that in the future the corporate improvement plan will be monitored at 6-monthly periods with a full review taking place in September each year. This will allow the council to monitor progress in addressing the issues raised from the best value audit.

Key risk area 3

Performance outlook – opportunities and risks

Introduction

26. As stated in paragraph 2, our ARAP identifies some of the strategic risks to Shetland Islands Council delivering its stated objectives and priorities in the years ahead. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware, and have sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Sustainability and efficient use of resources

27. Historically, the council has utilised its substantial reserves to allow the delivery of services without making difficult spending decisions. The council has recognised that this is not sustainable in the long-term and has set a target to maintain a minimum reserve level of £250 million. Without spending restrictions, the council has projected that reserves would be exhausted by 2016, with the loss of investment income resulting in severe cuts in frontline services.

28. Although some revenue savings initiatives have been approved by members, and there is some evidence that greater prioritisation is being applied to the capital programme, it is not yet clear how the council will achieve its projection that by 2012/13 there will be no general fund deficit to be met from reserves. The budget for 2006/07 was initially set with a requirement to utilise £21.685 million from the reserve fund. This consisted of £11.555 million to meet the projected general fund deficit for 2006/07 and an additional £10.130 million to finance planned projects. Revised budgets were subsequently agreed with a plan to reduce revenue budgets by 5%. The council actually utilised £12.950 million from the reserve fund, £4.92 million to meet the general fund deficit and £8.03 million in respect of planned expenditure in the year. This is considered further at paragraph 74.

29. Ensuring sustainability of services in the future will require a comprehensive policy-led approach to budgeting. The council took a positive step towards this as part of the 2007/08 planning process which aligned the timing of budget preparation and service planning to improve linkages. Further progress is needed, however, to ensure service plans and budgets are consistent.

Key risk area 4

30. The quality of budget monitoring and forecasting information provided by departments is also important in the achievement of financial sustainability. In our ARAP we commented that in previous years departments have been reluctant to identify projected underspends/overspends due to concerns

that funds will be re-allocated. The overall impact was the council was unable to consider the reallocation of resources. Through the corporate improvement plan the council has reported that progress is being made in this area.

31. The potential for large-scale savings through the development of more efficient procurement practice remains to be explored and developed across all parts of the council. Although some progress has been made the full potential of procurement gains and the resultant savings envisaged have not yet been realised. In 2005/06 the council general fund revenue expenditure on goods, works and services was approximately £23m. It can be seen, therefore, that even modest improvements in procurement practices in low percentages can have a significant effect on savings.

32. In June 2005, the Executive Committee approved a procurement policy, which acknowledged the need to develop a procurement strategy for the council if efficiency gains in this area are to be achieved. The development of the strategy has been subject to delay from competing priorities. The council has still to determine whether a main procurement unit is to be established within existing structures or a new central procurement function would be best placed to progress the procurement initiative.

Key risk area 5

Using performance management to drive service improvement

33. The best value audit in 2005 concluded that the council had a lack of clear strategic plans, with targets, to translate its broad vision into practical programmes of action and that there was a lack of evidence and systems to allow managers and members to systematically monitor performance. Following the audit, the council addressed this issue in a corporate improvement plan.

34. Progress is being made to ensure that all service plans link more effectively with community and corporate plan aims and objectives, including sustainable development. In prior years the quality of service plans prepared by individual departments varied considerably. During 2006, in an attempt to improve the quality of the service plans, the council introduced a peer review process, whereby heads of service and other senior officers, undertook a review of other departmental service plans, to improve consistency and make suggestions for improvement. A service plan resource pack was issued to give guidance on how to undertake the peer review, although due to the tight timescale this initiative was not fully implemented by all departments. However officers have advised that a similar, better co-ordinated exercise has been undertaken this year which should ensure greater consistency in the service plans produced.

Key risk area 6

35. The best value follow-up report in January 2007 highlighted that the council's new performance management system, which links with the new service planning framework, has improved the quality of performance information provided to officers and members and provides a firmer basis for decision making. Momentum has been provided by the establishment of a performance management coordinator in organisational development and the issue of regular performance management bulletins to senior officers setting out required activities and deadlines.

36. All members were invited to attend a workshop on 12 June 2007 to start the process of developing the new corporate improvement plan for the council. Four operational documents have been developed by members as part of this work. The documents are structured to reflect the 3 sustainable development themes – 'economic', 'social' and 'environmental'. This helps to show how the council, as a lead member in the community planning partnership, is contributing to Shetland's 'priorities and targets' that were agreed on 4 July 2007. The final document sets out how the council proposes to organise its business and reflects the principles of good governance and to ensure that the council is meeting its obligations to deliver continuous improvement.

37. As reported above, it has been agreed that the corporate improvement plan for 2007-11 will be monitored at 6-monthly periods, with a full review taking place in September each year. To ensure that members are provided with the information they require before agreeing the plan, it is proposed that the revenue and capital costs of the plans set out in the operational documents be reported to the next council meeting on 31 October. This will allow members to consider the setting of priority areas to ensure that the plan, when agreed, is in line with the council's budget strategy, enabling a sustainable financial position to be established.

Key risk area 7

38. The council's response to the efficient government agenda is discussed in the financial position section of this report.

Supporting political governance

39. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.

40. The 2007 May elections introduced proportional representation and multi-member wards for the first time. This presents new challenges and requires new ways of working to support efficient representation and sharing of workloads within each ward. The council hopes that the sharing of duties will allow members to build a level of expertise on certain key areas and allow training and development to be more focused on the needs of individual members.

41. In the lead up to the elections the council took steps to minimise disruption by issuing a handbook for prospective candidates. Following the elections the council ran a workshop for all members. In advance of the workshop the council issued a briefing paper for members entitled, ‘Planning for this Council’ which provided some background information and scene setting. This workshop proved very successful and a second workshop was arranged, at the request of members.

42. Although the new council is in the early stages of its term, it is encouraging to see the level of training provided by officers and the involvement by members in drafting the corporate improvement plan.

Effective partnership working

43. Increasingly councils are dependent on partnership working to deliver service improvements and there is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value.

44. The council is aware it cannot deliver many of its objectives unless it operates in partnership with other agencies, the voluntary sector, businesses and the community. It is also aware that it has a crucial community leadership role and its actions affect the priorities and success of all its partners as well. The priorities of the Shetland community plan, established through widespread community consultation, have also provided a valuable input to the corporate planning process. Clear links between the community plan, corporate plan, service plans and budgets are progressing, but require further development.

45. The delivery of public services in Shetland is characterised by a unique infrastructure of local trusts working alongside the council. The council is continuing to build effective working relationships with its partners to identify opportunities for shared services and streamlining of bureaucracy. Whilst this partnership working can have great benefits for the council, these complex patterns of service delivery make it more difficult to co-ordinate activity and ensure resources are properly matched to the needs of the community with effective governance and accountability of council funds an additional risk.

46. The Shetland Charitable Trust is the largest of these trusts, and as a strategic partner of the council, it aims to provide public benefit to and improve the quality of life for the inhabitants of Shetland, especially in the areas of: social care and welfare; arts, culture, sport and recreation; the environment, natural history and heritage. The decision making structure of the trust is such that the Chief Executive of the council acts as the Chief Executive of the trust, and 22 of the 24 trustees are council members. The Chief Executive has informed audit that the council has commissioned legal advisers to undertake a comprehensive review of the continuing governance and use of oil funds in the context of the original agreements and the Zetland County Council Act 1974, which originally established this trust. This is discussed further at paragraph 74.

47. The Shetland Development Trust was established in 1996 to provide assistance to business in Shetland. In 2001 the development trust reduced the numbers of trustees to eight, comprising four council members and four non-member trustees, with the objective of increasing objectivity in investment decision-making. This governance arrangement has recently been revised and now 22 of the 26 trustees are council members. The trust has been funded by grants from the council, financed from reserve fund balances.

48. The council has made recent moves to improve the overall co-ordination of service delivery between itself and the Shetland Charitable Trust and the Shetland Development Trust. The council's executive management team now includes the general managers of both trusts. Following a further review of the development trust and the council's economic development unit in April 2007 it was decided to merge these functions within a new body, Shetland Community Development Trust, to be run along similar structural lines to the Shetland Charitable Trust. The council are currently awaiting legal advice before proceeding further with the establishment of this body.

Workforce planning

49. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. In common with other Scottish councils, Shetland has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. To date the council has settled approximately 90% of cases where an offer has been made, at a total cost of £3 million. There are also 66 cases currently with an employment tribunal who have not received offers.

50. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

51. The future implementation of the single status agreement provides an opportunity for the council to address any underlying inequalities in pay and other conditions of service. However a proposed settlement was rejected in 2006/07 and to date the council has been unable to reach an agreement.

52. A single status steering group and project team was formed in July 2007. At that time the council decided that job redesign and job families should be the basis of joint investigation by management, unions and staff to determine the implications of that approach for progressing single status. Job family and job redesign work has continued through the summer. Detailed work has also commenced on cost, feasibility and the service implications of progressing this approach.

53. During the next phase the pay and grading arrangements and terms and conditions will be considered by the project team and steering group alongside the job families and job redesign. The objective is to develop a set of proposals covering all areas for communicating and consulting with staff from the start of November. We will continue to monitor progress on this issue during 2007/08.

54. Since July 2007 the council has received further equal pay claims and is also in receipt of staff grievances relating to the differing application of terms and conditions to different groups of staff. The council also face the prospect of additional 'equal value' claims being lodged, based on the issuing of job evaluation scores that were subsequently withdrawn as part of the new review. The council has estimated this exposure could amount to £6 million back pay with around £4 million added to the annual pay bill. The council has advised that this would be defended whilst the current reviews are progressed. While moves to agree compensation payments will help to reduce financial risk to some extent, significant risks remain while existing pay and reward structures are in place.

Key risk area 8

55. A further risk has arisen as a result of the introduction of age discrimination legislation from October 2006. This legislation prohibits direct and indirect discrimination on the grounds of age and, as such, linking length of service to pay and benefits could give rise to indirect age discrimination as some age groups are more likely to have the necessary length of service than others. Until the implementation of a single status agreement which will reflect this legislation there is a risk that the council does not comply with the requirements of the age discrimination legislation and may be open to claims.

Effective management of assets

56. In the absence of sound processes of asset management, there is a risk that assets are not used effectively and efficiently to deliver services in line with priorities. The council is still in the process of developing its corporate estates management plan. Revised school and social care estate management plans are now complete and work is ongoing in relation to the non-housing estate, with this planned for completion by March 2008. The council also recognises it does not have a comprehensive system for measuring asset management performance and needs to consolidate its estates and maintenance records into a single electronic database.

57. The initial best value audit found that the council had not taken a structured approach to managing and prioritising its capital programme, resulting in a long 'wish list' of projects which were not financially sustainable. In recognition of this, a new corporate approach to selection was approved in December 2006 based on a scoring system to screen both new proposals and prioritise projects already on the approved programme. This will assist the council with the planning and programming of capital works and lead to a more efficient use of the resources available.

Demonstrating financial accountability

58. In December 2005 the European Commission ruled that the council was in breach of Article 88(3) of the European Commission Treaty as it had unlawfully granted state aid to a private concern under conditions that would not have been acceptable to a normal private market-economy investor. In its ruling, the commission considered that these investments had been made by Shetland Islands Council, although funding for this purpose had been transacted by the council through the Shetland Charitable Trust and Shetland Leasing and Property Limited. The Commission did not require recovery of these funds, but stated there was a risk that further investments made, or being considered, could also constitute state aid.

59. Management assurances have been obtained from the Head of Finance that the council has reviewed its arrangements to ensure no other breaches of state aid rules have taken place in 2006/07 or will do so in future.

Key risk area 9

Local Studies

60. The Social Work Inspection Agency (SWIA) undertook a performance inspection of the council's social work services and published a report in August 2007. The report gives a positive account of social work services, with seven areas graded 'good' and three areas graded as 'adequate'. The report states that the council's social care services delivered good outcomes for many people who use their services. The report also notes that, in general, people were very positive about their experience of using social care services, the workforce was committed and motivated with many staff enjoying their jobs and the strategic leadership was good following the appointment of the interim executive director. A number of key areas for improvement were identified. These include:

- weak financial planning
- some gaps in services particularly specialist services
- the slow pace of change
- increasing demands on services which needed to be addressed systematically.

The council will now agree an action plan with SWIA and a follow up inspection will be undertaken in August 2008.

National studies

61. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the

council are set out in paragraphs 63 - 71 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

Sustainable waste management

62. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that local authorities should recycle 25% of household waste by 2000. This target was not achieved.

63. Further EU directives required member states to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.

64. The purpose of Audit Scotland's study was to examine the performance of local authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.

65. The key findings from Audit Scotland's national report published in September 2007 highlighted that:

- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
- there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met
- increased recycling has led to increased costs
- all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill directive targets.

66. The report includes a number of recommendations that include undertaking a technical evaluation of kerbside recycling systems and ensuring the council's current waste management systems offer best value. These recommendations should be considered by the council.

Dealing with offending by young people

67. Audit Scotland published reports on *Dealing with Offending by Young People* in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in

performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape. The performance update report was published in August 2007.

68. The key findings from the study are that the Scottish Government has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06, together with practical support and guidance to help youth justice services to improve performance. However, the impact of this on services and outcomes is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.

69. The report includes a number of recommendations on performance management and improvement, service delivery and use of resources, and joint working which should be considered by the council.

Scotland's School Estate

70. A national review is being carried out of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and due to be reported in February 2008.

Financial position

Introduction

71. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'sustainability and efficient use of resources', our ARAP outlined the significant challenges being faced by the council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

72. The presentation of the 2006/07 financial statements has changed significantly from the previous year, as a result of changes to the *Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP)*. In place of the previous consolidated revenue account, the financial statements now include an income and expenditure account and a statement on the movement of the general fund balance which reflects items that need to be included/ excluded when determining a local authority's budget requirement and the level of council tax.

73. The council's net operating expenditure in 2006/07 was £84.874 million. This was met by government grants and local taxation of £84.471 million, resulting in an income and expenditure account deficit of £0.403 million. The deficit is then matched by accounting adjustments required by statute and transfers to and from the council's reserves as detailed within page 10 of the financial statements, leaving a £nil general fund balance.

74. The council finances any in year deficits on the general fund from its reserve fund. This reserve fund was established under Section 67(i) of the Zetland County Council Act 1974 to provide the money for certain expenditure on the council's undertakings and for any other purpose which is solely in the interests of the county and its inhabitants. The original 2006/07 budget approved by the council on 9 February 2006 forecast that the council would use £21.685 million (£11.555 million to meet the general fund deficit and £10.130 million to meet planned expenditure) from the reserve fund. The actual outturn for 2006/07 showed that the council used £12.950 million, (£4.92 million to meet the general fund deficit and £8.03 million to meet planned expenditure) a difference of £8.735 million (40.2%). This improved position was achieved as a result of:

- the decision taken on 9 February 2006 to reduce all 2006/07 revenue budgets by 5%
- a net service expenditure underspend of £2.279 million against the revised budget
- an underspend of £1.087 million against the revised budget on net recharges to services
- the above savings were offset by equal pay compensation payments of £1.824 million not included in the budget.

Reserves and balances

75. At 31 March 2007 the council had total cash backed reserves and funds of £303.909 million. These balances are invested between short-term loans, with the council's bank, or managed by external fund managers.

76. These include the reserve fund, a capital fund, an insurance fund and a repair and renewal funds to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and Funds

Description	2006/07 £ Million	2005/06 £ Million
General Fund	0	0
General Fund – Housing Revenue Account balance	0	0
Capital Fund	118.471	127.242
Repairs and Renewals Fund	97.896	92.522
Reserve Fund	87.273	91.038
Insurance Fund	0.269	0.219
	303.909	**311.021**

77. The council have earmarked elements of these funds totalling £16.103 million. The council aim to reduce and then maintain the general fund reserves (excluding the earmarked elements) to a minimum threshold of £250 million by 2016. The council's view is this level of reserves will minimise the risk that the council will be unable to fund future capital expenditure on infrastructure development and remain debt free. The unallocated balance on these reserves at 31 March 2007 was £287.537 million, well above the minimum threshold amount of £250 million. The council will need to closely monitor both capital and revenue expenditure to ensure financial targets and the reserves strategy are met.

Key risk area 10

78. A range of financial issues which could further impact on the reserves position are discussed in our financial outlook section below.

Rents and housing revenue account

79. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/07 was based on an average weekly rent level of £52.80, an increase of 2% on the previous year. A contribution of £0.373 million from the HRA balance to the housing repairs and renewal fund was originally planned. During the year the council revised the HRA budget accordingly, and purchased houses at a cost of £0.841 million. The housing revenue account reported a deficit for the year of £0.952 million which was met by a contribution from the housing repairs and renewal fund. The budget overspend of £1.325 million in year based on the original budget was therefore due in part to the additional cost of purchasing the houses in year. Excluding this, additional costs have still resulted in a net overspend of £0.483 million. The council will need to closely monitor HRA expenditure to ensure overspends are managed and financial targets are met.

Key risk area 10

Group balances

80. The council is required to produce group accounts. Whilst we are of the opinion that the council has not included all group entities in its figures, the overall effect of including the council's associates on the group balance sheet is to reduce net assets by £37.648 million, substantially as a result of pension liabilities. The impact of the omission of the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries is reported at paragraph 139.

81. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Northern Joint Police Board, Highlands and Islands Fire Board, and Orkney & Shetland Valuation Joint Board) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total these net liabilities amounted to £372.6 million, with the council's group share being £37.648 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due. As described in further detail in paragraph 89, accounting for pensions *Financial Reporting Standard 17 (Retirement benefits*) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

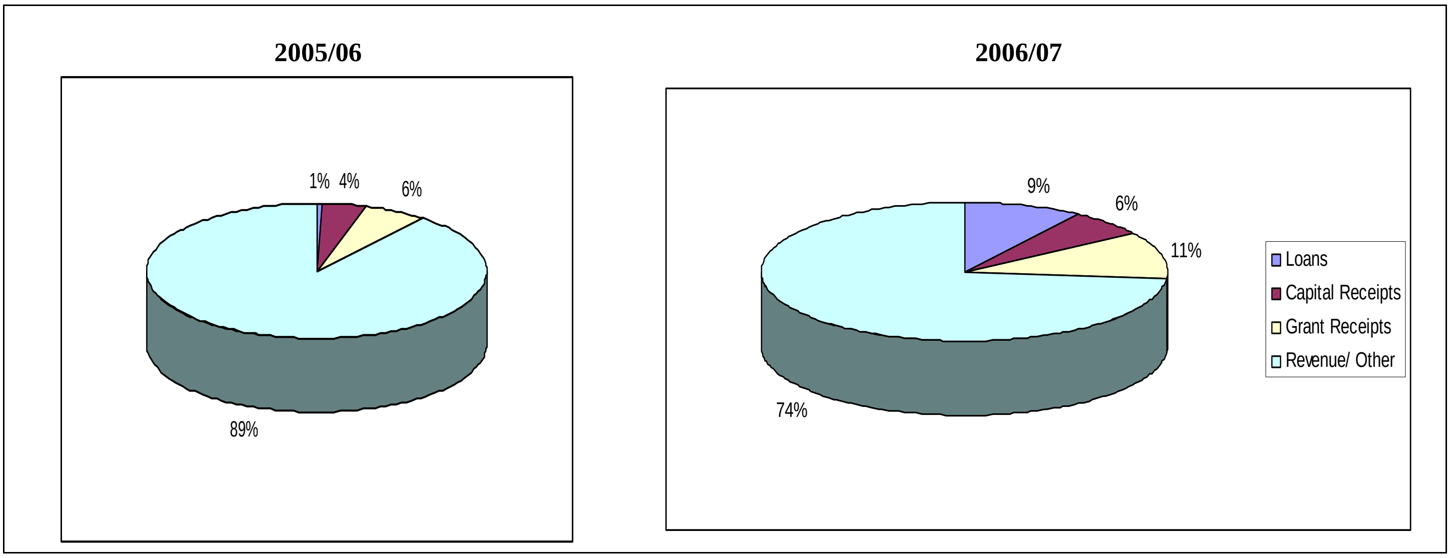
Spending on assets

Capital performance 2006/07

82. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council are required to set prudential indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. Alongside this the council sets out its treasury strategy for borrowing and investment.

83. The council's prudential indicators for 2006/07 were set in February 2006. These show that capital expenditure is to be financed from the cash reserves and funding resources available to the council and no borrowings will be required. The indicators show that the approved capital investment programmes will have no incremental impact on council tax or council house rents in 2006/07, 2007/08 or 2008/09.

84. Capital expenditure in 2006/07 totalled £21.018 million, a reduction from prior years of £40.334 million in 2005/06 and £48.524 million in 2004/05. Capital investment in the last two years was funded as shown in the chart below.



85. The original capital budget for 2006/07 totalled £28.545 million. The general fund capital programme budget for 2006/07 equalled £24.708 million (87%) of the total capital budget. To align with the council's reserves and budget strategy for 2007/08 and beyond the council subsequently revised the general fund capital programme to £20 million.

86. The council's capital programme outturn report for 2006/07 is currently outstanding which is of concern as members have not been able to review the final outturn. However the council rolled

forward £3.075 million of the 2006/07 programme into 2007/08 indicating slippage on the capital programme. This puts the achievement of the capital programme and corporate priorities at risk.

Significant trading operations

87. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06.

88. The council has two STOs, highways construction and building maintenance. Both met the statutory target.

Pension fund

89. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Accounting for pensions *Financial Reporting Standard 17 (Retirement benefits*) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This involves substituting the actual payments made during the year to the pension fund by the individual council, with an estimate of the amount the council would be liable for if it had to pay out pension benefits arising from employee service in the current period. This requirement results in very large future liabilities being recognised in the financial statements.

90. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six main public sector pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the local government pension scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.

91. The council administer the Shetland Islands Council Pension Fund. A full actuarial valuation of the pension fund was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 101% at 31 March 2002 to 99% at 31 March 2005. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. This shows that budgeted contributions are expected to remain at 240% of employee contributions in 2006/07 to 2008/09.

92. The pension fund employs external fund managers to manage investment assets. Over the year, net assets of the fund increased on a market value basis by approximately £20.520 million to £211.718 million at 31 March 2007. The pension fund is a pool into which employees' and employers' contributions and income from investments are paid 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 the pension fund that covers 3,127 members, including 336 who are members of other admitted bodies and 13 who are members of a scheduled body. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

93. The council's share of the pension funds estimated pension liabilities at 31 March 2007 exceeded its share of the assets by £35.133 million, reducing from £55.456 million in the previous year.

94. The council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Northern Joint Police, Highlands and Islands Fire Board, and the Orkney and Shetland Valuation Joint Board. These bodies had an excess of pension liabilities over assets at 31 March 2007, and these liabilities will be paid by the council as they come due.

Financial outlook

Revenue budgets

95. The council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a band D council tax level of £1,053 which is an increase of 3.5% from 2006/07. This council tax level was calculated assuming a collection rate in year of 95.5% (96.3% in 2006/07).

96. The council aims to reduce its continued reliance on reserves and predict that by 2012/13 there will be no general fund deficit to be met by a contribution from the reserve fund. The council aim to restrict the use of the reserve fund in 2007/08 to £12.724 million (£5.0 million to meet the general fund deficit and £7.724 million to meet planned expenditure). To achieve this, the council will need to regularly monitor actual spend against budget to identify and address any overspends on a timely basis.

Key risk area 10

97. A particular budgetary pressure was identified by a review of social care services in 2006/07 by a social work task force. This review noted the demands on community care services was increasing with growing numbers of older people and people with disabilities in the community. The majority of proposed charges were rejected by the council resulting in only modest increases in existing charges

for day care, meals on wheels and laundry services. The council will need to monitor the effectiveness of the new charges in achieving their financial plans.

98. Additional financial pressures come from the council's decision to deliver and finance some services previously provided by the Shetland Charitable Trust, including those services previously provided by the Shetland Welfare Trust and Isleburgh Trust. These annual costs could amount to £5 million. The council need to ensure that it can finance the delivery of these services, and any additional services, in the medium to long-term and that these costs are considered as part of policy-led approach to budgeting.

99. The Minister for Finance and Public Sector Reform and COSLA have agreed areas where progress would be made by local government. These include bearing down on council tax increases in 2007/08 and future years, pushing in year council tax collection rates higher, developing asset management, continuing to deliver efficiency savings and clarifying the position regarding free personal care so that the same level of performance is provided across Scotland. In this climate it will be important for the council to deliver a medium term financial and efficiency strategy that achieves balanced budgets, while maintaining effective service delivery.

Forward capital programme

100. The council's capital programme comprises a prioritised list of capital projects of £19.962 million for 2007/08. This list includes committed capital projects of £3.075 million carried forward from 2006/07. The 2007/08 housing capital programme is £2.495 million.

101. In July 2007 the capital programme review team identified slippage of £2.975 million on a number of projects during 2007/08. In response the council agreed in July 2007 to bring forward a number of other projects. Going forward, officers need to continue to closely monitor the achievement of the capital programmes and report areas of slippage to the council on a periodic basis.

102. The council has reported that its capital programme includes projects of £127.235 million to be completed or commenced beyond 2008/09 - 2012/13. As part of this programme, expenditure required to complete projects scheduled for 2008/09 and 2009/10 totals £98.584 million (this includes estimated costs of £40 million for the Anderson High School Project and £20 million for the Bressay Bridge Project). However the available funding identified is only £33.200 million. This results in a funding gap of £65.384 million. To address this funding gap the council is to reprioritise its capital programme.

Key risk area 11

Equal pay/ Single Status

103. As reported in paragraph 49, to meet its responsibilities in regard to the 1970 Equal Pay Act between men and women in terms of their pay and conditions, the council has settled 90% of cases where a claim has been submitted. In addition to this the council undertook a comprehensive exercise to identify groups of staff not included in the group that already received an offer, who could be entitled to make a claim under the above Act. In December 2006, compensation payments were offered to 756 employees determined as eligible for equal pay claims. This resulted in a total payment of £1.824 million in the year to 31 March 2007. However 66 employees did not accept compensation payments and are pursuing retrospective payments via the employment tribunal system.

104. The council has estimated that until single status is implemented it will be required to meet ongoing equal pay claims relating to bonus payments and this is estimated to cost an additional £0.060 million compensation per month. In addition the council has now estimated the annual costs of single status implementation will be around £4 million. The council must ensure that these costs are factored into their financial planning.

Efficient government

105. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into their annual financial settlement. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

106. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Executive, they had a responsibility to report efficiencies on five key operational themes as set out in *Building a Better Scotland* (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.

107. The council are approaching the efficient government initiative in a systematic manner to identify areas where there is scope for efficiencies, both on a council wide and service basis. However, in order to claim efficiencies under the efficient government initiative, the council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement.

108. The council has more work to do to identify efficiency savings to meet the target set by the Scottish Government. To date, the council has focussed its attention on submitting a bid to the Scottish Government for funds to develop shared service delivery with NHS Shetland. This would involve the council making more efficient use of its staff and assets, through joined-up delivery of Human Resources, ICT support and Asset Management. Although this initiative was successful in its initial bid for funds, the Stage 2 funding bid was unsuccessful earlier this year.

109. The council's draft efficiency statement was submitted to COSLA in August 2007. The Head of Finance has advised that the council do not intend to publish their efficiency statement for 2006/07. The draft statement reports that the council achieved total efficiencies of £2.458 million in 2006/07. These are summarised against the Scottish Government's efficient government themes in the table below:

Claimed efficiencies in 2006/07

Efficient Government Theme	Cashable efficiency £m	Non cashable efficiency £m	Total efficiency £m
Procurement	0.680	0	0.680
Asset Management	0.132	0	0.132
Shared services	0.290	0	0.290
Streamlining bureaucracy	0.552	0	0.552
Other	0.804	0	0.804
Total efficiencies	2.458	0.000	2.458

110. Overall, the council has complied with the improvement service guidance in preparing its efficiency statement for 2006/07. The efficiencies reported for the year have been achieved as a result of changes in operational practices, for example:

- £0.205 million has been saved by prioritising essential travel and more efficient procurement
- a re-tendering of a helicopter contract at the Sullom Voe oil terminal transferred the cost burden for the helicopter service onto visiting tankers and saved the council £0.300 million each year
- as a result of the finance, roads, ferries, pilotage and schools services deploying their human resources more effectively, eight senior posts were deleted during 2006-07 saving over £0.470 million in total salary costs, with no impact on service delivery
- other efficiency activity that did not fit into the five efficiency strands included the council assuming some of the liability for its risk portfolio, thereby reducing annual insurance premiums by over £0.535 million.

111. During 2006-07 to confirm that efficiencies did not have a detrimental impact on services each service was required to provide an update on their measures of customer satisfaction through the quarterly performance reports to members and senior management. The scrutiny committee also carried out a study into arrangements for measuring customer satisfaction levels across the council, to further embed the concept. This has now become an ongoing feature of the performance management reports.

112. A number of efficiency savings and measures have been included within the 2007/08 revenue budget with the Executive Management Team committed to taking a stronger role in the setting of efficiency targets for the budgets.

Asset management

113. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:

- strategies to reduce maintenance costs
- proactive asset disposal policies
- long-term capital planning and budgeting
- robust asset management monitoring information.

114. The council has established an accommodation working group to increase member involvement in and knowledge of the importance of sound asset management practices.

115. The council's social care estate has been subject to reorganisation. A schools estate management plan is also in place. In previous years there has been stability in the schools estate, however due to changing demographics and local needs there is a need for some shrinkage in the overall estate. The council have therefore commenced a consultation process to gain approval for the closure of some education establishments.

116. A delivery plan has been established in relation to the achievement of the Scottish Housing Quality Standard. The council are currently conducting condition, suitability and sufficiency surveys which are driven by service delivery requirements. This process should be embedded within the council's asset management strategy to ensure that the assets are being utilised in the most effective manner.

117. As noted in paragraph 56 the council also needs to consolidate its estates and maintenance records onto a single electronic database. Achieving both would improve the effectiveness and efficiency of the management of the non-housing estate and help to ensure that the council gets the best return from its estate. The council has therefore prepared a business case for a new Computer-Aided Facilities Management (CAFM) system which will be considered alongside the next capital programme review.

Key risk area 12

Governance

Introduction

118. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

119. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

120. A statement on the system of internal financial controls is included within the annual financial statements. This sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The statement reports on significant identified weaknesses and the actions undertaken to rectify these.

Audit committee

121. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The scrutiny committee was established in November 2005. The committee's remit was expanded at the council's meeting in March 2007 to include the audit function. This came partly in response to concerns raised in the best value reports. Training was provided by CIPFA for all audit and scrutiny committee members in August. The council should now consider timetabling a review of the effectiveness of the audit and scrutiny committee against the principles outlined in the CIPFA *Audit Committee Principles in Local Authorities in Scotland Guidance Note*.

Internal audit

122. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the council's internal audit arrangements and found that during 2006/07, the internal audit unit continued to operate in accordance with the code. During the year the internal audit unit successfully retained its quality management standard ISO 9001: 2000 after inspections by the British Standards Institute (BSI).

123. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that we were able to place partial reliance on the following specific pieces of work in 2006/07:

- treasury management
- payroll
- statutory performance indicators.

124. Also of particular note is the internal audit review of the council's social work department reported in February 2007. The overall conclusion of the report was that there were significant issues that required to be addressed by the department. An agreed action plan was included with the report and made a total of 82 recommendations across a number of key areas.

Codes of Conduct

125. A complaint was made to the Scottish Public Services Ombudsman (SPSO) alleging a senior officer within the council failed to declare an interest when dealing with certain organisations. Following an investigation the SPSO issued a report in May 2007 which concluded it would have been more prudent for the senior officer to have his relationship with a member of the organisation's board placed on record. The report states that the senior officer was at fault for not doing so and that this failure constituted maladministration. The report also noted that the SPSO could see no evidence to suggest that this failure created an advantage to any of those involved and that nothing in the documentation suggested that the senior officer acted with anything other than proper motives. The Ombudsman recommended in the report that the council emphasise to staff the importance of public perception in relation to their actions.

126. In August 2007 the Standards Commission decided that a councillor should be censured for failing to properly and timeously register an interest in two bodies engaged in the delivery of public services. The commission found that in failing to register properly and timeously the remunerated appointments with these two bodies the councillor did not demonstrate the openness and transparency required by the *Code of Conduct for Councillors* and as such did not adhere to key principles of ethical standards. The commission also noted that the councillor did make the appropriate declarations of interest and correctly withdrew from council meetings on occasions when matters relating to these bodies were being discussed. The commission recommended that it would be appropriate for the council to seek a number of dispensations to permit elected members to be appointed onto outside bodies on the council's behalf and with due declaration, become involved in council debate concerning these. The council has responded to this case by saying that it has taken steps to ensure that elected members are informed and educated on the requirements of the code by which they are governed, with particular emphasis on declaration of interests and registration.

Key risk area 13

Risk management

127. Risk management involves the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve. Risk management is firmly embedded within the council, with overall responsibility for all risk assessments lying with the risk manager. However the implementation of the Civil Contingencies Act 2004 has represented a significant change in the way major emergencies and community resilience are dealt with.

128. In March 2007 the council emergency planning department, (on behalf of Shetland Emergency Planning Forum Executive) has arranged seminars on business continuity. The aim of the seminars is to inform the public and private sectors, commercial interests and voluntary organisations on the requirements of and different aspects involved in Business Continuity Management (BCM).

Systems of internal control

129. In his annual report for 2006/07 the Internal Audit Manager provided his opinion that, based on the internal audit work undertaken during the year, the systems of internal control that are in place within the council are generally satisfactory. However, specific comment was made in relation to three areas of work undertaken in the year:

- social work, as detailed at paragraph 124
- a follow up of Shetland college found that a significant number of issues had not been fully resolved
- a follow up of building services found that a substantial number of issues remain outstanding
- at the request of the Head of Finance, internal audit conducted an investigation during the year into additional support needs, largely as a result of overspends and a lack of budgetary control. In their report which was issued in October 2006, a number of serious issues were identified. A satisfactory action plan has yet to be developed to address these concerns and a follow-up investigation is planned for 2007/08.

130. The council should ensure there are adequate arrangements in place to review the implementation of agreed action plan points recommended by audit.

Prevention and detection of fraud and irregularities

131. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

132. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million up to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

133. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.

134. The council's key contact in the NFI exercise is the Revenues Service Manager and officers from payroll, creditors, rents and housing benefits have been reviewing relevant referrals. A net total of 406 referrals were received. To date, 323 referrals have been processed and there are currently 21 under investigation. No cases of fraud or overpayment have yet been identified.

135. The work on reviewing and investigating NFI referrals is ongoing and future savings may be identified. The council needs to ensure that it uses the opportunities presented by NFI on an ongoing basis to assist in the detection of fraud.

Future Outlook

136. CIPFA/SOLACE have recently produced *Delivering Good Governance In Local Government – Framework* which sets out principles and standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The council are aware of this new guidance and are awaiting the publication of the Scottish guidance notes before reviewing their corporate governance structures against the framework.

Financial statements

Introduction

137. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

138. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

139. We have given a qualified opinion on the financial statements of Shetland Islands Council for 2006/07. The 2006 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position. The council's group accounts do not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In our opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material mis-statement of the group accounts. Based on prior year financial statements, we estimate that these bodies would contribute:

- a deficit position of approximately £5 million to the group income and expenditure account (resulting from income of £12.7 million and expenditure of £17.7 million)
- net assets of approximately £265 million to the group balance sheet (resulting from fixed assets of £22 million, investments and loans of £211 million, net current assets of £33 million and long term liabilities of £1 million).

Accounting practice

140. As reported in paragraph 72 the 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts
- restatement of corresponding prior year figures as appropriate.

Presentation of Accounts

141. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. The unaudited financial statements were of a poor presentational standard and required substantial revision to meet SORP requirements and to enhance the reader's understanding. This required a greater than expected input by us in identifying these areas and checking revised financial statements when they were prepared. Audited statements were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication. Overall, we are now satisfied that the revised financial statements have been prepared in accordance with the SORP.

142. The most significant changes to the statements to reflect SORP and presentational requirements and enhance the reader's understanding of the financial statements and transparency of the council's activities included:

- recognition of a £0.342 million provision for outstanding equal pay claims
- disclosure of the position of the single status agreement
- highlighting that within note 19 to the financial statements, the total general fund draw on the reserve fund of £12.950 million (£4.92 million to meet the general fund deficit and £8.03 million to meet planned expenditure)
- considerable changes to the fixed assets notes

- considerable changes to the movement in reserves disclosures
- the addition of a statement of accounting policies for the group accounts
- reference to bodies within the group boundary in which the council has a non-material interest
- separate disclosure of depreciation charged in the year and the accumulated depreciation written back on the disposal of fixed assets during the year
- separate disclosure of the non operational assets of £13.552 million across the categories of investment properties, assets under construction and surplus assets held for disposal.

Due to the significant changes to the financial statements submitted for audit, the financial statements have been re-dated from 29 June to 27 September 2007.

Group accounts

143. The widening diversity of service delivery vehicles used by local authorities means that there is an increasing risk that authorities that do not produce consolidated group accounts will not be presenting fairly their activities. In 2005/06 the SORP required group accounts to be prepared by local authorities for the first time. The council are required to determine on an annual basis whether it has any interests in subsidiaries, associates or joint ventures using the flowchart and definitions contained in the SORP to ensure that they are being considered for inclusion in the preparation of group accounts.

144. In 2005/06 the council's previous external auditors, PricewaterhouseCoopers (PwC), issued an adverse opinion on the financial statements due to the council's failure to include group accounts. In PwC's opinion, the organisations that were likely to have required inclusion in the group were Shetland Development Trust, Shetland Charitable Trust, the Northern Joint Police Board, the Highlands and Islands Fire Board, the Orkney and Shetland Valuation Board and their related subsidiaries.

145. The council's 2006/07 financial statements include group accounts, with Orkney and Shetland Valuation Joint Board, Northern Joint Police Board and Highlands and Islands Fire Board incorporated as associates. The group accounts, however, do not include the Shetland Development Trust nor the Shetland Charitable Trust.

146. We are of the opinion that the following points are all factors in determining the entities to be included within the council's group accounts and support the inclusion of the development trust and charitable trust:

- the charitable trust provides services (arts and culture, amenity and environment, recreation and care facilities) in addition to those services provided by the council

- council representation on the trusts changed after the May 2007 elections with all 22 elected councillors now sitting as trustees on both bodies. This link between council membership and representation on the trusts further reinforces the impression of 'influence and common interest'
- since 2004 the development trust has required the approval of the council for any investment which exceeds £0.250 million. This is a clear indication of 'influence and control'.

147. The following inter-related transactions that have taken place between the council, the Shetland Development Trust and the Shetland Charitable Trust also support the inclusion of these bodies in the council's group accounts:

- the charitable trust reduced costs by working with the council and transferring activities on 1 April 2006 from the Islesburgh Trust back to the council. The total funding that the charitable trust gave to the Islesburgh Trust in 2005/06 was £1.075 million
- on 1 April 2005 the council took over the activities of the Shetland Welfare Trust, a recipient of grant funding from the Shetland Charitable Trust. The funding that the charitable trust previously provided was £2.850 million. This is a transfer of activity back to the council to reduce the overall cost to the charitable trust
- Shetland Leasing and Property Developments Limited (SLAP), is a wholly owned subsidiary of the charitable trust, purchasing, developing and letting various properties throughout Shetland. SLAP purchased four ferries which it leased to the council. The council approached SLAP to enquire if it would consider selling the ferries directly to them. The board of SLAP considered this proposal and decided to concentrate on its core activities of leasing and property development and therefore agreed to the sale of the four ferries for £20 million to the council on 31 March 2006. This joint decision between the council and SLAP has had the beneficial effect of reducing lease payments on the general fund by £2.25 million per annum (although it had an immediate effect of reducing the available reserves by £20 million)
- in February 2006, the council purchased all shares in Shetland Towage Ltd, a wholly owned subsidiary of the Shetland Charitable Trust, for a consideration of £3.6 million as part of the council's rationalisation of port activities. The assets received had a value of £5.5 million. The staff of Shetland Towage were subsequently transferred to the council which is now providing towage services at the Sullom Voe Terminal
- following a review of the development trust and the council's economic development unit in April 2007 it was decided to merge these functions within a new body, Shetland Community Development Trust, to be run along similar structural lines to the Shetland Charitable Trust. See paragraph 48 above.

148. The council are currently seeking legal advice regarding the inclusion of the charitable trust and development trust within the council's financial statements. The findings of any legal advice will be considered by us in reviewing the councils group accounting practices in 2007/08.

Key risk area 14

149. Assurances on balances included in the accounts in respect of the council's share of activities have been obtained from the local auditors of Orkney and Shetland Valuation Joint Board, Northern Joint Police Board and Highlands and Islands Fire Board. We have also been assured by the Head of Finance that the council is not aware of any matters which would significantly affect the council's group accounts.

Fixed assets

150. The SORP requires fixed assets to be revalued within five years. Audit testing identified that a revaluation by a professionally qualified valuer of the council dwellings has not been undertaken since 2001/02. The council have therefore failed to comply with the requirements of the SORP. Written management assurances have therefore been sought that the net book value of council dwellings as at 31 March 2007 of £40.833 million is not materially misstated. The council have also agreed that the council dwellings will be subject to revaluation by a professionally qualified valuer during 2007/08.

Key risk area 15

151. Management assurances were also sought by audit that the total net book value of properties with a value below £7,500 that were not been subject to revaluation within the five years required by the SORP are not materially misstated.

152. The SORP requires that intangible assets such as software licences be disclosed on the face of the balance sheet. No intangible assets are included in the council's 2006/07 financial statements. The council has agreed to carry out a review in 2007/08 to identify any software licences for disclosure.

153. Further errors were identified in respect of how the council accounted for the depreciation of council dwellings, the classification of asset additions and revaluations and the calculation for the loss on disposal of fixed assets. Given the number of issues identified on the councils fixed assets the council should review the accounting practices used to compile the fixed asset figures.

Key risk area 12

Equal pay

154. The unaudited financial statements did not make provision for any anticipated costs for staff who did not accept the back dated offer and who have taken their cases to employment tribunal. The council has now undertaken an exercise to identify the most likely cost of this action. The total provision for

equal pay within the financial statements is now £0.342 million. In addition to the provision there is a general contingent liability to cover any unexpected additional costs.

Legality

155. Each year we request written confirmation from the Head of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Head of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

156. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed that as an interim measure in 2006/07, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers to OSCR by 31 December 2007. Further discussions between OSCR and CIPFA will take place in respect of the requirements for 2007/08 onwards.

157. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

158. The council have an obligation to monitor and recognise the changing accounting rules and audit issues as they arise and put necessary arrangements in place to ensure annual financial statements are prepared in accordance with accounting and statutory requirements. The 2007 SORP which will apply to the 2007/08 financial statements introduces a number of further changes to the way the financial statements are presented for example the SORP requires:

- a revaluation reserve and capital adjustment account from 1 April 2007 which will replace the current fixed asset restatement account and capital financing account
- a note to the group accounts to disclose the value of the assets and liabilities and gross income and expenditure of charitable funds. The nature of the assets of charitable trusts that have been consolidated in the group accounts should be disclosed along with the fact that these assets are not the property of the local authority.

159. Considering the number of issues raised during the 2006/07 audit it is important that the council put the necessary arrangements in place to ensure the 2007/08 financial statements are presented in a format which complies with the SORP prior to their submission to the Controller of Audit.

Key risk area 16

160. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/09. It was recognised that there would need to be discussions with CIPFA/ LASAAC about the introduction of IFRS-based accounts for local government. Existing IFRS do not address PFI accounting in the public sector, although they do address how these transactions should be accounted for in the private sector. The IFRS is based on who controls the services to be provided, to whom and at what price; and who controls the residual interest at the end of the PFI. The Treasury are currently considering the appropriate form of accounting for the public sector side of PFI transactions. If IFRS principles, or similar, were applied in the public sector then many PFI assets are likely be brought onto public sector balance sheets.

Final Remarks

161. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

162. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed ‘planned management action’. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management’s response to the identified risks.

163. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.

164. The co-operation and assistance given to us by Shetland Islands Council staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	18	**Statutory Performance Indicators (SPIs)** The council's systems are not adequate to ensure that reliable SPIs are published. ***Risk: statutory requirements to publish reliable SPIs will not be met.***	The council have agreed to implement the recommendations made by audit to ensure its statutory requirement to produce these indicators is met in 2007/08.	Head of Organisational Development	March 2008
2.	21	**Performance Improvement** A number of SPIs are showing a decline in performance. These should be identified and reflected in service improvement plans. ***Risk: the council may not take action to address areas for improvement identified by the SPIs.***	The development of the corporate improvement plan and service plans will take account of the SPIs and incorporate areas of improvement where relevant.	Chief Executive	March 2008
3.	25	**Best Value Audit** The council need to ensure monitoring of the corporate improvement plan is in line with the timetable set. ***Risk: the corporate improvement plan may not be achieved, affecting the demonstration of best value in service delivery.***	The council will monitor the corporate improvement plan in accordance with established timetable.	Chief Executive	Ongoing
4.	29	**Policy Led Budgeting** Further progress is needed to develop and imbed a policy-led approach to budgeting to ensure service plans and budgets are consistent. ***Risk: resources may not be focussed on corporate and service priority areas.***	The budget planning process for 2008/09 will be further developed to align budgets with service plans.	Head of Finance	March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	32	**Procurement Policy** The council need to develop and implement a procurement strategy. ***Risk: procurement efficiencies may not be realised.***	The development of a procurement strategy has been initiated. Council officers will provide updates to the council on a periodic basis.	Head of Finance	March 2008
6.	34	**Service Plans** The council need to ensure all service plans link more effectively with the aims and objectives of community and corporate plans. ***Risk: corporate priorities may not be met if conflicting priorities exist for resources.***	A service plan resource pack will be distributed and a peer review will be undertaken by all departments.	Chief Executive	March 2008
7.	37	**Performance Management** The council need to finalise the corporate improvement plan for 2007 - 2011 to ensure priorities are clearly identified with measurable performance targets to drive improvement and change. ***Risk: corporate priorities are not clear, leading to the inefficient use of resources.***	The council will finalise the corporate improvement plan.	Chief Executive	March 2008
8.	54	**Single Status/ Equal Pay** The council need to progress implementation of single status and equal pay agreements. ***Risk: significant financial, industrial relations, legal and reputational risks remain while existing pay and reward structures are in place.***	The council will implement single status and equal pay agreements.	Chief Executive	March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9.	59	**State Aid** The council's procedures for reviewing transactions to ensure they do not constitute state aid should be reviewed. ***Risk: there is a risk that some council transactions could breach state aid and repayment could be sought.***	The council will review its arrangements.	Head of Finance	December 2008
10.	77 79 96	**Revenue Budgets** Financial pressures in the council are great and efficiencies need to be monitored to ensure financial targets and the reserves strategy is met. ***Risk: reserve balances will continue to be used to support general fund expenditure. The target balance of £250 million may not be achieved and maintained.***	The council will monitor achievement of financial targets on regular basis.	Head of Finance	Ongoing
11.	102	**Capital Programme** The capital programme is heavy over-subscribed. ***Risk: the capital programme may slip or may not be delivered and corporate priorities not achieved.***	The council will reprioritise the capital programme to reflect corporate aims and objectives.	Capital Programme Review Team	Ongoing
12.	117 153	**Asset Management** Asset management systems are under development. ***Risk: assets may not be utilised to their full potential.***	The council are in the process of developing and implementing asset management systems.	Chief Executive	March 2008
13.	126	**Code of Conduct** Ombudsman and Standard Commission reports indicate councillors need support to ensure they comply with the Code of Conduct for Councillors. ***Risk: the code could be breached and the reputation of the council damaged.***	The council will review the guidance and training issued to all councillors and senior officials.	Chief Executive / Monitoring Officer	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
14.	148	**Group Accounts** The council are of the view that the results of the charitable trust and development trust should not be included in the group accounts. Audit disagrees with this view. ***Risk: the council may continue to receive a qualified audit opinion.***	The council are seeking legal advice regarding the governance arrangements between the council and the trusts.	Chief Executive	March 2008
15.	150	**Council Dwellings** The council have failed to comply with the requirements of the SORP and revalue council dwellings within five years. ***Risk: the asset valuations in the balance sheet are misstated.***	The council will revalue council dwellings in 2007/08.	Head of Finance	March 2008
16.	159	**Presentation of Financial Statements** Procedures are not adequate to ensure financial statements are presented in accordance with SORP requirements. ***Risk: the financial statements may not present fairly the result of council activities. Audit fees may increase due to the effort required in addressing changes to the financial statements.***	The council will review the procedures for preparing the 2007/08 financial statements.	Head of Finance	March 2008

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2006/07

SHETLAND ISLANDS COUNCIL - 2006/07 ABSTRACT OF ACCOUNTS

Contents

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

EXPLANATORY FOREWORD

1. **Introduction**

The Council's accounts for the year ended 31st March 2007 have been prepared to comply with statutory requirements and also with reference to the Code of Practice on Local Authority Accounting in the United Kingdom 2006.

The 2006 Code of Practice introduced a number of changes to the presentation of the financial statements that required the previous year's figures to be restated to reflect the new presentation.

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.

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.

The net cost of services was £98.1m.

Statement of Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses

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

Balance Sheet

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

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

Cash Flow Statement

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

Housing Revenue Account

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

Council Tax Income Account

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

Non-Domestic Rate Income Account

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

Pension Fund Account

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

Group Financial Statements

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

Responsibilities for the Statements of Accounts

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

Statement on the System of Internal Financial Control

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

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

The revised budget for the year on the General Fund envisioned a draw on reserves of £7.17m. In the event the draw was limited to £4.92m which included a one-off unbudgeted cost of £1.82m in respect of Equal Pay settlements. Overall, departments had achieved savings of £2.279 against budget.

Housing Revenue Account net expenditure was slightly over budget due to higher repair costs and lower interest on revenue balances. This required a higher than anticipated contribution from the Housing Repair and Renewal Fund.

Harbour Account income was £1m lower than expected, mainly on the towage service but this was partly offset by cost reductions and a lower than anticipated capital programme.

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

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

Significant major capital work during 2006/07 included work at the Kantersted respite unit (£0.99m).

Other major capital spend included an initial payment for new tugs for Sullom Voe (£1.5m).

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

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

a self-sustaining Capital Fund;

a self-sustaining Repairs and Renewals Fund;

a self-sustaining Reserve Fund;

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

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

The Council continued its Treasury Management policy in 2006/07 which consists of:

continuing to have external management arrangements for all major funds;

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

operating to a stringent set of borrowing and lending guidelines.

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

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

Major fixed asset acquisitions are mentioned in note 4 on page 4. Major disposals during 2006/07 occurred on Council house sales.

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

The Council has prudently built up extensive reserves of £304m 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 2007 of £287.5m (£295m at 31 March 2006). The Council intends to preserve the value of these funds so far as is possible, so only the earnings on their investment are available to meet annual outgoings.

The Council received from the Scottish Executive £76.6m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £2.15m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.66m 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 £7.9m, £5.2m from rents and charges to Council house and hostel tenants and £13.4m 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 2007. This indicated a net pension liability of £35.1m compared to a net liability of £55.5m as at 31 March 2006.

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 2007.
The pension fund is a long term commitment and the triennial actuarial valuation uses an approach that reflects that. The last valuation at 31 March 2005 in fact recorded a funding level of 99% and the contributions the Council makes to the pension fund are in line with the actuary's valuation and recommendations.

9. **Statutory Trading Accounts**

The Local Government in Scotland Act 2003 repealed legislation relating to DSOs/DLOs and introduced new requirements to maintain trading accounts for significant trading operations which are required to break even over a rolling three year period. Further information is shown in note 6 to the Core Financial Statements.

10. **Trusts**

At 1 April 2006, the Council took over most of the assets and operations provided by the Islesburgh Trust in order to bring these services under Council control and to avoid duplication. This covered the services provided at Islesburgh Community Centre and Islesburgh House, including youth work.

STATEMENT OF ACCOUNTING POLICIES

1. Introduction

The accounting policies presented below apply to all statements 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 2007.

3. Allocation of Central Support Costs

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

4. Capital Charges

General Fund services have been charged for the use of assets. This charge covers the annual depreciation of the asset only, following the removal of the requirement to make a capital financing charge in respect of notional interest in the 2006 SORP.

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. This includes assets acquired under finance leases which have been capitalised and included in the balance sheet on the basis of the outstanding obligation to make future rental payments.

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

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

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 2007, and the effective date for the valuation was 1 April 2006 unless the property became operational after that date. However, for properties with a value below £7,500, the effective date for valuation remains at 1 April 1996 and these will be updated on a rolling programme of revaluations.

Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. Council dwellings were revalued each year on an average cost calculated following the disposal of individual properties during the year. In 2003/04, this method was refined to take account of geographical variations along the lines of the 'Beacon Principle'. This method has been updated to take account of disposals in the year. Non-operational properties were valued by reference to their market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions. Outstanding life and residual values have also been reviewed for all assets that have been revalued this year.

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

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

7. **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at average cost, except for Ferry and Port stock (latest price), fuel (FIFO basis) and aggregates (lower of selling price/production cost). Some of these bases are not in accordance with the SORP.

8. **Investments**

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

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 has shareholdings in Shetland Towage and Viking Energy but as neither company is operational and the remaining assets of Shetland Towage were formally transferred to the Council during the year, these are 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 has also provided for possible equal pay costs where staff rejected the Council's offer of settlement.

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 19 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 Fixed Asset Restatement Account and Capital Financing 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 then 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 aquired 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 mid-market value, and liabilities have been measured on an actuarial basis using appropriate estimates and assumptions. In particular, scheme liabilities have been discounted at a rate linked to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Details are in note 28.

17. **Prior Year Adjustments**

In 2006/07, the Council has adopted three new accounting policies that required the restatement of the comparative figures for 2005/06. These are:

- Notional interest charges for fixed assets are no longer charged to revenue accounts,
- Government grants deferred credits are posted to individual service accounts rather than being held centrally, and
- Gains and losses on the disposal of fixed assets are shown in the Income and Expenditure account.

These are technical accounting changes and they have no impact on the services delivered by the Council, the level of real reserves available or the level of Council Tax set.

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2007

2005/06 £000		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
2,625	Central services	3,028	(252)	2,776
35,974	Education services	45,884	(8,007)	37,877
4,802	Environmental services	8,144	(3,220)	4,924
953	Housing services	6,783	(6,118)	665
4,982	Cultural and related services	6,513	(507)	6,006
5,938	Planning and development services	6,188	(1,531)	4,657
9,711	Roads and transport services	10,981	(908)	10,073
9,915	Trading services	26,434	(17,376)	9,058
15,192	Social work	24,045	(6,726)	17,319
5,679	Corporate and democratic core	6,049	0	6,049
1,267	Non distributed costs	(3,909)	0	(3,909)
1,685	Police	2,077	(1)	2,076
2,402	Fire	2,042	0	2,042
(7,208)	Housing revenue account	4,966	(7,606)	(2,640)
-	Services acquired from the Islesburgh Trust	1,448	(321)	1,127
93,917	Net Cost of Services	150,673	(52,573)	98,100
66	(Gain)/Loss on disposal of fixed assets			(44)
4,399	Interest payable and similar charges			3,047
(13,291)	Interest and investment income			(14,770)
(404)	Net Surplus trading undertakings			(277)
177	Pension interest cost & expected asset return			(1,182)
84,864	NET OPERATING EXPENDITURE			84,874
(7,465)	Council Tax			(7,860)
(67,482)	Revenue Support Grant			(68,473)
(8,204)	Contribution from non-domestic rate pool			(8,138)
1,713	**(SURPLUS)/DEFICIT FOR THE YEAR**			**403**

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.

2005/06 £000		2006/07 £000
1,713	(Surplus)/Deficit on Income and Expenditure Account	403
(1,650)	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	(403)
63	Decrease in General Fund balance for the year	0
(63)	General Fund balance brought forward	0
0	General Fund balance carried forward	0

RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2005/06 £000		2006/07 £000	2006/07 £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		
(9,106)	Depreciation	(10,433)	
201	Government Grants deferred amortisation	350	
(2,825)	Deferred charges written off in year	0	
(66)	Net gain on sale of fixed assets	44	
(2,165)	Net charge made for retirement benefits in accordance with FRS17	2,337	
(13,961)			(7,702)
	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		
2,282	Principal repayments	1,989	
1,688	Capital Expenditure financed from revenue	1,640	
(9,991)			3,629
	Transfers to and from the General Fund Balances that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
5,419	Transfer to Capital Fund		2,515
2,715	Transfer to Repair & Renewals Fund		5,460
932	Transfer from Reserve Fund		(4,074)
4,686	Transfer from Housing Repair & Renewal Fund		(393)
(13)	Transfer to Insurance Fund		50
(41)	Transfer to Marine Fund		112
(5,357)	Transfer from Equalisation Funds		0
(1,650)			(403)

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06 £000		2006/07 £000
1,713	(Surplus)/Deficit on Income and Expenditure Account	403
5,907	Surplus arising on revaluation of fixed assets	4,579
5,591	Actuarial (gains)/losses on pension fund assets and liabilitlies.	(17,986)
(3,024)	Interest on Reserves	(2,998)
10,187	Total recognised gains for the year	(16,002)

BALANCE SHEET

AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	TANGIBLE FIXED ASSETS		
	Operational assets		
41,786	Council dwellings	40,833	
90,324	Other land and buildings	96,913	
29,567	Vehicles, plant and equipment	34,988	
114,783	Infrastructure assets	115,610	
5,066	Community assets	5,153	
281,526			293,497
	Non-operational assets:		
4,199	Investment properties	4,193	
13,165	Assets under construction	9,120	
-	Surplus assets, held for disposal	239	
			13,552
298,890	TOTAL FIXED ASSETS		307,049
237,473	Long-term investments		231,417
6	Long-term debtors:Housing Loans		4
26	Long-term debtors:Other		22
536,395	TOTAL LONG-TERM ASSETS		538,492
	CURRENT ASSETS		
2,428	Stocks and work in progress	2,819	
8,170	Debtors, less bad debt provisions	11,131	
20,134	Short term investments	15,934	
27,811	Cash and bank	6,470	
58,543			36,354
594,938	TOTAL ASSETS		574,846
	CURRENT LIABILITIES		
(32,825)	Creditors		(14,754)
562,113	TOTAL ASSETS LESS CURRENT LIABILITIES		560,092
	LONG-TERM LIABILITIES		
-	Provision	(342)	
(5,775)	Government Grants-deferred	(7,783)	
(50)	Deferred liabilities	0	
(55,456)	Pension Asset/ (Liability)	(35,133)	
(61,281)			(43,258)
500,832	TOTAL ASSETS LESS LIABILITIES		516,834

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	FINANCED BY:		
(77,720)	Fixed Asset Restatement Account		(71,928)
(167,515)	Capital Financing Account		(176,104)
(32)	Deferred Capital Receipts		(26)
0	Usable Capital Receipts Reserve		0
55,456	Pension Reserve		35,133
(189,811)			(212,925)
(127,242)	Capital Fund	(118,471)	
(92,522)	Repairs and Renewals Fund	(97,896)	
(91,038)	Reserve Fund	(87,273)	
(219)	Insurance Fund	(269)	
(311,021)			(303,909)
	Balances		
0	General Fund		0
(500,832)	TOTAL NET WORTH		(516,834)

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

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

CASHFLOW STATEMENT

2005/06		2006/07	2006/07
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
76,745	Cash paid to and on behalf of employees	82,273	
36,388	Other operating cash payments	60,210	
343	Housing Benefit paid out	368	
1,861	National Non-Domestic Rate payments to national Pool	4,482	
115,337			147,333
	Cash Inflows		
(3,396)	Rents (after rebates)	(3,405)	
(6,877)	Council Tax receipts	(7,047)	
(12,463)	Non-domestic rate receipts	(10,363)	
(66,877)	Revenue Support Grant	(68,488)	
(362)	DSS grants for benefits	(364)	
(13,180)	Other government grants	(19,397)	
(25,954)	Cash received for goods & services	(24,685)	
(8,370)	Other operating cash receipts	(8,535)	
(137,479)			(142,284)
(22,142)	NET REVENUE CASH (IN)/OUTFLOW		5,049
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Cash Outflows		
939	Interest element of finance lease rental payments		0
	Cash Inflows		
(4,390)	Dividends received	(3,709)	
(8,437)	Interest received	(6,172)	
(12,827)			(9,881)
(34,030)	BALANCE c/f		(4,832)

CASHFLOW STATEMENT (continued)

2005/06		2006/07	2006/07
£000		£000	£000
(34,030)	BALANCE b/f		(4,832)
	CAPITAL ACTIVITIES		
	Cash Outflows		
37,817	Purchase of fixed assets	40,954	
213,692	Purchase of long-term investments	149,353	
2,827	Other capital cash payments	0	
254,336			190,307
	Cash Inflows		
(1,685)	Sale of fixed assets	(1,258)	
(239,720)	Sale of long-term investments	(160,108)	
(2,927)	Capital grants received	(2,212)	
(13)	Other capital cash receipts	(6)	
(244,345)			(163,584)
	ACQUISITIONS AND DISPOSALS		
	Cash Outflows		
3,600	Investment in subsidiary undertakings		0
(20,439)	Net cash inflow/outflow before financing		21,891
	MANAGEMENT OF LIQUID RESOURCES		
(4,385)	Net Increase/decrease in short term deposits		(600)
	FINANCING		
	Cash Outflows		
334	Capital element of finance lease rental payments		50
(24,490)	NET INCREASE/DECREASE IN CASH		21,341

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

1. **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.

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

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

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

The following table summarises 2006/07 payments made for assets acquired under finance and operating leases.

Finance and Operating Lease Payments:

2005/06 £000		2006/07 Land & Buildings £000	2006/07 Other Assets £000	2006/07 Total £000
1,274	Finance leases	50	0	50
2,487	Operating leases	1,284	214	1,498
3,761	Total	1,334	214	1,548

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2007/08	£1,240,357	£442,900	£1,683,257
2008/09- 2011/12	£4,288,695	£1,360,004	£5,648,699
2012/13 onwards	£11,442,916	£1,455,519	£12,898,435

3. **Publicity expenditure**

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2006/07 expenditure.

Publicity expenditure

2005/06 £000		2006/07 £000
132	Recruitment advertising	207
217	Other advertising	176
349	Total	383

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 2005/06 £000		Expenditure 2006/07 £000	Income 2006/07 £000	Net Income 2006/07 £000
(52)	Scottish Water	0	(54)	(54)
(52)	Total	0	(54)	(54)

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

Section 2 (2) of the Local Authorities (Goods and Services) Act 1970 allows the Council to provide goods and services to other public bodies and keep a separate account of agreements entered into under this legislation. The Council undertakes maintenance of police and fire properties on behalf of the Joint Boards. The table below shows the maintenance expenditure and the amounts billed to the Joint Boards by the Council.

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

Net Expenditure 2005/06 £000		Expenditure 2006/07 £000	Income 2006/07 £000	Net Expenditure 2006/07 £000
0	Northern Joint Police Committee	27	(27)	0
0	Total	27	(27)	0

6. **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.

	2005/06 £000	2006/07 £000	Cumulative Total £000
Highways			
Turnover	(6,676)	(7,561)	
(Surplus)/Deficit	(272)	(219)	(662)
Building Maintenance			
Turnover	(4,106)	(4,131)	
(Surplus)/Deficit	(163)	(218)	(250)

The figures for 2006/07 exclude notional interest in accordance with the SORP and the 2005/06 comparatives have been restated accordingly. However the cumulative total includes notional interest as this was properly chargeable in 2004/05 and 2005/06.

7. **Audit Costs**

Audit Scotland's own staff replaced PricewaterhouseCoopers as the Council's auditor from 1 April 2006. The fees for audit services undertaken in accordance with the 'Code of Audit Practice' are paid to Audit Scotland and were as follows:-

2005/06 £000		2006/07 £000
179	External Audit fees	186
64	Audit Scotland Recharge	60
243		246

8. **Members' Allowances and Expenses**

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

2005/06 £000		2006/07 £000
385	Allowances	392
150	Expenses	128
535		520

9. **Officers' Emoluments**

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

Remuneration Band	2005/06 No.	2006/07 No.
£50,000 - £59,999	26 (12)	41 (6)
£60,000 - £69,999	4 (2)	12 (7)
£70,000 - £79,999	- (-)	1
£80,000 - £89,999	1	1
£90,000 - £99,999	-	-

The figures in brackets show the number of pilots, employed at the Sullom Voe Harbour operation, included in the totals. The increase in the £50,000-£59,999 bracket is due to the inclusion of 19 former Shetland Towage staff.

10. **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.

Central Government Grants	£'000
Revenue Support Grant	68,473
Non-domestic rates	8,138
Housing Benefit Subsidy	2,663
Council Tax Benefits Subsidy	830
Housing Support Grant	2,147
Other Government Grants	9,515

Other Public Bodies Grants	£'000
Scottish Further & Higher Education Council	2,157
Highlands & Islands Enterprise	449
Communities Scotland	436
Sports Scotland	210
Shetland Transport Partnership	125
Lottery Grants	102
Scottish Arts Council	96

During the year, the Council made payments of £4.4m to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £3.87m to bodies on which Council members are represented or for which they have declared an interest.

The Council is Trustee for its Pension Fund. During the year, it paid £6.42m in employers contributions and strain costs and charged the Fund £0.14m in administration costs.

11. **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 2006/07 were:

Operational Assets	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Vessels, Plant & 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**
Certified valuation at 31 March 2006	41,739	96,489	37,114	127,766	5,072	4,379	13,165	0	325,724
Accumulated Depreciation & Impairment	47	(6,165)	(7,547)	(12,983)	(6)	(180)	0	0	(26,834)
Net book Value of assets at 31 March 2006	41,786	90,324	29,567	114,783	5,066	4,199	13,165	0	298,890
Movement in 2006/07									
Additions	2,207	3,518	4,630	3,850	17	0	6,796	0	21,018
Disposals	(1,159)	(257)	(228)	0	0	(22)	0	0	(1,666)
Revaluations	(2,004)	(5,866)	2,841	0	70	60	0	28	(4,871)
Depreciation in year	(1,609)	(3,111)	(2,627)	(3,023)	0	(63)	0	0	(10,433)
Depreciation written back	1,612	1,709	771	0	0	19	0	0	4,111
Transfers/Appropriations	0	10,596	34	0	0	0	(10,841)	211	0
Net Book Value of Assets at 31 March 2007	40,833	96,913	34,988	115,610	5,153	4,193	9,120	239	307,049

The table below analyses the sources of finance utilised in 2006/07 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2006/07:

2005/06 £000		2006/07 £000
(259)	Loans	1,977
1,697	Capital receipts	1,264
2,503	Grant receipts	2,358
36,393	Revenue/Other	15,419
40,334	Total	21,018

12. **Significant commitments under capital contracts beyond 31 March 2007:**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2007. These amounts relate to contracts commenced but not concluded by the end of the financial year.

	Outstanding Contractual Liability beyond 31/3//07 £000
Various ICT projects	1,004
Water based facilities (marinas)	835
Feasability Studies	331
Peerie Dock Symbister	212
Scord Quarry plant	205
Toft demolition	119
Scalloway Oil support	100
Care homes Fire upgrade	98
Other projects	171
Total	3,075

13. **Progress of Valuation Rolling Programme**

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

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

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

GBV as at 31/03/07	**Council Dwellings**	**Other land and Buildings**	**Vehicles, Vessels, Plant & Equipment**	**Non-Operational Assets**	**Total All Assets**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Valued at historical cost	0	0	N/A	10,114	10,114
Valued at current value in:					
2006/07	40,783	25,114	N/A	775	66,672
2005/06	41,739	2,200	N/A	0	43,939
2004/05	43,151	60,012	N/A	1,875	105,038
2003/04	42,976	8,659	N/A	187	51,822
2002/03	46,034	6,948	N/A	1,712	54,694
2001/02	49,792	2,667	N/A	549	53,008
2000/01	N/A	N/A	N/A	N/A	N/A

Council Dwellings are revalued each year on an average cost calculated following the disposal of individual properties during the year. This method was refined to take account of geographical variations along the lines of the 'Beacon Principle'.

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

14. **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 2007.

2006		2007
1,994	**Council Dwellings**	1,994
	Community Assets	
32	Burial Grounds	32
18	Museum Exhibits:	20
1	Other Community Assets	1
	Non Operational Assets	
42	General Non Operational Assets	43
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	Operational Land and Buildings	
1	Airstrips	1
1	Bus Stations	1
4	Car Parks	4
1	Town Hall	1
1	Leisure Facilities	1
1	Libraries	1
3	Museums	3
15	Offices	16
26	Public Conveniences	26
35	Schools	35
7	Social Services Homes	8
27	Other Misc Land and Bldgs	29
2	Finance leases	0
	Vehicles Plant and Equipment	
0	Aircraft	1
219	Vehicles	241
132	Plant	137
13	Ferries	13
6	Boats/Tugs	11
20	Computer Equipment	20
15	Other Equipment	22
	Infrastructure Assets	
1,045	Roads (km)	1,047
	Investment Properties	
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.

15. **Depreciation Methodologies**

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

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

The useful life of an asset has been determined by the officers of the Council in charge of the relevant asset. The life of the operational and non-operational properties have been determined by Alan Rolfe MRICS of the Asset and Property Unit.

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

Asset	**Years**
Council Dwellings	30
Community Assets	100
Infrastructure Assets	0- 60
Operational Land & Buildings	0- 120
Vehicles, plant,ferries, boats & equipment	0- 50
Non-operational Land & Buildings	0- 60

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

Asset	**Depreciation 2006/07 £000**	**Cumulative Depreciation £000**
Council Dwellings	1,609	(50)
Community Assets	0	7
Infrastructure assets	3,023	16,006
Operational Land & Buildings	3,111	7,567
Vehicles, plant, ferries, boats & equip	2,626	9,403
Non operational assets	64	224
	10,433	33,157

16. **Analysis of Debtors and Creditors**

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

31 March 2006 £000		31 March 2007 £000
	Debtors:	
3,272	Sundry Debtors	3,010
131	Recoverable Costs	66
755	Value Added Tax	1,325
676	Council Tax	671
357	Non Domestic Rates	548
398	Rents	451
6	Payroll	47
3,161	Other Debtors	5,731
8,756	Gross debtors	11,849
(166)	Bad debt provision - Sundry Debtors	(237)
(195)	Bad debt provision - Council Tax	(197)
(105)	Bad debt provision - Non domestic Rates	(135)
(120)	Bad debt provision - Rents	(149)
8,170	Net Debtors	11,131
	Creditors:	
(25,657)	Sundry Creditors	(9,796)
(2,525)	Non Domestic Rates	(459)
(1,045)	Government Grants	(1,966)
(370)	Employee	(691)
(559)	Council Tax	(524)
(2,669)	Other Creditors	(1,318)
(32,825)		(14,754)

17. **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.

2005/06 £000		2006/07 £000
(552)	Opening balance-General Fund	(446)
28	Miscellaneous Invoices written off	43
48	Non-domestic Rates written off	9
47	Council Tax written off	42
0	Community Charge written off	1
(3)	Cash received on debts written off	0
(14)	Charge to General Fund for new provision	(193)
(446)		(544)

2005/06 £000		2006/07 £000
(201)	Opening balance-Housing Revenue Account	(140)
6	Miscellaneous Income written off	10
37	Rents written off	24
18	Charge to HRA for new provision	(68)
(140)		(174)

The Council has also made a provision of £0.342m in respect of equal pay claims where the offer of settlement by the Council was rejected. The provision covers possible claims made by staff to a Tribunal in respect of the years up to 31 March 2007 in respect of possible bonus payments.

18. **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 2006 £000		31 March 2007 £000
77,720	Fixed Asset Restatement Account	71,928
167,515	Capital Financing Account	176,104
32	Deferred Capital Receipts	26
(55,456)	Pension Reserve	(35,133)
0	Usable Capital Receipts Reserve	0
206,620	General Fund	203,419
88,392	Reserve Fund	84,515
12,581	Housing Revenue Account	12,398
3,428	Harbour Accounts	3,577
500,832	Total	516,834

19. **Movements in Reserves**

	Balance as at 1/04/06	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/07
	£000	£000	£000	£000
Fixed Asset Restatement Account	(77,720)	5,792	0	(71,928)
Capital Financing Account	(167,515)	8,094	(16,683)	(176,104)
Deferred Capital Receipts	(32)	0	6	(26)
Usable Capital Receipts Reserve	0	(1,258)	1,258	0
Pension Reserve	55,456	(20,323)	0	35,133
Capital Fund	(126,460)	(4,964)	13,772	(117,652)
Pilot Boat Renewal Fund	(782)	(37)	0	(819)
Repairs & Renewals Fund	(79,817)	(5,551)	0	(85,368)
Housing Repairs & Renewals Fund	(12,581)	(768)	951	(12,398)
Quarry Repairs & Renewals Fund	(124)	(6)	0	(130)
Reserve Fund	(88,392)	(5,142)	9,019	(84,515)
Marine Superannuation Fund	(2,646)	(154)	42	(2,758)
Insurance Fund	(219)	(12)	(38)	(269)
General Fund	0	8,793	(8,793)	0
Housing Revenue Account	0	111	(111)	0
	(500,832)	**(15,425)**	**(577)**	**(516,834)**

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

Deferred capital receipts were created by the Capital Fund reimbursing the Loans Fund and are released to the Usable Capital receipts reserve as repayments are received. Receipts of £0.006m were released in the year.

The Usable Capital Receipts Reserve was established for the purpose of financing capital expenditure and its capital can be applied for that purpose. Returns in the year are credited to the General Fund. The source of funding for the reserve is capital receipts not applied during the year. All receipts received in the year were applied to fund £1.17m of Housing Revenue Account and £0.09m 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. £13.77m 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. There was no expenditure during the year.

The Housing Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council's Housing Revenue Account. During the year, a contribution of £0.951m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.84m to the Capital financing account to fund capital expenditure and covered a deficit of £0.111m 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 £4.35m was transferred to the fund and a transfer of £0.42m was made to the Capital Financing Account to fund capital expenditure. A transfer of £12.95m was made to the General Fund, consisting of £8.03m to cover a planned expenditure programmes and £4.92m to cover the General Fund's deficit for the year.

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 £0.042m to the Harbour Account during the year.

The Insurance Fund may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk. It received a contribution from the General Fund in the year of £0.038m.

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund. In the year, other than the various fund contributions listed above to the general Fund and Harbour Account, the General Fund also made a contribution of £0.39m to the Capital Financing Account to fund capital expenditure.

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund. A contribution of £0.111m was received for that purpose.

20. **Analysis of borrowing repayable in excess of 12 months**

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

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

The Council administers, as sole trustee, 8 trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over a great many years. Funds are in the main held in deposit accounts with local banks. The funds do not represent assets of the Council and are not included in the Balance Sheet.

Trust funds:

Fund Balance at 31/3/06		Fund Balance at 31/3/07
£000		£000
(619)	Zetland Educational Trust	(630)
(47)	Gilbertson Trust	(49)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(4)	Other	(4)
(675)	Total	(688)

The Zetland Educational Trust, with an income of £30,501 and expenditure of £19,039, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,500, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £140 whilst the William Strong Bequest makes an annual payment to the ten oldest persons in Fair Isle. These and the Samuel Mullay Bequest are registered with the Office of the Scottish Charity Regulator. The other trusts are, due to their low annual income, dormant.

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

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

23. **Statement of Authorisation of Issue**

The accounts were issued on 27 September 2007 and were authorised for issue by Graham Johnston B.Sc. (Hons) C.P.F.A., Head of Finance for the Council.

24. **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.

25. **Contingent Assets and Liabilities**

The Council made a Single Status offer in 2006/07 proposing annual costs of £0.5m and one-off costs of £10m over the next five years for the settlement of Single Status. That offer was subsequently withdrawn after rejection in Union ballots. The Council is currently investigating alternative routes to progress Single Status with a current planning timetable of March/April 2008 and a potential annual cost of £2-4m.

Whilst the Council has made provision for possible further costs in relation to Equal Pay claims where an offer had been made but not accepted, the uncertainty over the date of implementation of a Single Status agreement makes the Council vulnerable to further claims that cannot as yet be quantified.

26. **Pension Costs (Teachers)**

In 2006/07 the Council paid an employer's contribution of £2.0m (£1.9m in 2005/06) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 12.5% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2006/07 these amounted to £0.64m (£0.56m in 2005/06), representing 4.0% of teachers pensionable pay (2005/06 3.68%).

27. **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.

2005/06 £000		2006/07 £000
7,246	Current service costs	9,971
642	Past service costs	(4,438)
625	Curtailments and settlements	529
(9,407)	Expected return on assets	(12,258)
9,584	Interest cost	11,076
6,525	Actual employers contributions payable	7,217

28. **Pension Assets and Liabilities**

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

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

The Local Government Superannuation (Scotland) Scheme is a funded scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets. In 2006/07, pension costs have been charged to the Income and Expenditure Account on the basis of the contributions payable for the year to the Pension Fund, based on the formal actuarial valuation as at 31 March 2005.

The net pension liability of £35.1m exceeds the General Fund balance of £0.00m by £35.1m. The actuarial valuation sets the appropriate employer's contribution rates and this, together with returns on investments, will be utilised to meet the fund's commitments.

Net Pension Liability

The Council's assets and liabilities amounted to:

2006 £'000		2007 £'000
168,551	Share of Pension Fund Assets	187,924
(204,497)	Less:Estimated liabilities in Pension Fund	(202,373)
(19,510)	Estimated liabilities for discretionary pensions	(20,684)
(55,456)	Net pension asset/(liability)	(35,133)

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

2006				2007		
%	Market Value £'000	Expected rate of return %		%	Market Value £'000	Expected rate of return %
91.5	154,176	7.4	Equity Investments	89.9	168,823	7.8
6.4	10,817	4.6	Bonds	7.3	13,795	4.9
0.0	0	5.5	Property	0.0	0	5.8
2.1	3,558	4.6	Cash	2.8	5,306	4.9
	168,551				187,924	

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:

2006 %		2007 %
3.1	Price Increases	3.2
4.6	Salary Increases	4.7
3.1	Pension Increases	3.2
4.9	Discount Rate	5.4

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.

2006 £000		2007 £000
22,138	Difference between the expected and actual return on assets	1,773
168,551	Value of assets	187,924
13.1%	Percentage of assets	0.9%
102	Experience gain/(loss) on liabilities	(1,128)
224,007	Present value of liabilities	223,057
0%	Percentage of the present value of liabilities	0.5%
(27,831)	Change in financial assumptions underlying the present value of liabilities	17,341
12.4%	Percentage of the present value of liabilities	7.8%

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

Reconciliation to Net Debt

2005/06 £000		2006/07 £000
(24,490)	(Increase)/decrease in Cash	21,341
0	Decrease in Debt Financing	0
785	(Increase)/decrease in Liquid Resources	4,200
(23,705)		25,541
(24,240)	Opening Net Debt as at 01/04/06	(47,945)
(47,945)	Closing Net Debt as at 31/03/07	(22,404)

Analysis of Net Debt

	Balance at 01/4/06 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/07 £000
Cash and bank	(27,811)	21,341	0	(6,470)
Overdraft	0	0	0	0
	(27,811)	21,341	0	(6,470)
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
	0	0	0	0
Current Investments	(20,134)	4,200	0	(15,934)
Total	(47,945)	25,541	0	(22,404)

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

2005/06		2006/07	2006/07
£000		£000	£000
1,713	(Surplus)/Deficit for Year	403	
	Net additional amount required by statute and non-statutory proper practices to be		
(1,650)	credited to the General Fund Balance	(403)	
63			0
	Non cash transactions		
3,580	Contributions to/from reserves	9,598	
(1,947)	Loans Fund principal repayments	(1,939)	
(1,688)	Capital from current revenue	(1,640)	6,019
	Items on an accruals basis		
77	Movement in stocks	391	
(3,176)	Movement in debtors	2,232	
(15,850)	Movement in creditors	(1,557)	1,066
	Items classified elsewhere		
(334)	Finance lease capital	(50)	
(939)	Finance lease interest	0	
(2,583)	Interest paid	(2,571)	
655	Other	585	(2,036)
(22,079)			5,049

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

	Balance at 01/04/06 £000	Balance at 31/3/07 £000	Movement 2006/07 £000
Management of Liquid Resources			
Short Term Investments	20,134	15,934	4,200
Financing			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	0	0	0
Principal element of finance lease rental			50
			50

Definition of Liquid Resources

Liquid resources are defined as short term investments.

32. Analysis of government grants in the Cash Flow Statement

Government grants received in 2006/07:

2005/06 £000		2006/07 £000	2006/07 £000
(66,877)	Revenue Support Grant		(68,488)
	Rebates Grants		
(782)	Council Tax Rebate	(831)	
(2,210)	Rent Rebate	(2,368)	
(362)	Rent Allowance	(364)	
(70,231)			(3,563)
	Other Revenue Grants		
(2,446)	Housing Support Grant	(2,147)	
(1,542)	Further Education Grant	(1,874)	
(388)	Training Grants	(383)	
(15)	Milk Subsidy	(12)	
(39)	Housing Benefit Administration	(79)	
(46)	Council Tax Administration	(41)	
(5,713)	Other	(11,662)	
(10,189)			(16,198)
(80,420)	Total Revenue Grants		(88,249)
(2,927)	Capital Grants		(2,212)
(83,347)	Total		(90,461)

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

2005/06		2006/07	2006/07
£000		£000	£000
	INCOME		
(5,017)	Dwelling rents (gross)	(4,993)	
(491)	Non-dwelling rents (gross)	(372)	
(2,446)	Housing Support Grant	(2,147)	
(4,141)	Other income	(94)	
(12,095)	Total Income		(7,606)
	EXPENDITURE		
2,481	Repairs and maintenance	2,392	
375	Supervision and management	381	
1,620	Depreciation & fixed assets	1,613	
(18)	Bad or doubtful debts	68	
430	Other expenditure	512	
4,888	Total Expenditure		4,966
(7,207)	Net cost of HRA services per Authority Income and Expenditure Account		(2,640)
(66)	Gain on sale of assets		(71)
2,505	Interest payable and similar charges		2,489
17	Pension interest cost & expected return on assets		(21)
(4,751)	Surplus for the year on HRA services		(243)

STATEMENT OF MOVEMENT ON THE HRA BALANCE

2005/06		2006/07
£000		£000
(4,751)	Surplus on the HRA Income and Expenditure Account	(243)
4,751	Net additional amount required by statute to be debited or credited to the HRA balance for the year	243
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

Note to the Statement of Movement on HRA Balance

2005/06		2006/07	2006/07
£000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year.		
(1,620)	Depreciation of fixed assets	(1,627)	
66	Gain on sale of assets	71	
(32)	Net charge for external benefits under FR317	(29)	
(1,586)			(1,585)
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,946	Loans Fund principal	1,939	
0	Transfer to Capital Financing Account	841	
4,391	Transfer to Housing Repair & Renewal Fund	(952)	
			1,828
4,751			243

Number and types of dwelling

Housing stock:

31 March 2006		31 March 2007
No.		No.
91	1 Apartment	84
414	2 Apartment	409
577	3 Apartment	572
763	4 Apartment	741
39	5 Apartment	40
2	6 Apartment	1
1	8 Apartment	1
1,887	Total	1,848

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 an increase in the number of properties in arrears by 43 but the total amount of arrears has remained stable. This means that the average amount owed per property dropped by £40.

Rent arrears:

31 March 2006		31 March 2007
142	Amount (£000)	141
374	Number of properties in arrears (No.)	417
19.8	Properties in arrears as share of total stock (%)	22.6
379	Average amount per property in arrears (£)	339

Provision for bad debts

The following table summarises the movements on the bad debt provision during 2006/07

Bad debt provision:

2005/06 £000		2006/07 £000	2006/07 £000
(201)	Balance as at 1st April		(140)
	Bad rent debt written off		
22	Over £1,000 (Council approved)	12	
15	Under £1,000 (delegated authority)	12	
37			24
6	Miscellaneous bad debt written off		10
(158)			(106)
18	Contribution to/(from) Housing Revenue Account		(68)
(140)	Balance as at 31st March		(174)

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

COUNCIL TAX INCOME ACCOUNT

2005/06		2006/07
£000		£000
(8,622)	Gross Council Tax levied and contributions in lieu	(9,009)
(8,622)		(9,009)
10	Council Tax benefits (net of Government grant)	(41)
56	Provision for bad and doubtful debts	45
1,053	Other discounts and reductions	1,114
38	Adjustment to previous years' Council Tax	31
(7,465)	Transfer to General Fund	(7,860)

1. **Council tax base**

Overleaf is the analysis of the Council Tax base used to set the 2006/07 charges. The analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

2. **Charge setting**

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

3. **Deductions**

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

Exemptions

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

Discounts

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

Reliefs

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

COUNCIL TAX VALUATION BANDS 2006/07

	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.)		3,170	1,774	2,499	1,502	991	180	39	2	**10,157**
Gross Tax Base (Properties x Weighting)		19,020	12,418	19,992	13,518	10,901	2,340	585	36	**78,810**
Adjusted Properties (Band D Equivalents)		2113.33	1379.78	2221.33	1502.00	1211.22	260.00	65.00	4.00	**8,757**
Vacant Properties (No.):										
Mandatory Standard Exemptions		(160)	(80)	(51)	(25)	(7)	(3)	(1)	(1)	**(328)**
Chargeable Dwellings subject to Disabled Reduction (No.)		(9)	(9)	(14)	(9)	(6)	0	(1)	0	**(48)**
Dwellings Effectively Subject to Tax by Virtue of Disabled Relief (No.)	10	9	14	9	6	0	1	0	0	**49**
Class 18 (MoD) Dwellings (No.)	0	24	22	7	0	1	0	0	0	**54**
Revised Total Properties (No.)	10	3,034	1,721	2,450	1,474	979	178	37	1	**9,884**
Types of Property (No.):										
Single Discount (25%)	4	1,260	681	906	303	131	11	5	0	**3,301**
Double Discount (50%)	0	377	103	59	33	21	5	1	0	**599**
No Discount (0%)	6	1,373	915	1,478	1,138	826	162	31	1	**5,930**
	10	3,010	1,699	2,443	1,474	978	178	37	1	**9,830**
Properties Subject to Council Tax (No.)	9.00	2,506.50	1,477.25	2,187.00	1,381.75	934.75	172.75	35.25	1.00	**8,705.25**
Net Tax Base (Properties x Weighting)	45	15,039	10,341	17,496	12,436	10,282	2,246	529	18	**68,431**
Adjusted Properties (Band D Equivalents)	5.00	1,671.00	1,148.97	1,944.00	1,381.75	1,142.47	249.53	58.75	2.00	**7,603.47**
COUNCIL TAX 2006/07:										
General Fund Charge										
Tax Yield (£)	6,102	1,699,407	1,168,505	1,977,048	1,405,240	1,161,894	253,770	59,749	2,034	**7,733,748**
Charge per Property (£)	**678.00**	**678.00**	**791.00**	**904.00**	**1,017.00**	**1,243.00**	**1,469.00**	**1,695.00**	**2,034.00**	

NON-DOMESTIC RATE INCOME ACCOUNT

2005/06		2006/07
£000		£000
(14,466)	Gross rates levied and contributions in lieu	(14,806)
(14,466)		(14,806)
45	Provision for bad and doubtful debts	39
3	Payment of interest	0
2,341	Reliefs and other deductions (net)	2,422
(12,077)	Contribution to national non-domestic rate pool	(12,345)

1. **Analysis of rateable values**

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

The amount paid for Non-Domestic Rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Executive. The national Non-Domestic Rate poundage set for 2006/07 was £0.449 (2005/06 £0.461). The Small Business Rates Relief Scheme was introduced in April 2003 and currently applies to properties with a rateable value of £11,500 or less. It is funded by a supplement to the rate poundage of businesses with a rateable value of more than £29,000. For 2006/07, the supplement was 0.40p (0.45p in 2005/06).

Category	**No. of Subjects**	**Rateable Value**
		£000
Commercial	568	6,283
Industrial	483	19,351
Other	766	7,292
TOTAL	1,817	32,926

PENSION FUND ACCOUNT 2006/07

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06 £000		Notes	2006/07 £000	2006/07 £000
	Dealings with members, employers and others directly involved in the scheme			
	Contributions receivable			
	From Employers			
(6,675)	Normal	6	(7,089)	
(692)	Additional		(414)	
(7,367)				(7,503)
	From Members			
(2,763)	Normal	6		(2,988)
	Transfers in			
0	Group transfer in from other schemes and scheme mergers		(629)	
(1,247)	Individual transfers in from other schemes		(1,280)	
(1,247)				(1,909)
	Other income			
(21)	Other income			(20)
	Benefits Payable			
3,612	Pensions	6	3,965	
979	Commutation of pension and lump sum retirement benefits	6	1,530	
105	Lump sum death benefits	6	99	
4,696				5,594
	Payments to and on account of leavers			
25	Refunds of contributions		16	
0	Group transfers out to other schemes		300	
471	Individual transfer out to other schemes		963	
496				1,279
	Administrative expenses			
208	Administrative expenses	8		182
(5,998)	**NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS**			(5,365)

PENSION FUND ACCOUNT 2006/07

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06 £000		Notes	2006/07 £000	2006/07 £000
	RETURNS ON INVESTMENTS			
	Investment income			
(543)	Interest on fixed interest securities		(230)	
(4,180)	Dividends from equities		(6,559)	
(91)	Income from index-linked securities		0	
(219)	Interest on cash deposits		(245)	
(52)	Other		(45)	
(5,085)				(7,079)
(31,450)	**Change in market value of investments**			(9,042)
62	**Taxation - irrecoverable witholding tax**			65
802	**Investment management expenses**	8		901
(35,671)	**Net returns on investments**			(15,155)
(41,669)	**Net (increase)/decrease in the fund during the year**			(20,520)
(149,529)	Add : Opening net assets of the scheme			(191,198)
(191,198)	**Closing net assets of the scheme**			**(211,718)**

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

PENSION FUND ACCOUNT 2006/07

NET ASSETS STATEMENT AS AT 31 MARCH 2007

2005/06		Notes	2006/07	2006/07
£000			£000	£000
	INVESTMENT ASSETS			
(4,441)	Fixed interest securities (Public sector)		(5,323)	
(162,743)	Equities		(175,097)	
	Unit Trusts-			
(10,562)	Equities		(5,315)	
(7,717)	Bonds		(17,856)	
(185,463)		5	(203,591)	
	Other investment balances-			
(42)	Interest receivable		(72)	
(914)	Dividends receivable		(886)	
(19)	Tax recoverable		(14)	
			(972)	
(186,438)	Total investment assets			(204,563)
	Net current assets and liabilities			
(4,000)	Bank and cash - external		(6,081)	
(421)	Bank and cash - internal		(1,002)	
(979)	Debtors	10	(1,044)	
640	Creditors	11	972	
(4,760)	Net current assets			(7,155)
(191,198)	**Net Assets**			**(211,718)**

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

SHETLAND ISLANDS COUNCIL

2006/07 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 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 3,127 members (2005/06 3,034) including 336 (2005/06 378) who are members of other admitted bodies and 13 (2005/06 12) who are members of a scheduled body, 703 (2005/06 657) pensioners, 149 (2005/06 144) dependents and 838 (2005/06 784) deferred members. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

The scheduled body is:

Orkney and Shetland Valuation Joint Board

The admitted bodies are:

Lerwick Port Authority
Shetland Amenity Trust
Shetland Arts 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
Islesburgh Trust (until 30/6/2006)
Shetland Seafood Quality Control Ltd
Advocacy Shetland
Shetland Voluntary Care Forum
Disability Shetland
Shetland Development Trust
Shetland Charitable Trust
Atlantic Ferries (closed Agreement)

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

At a special meeting of the Council held on 22 March 2007, Schroders and Record Currency Management were appointed to run a new property and a new currency mandate respectively. Along with a change of benchmarks due to take place in July 2007, this will ultimately result in the portfolio being split on the following lines: U.K. Equities 38.75%; Overseas Equities 38.75%; Bonds 10%; Property 10%; and Currency 2.5%.

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 2006/07.

Valuations of all the investments have been carried out by the custodian, The Northern Trust Company, at mid market values on 31 March 2007.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2007.

3. **Accounting treatment**

The accounts, which have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom (which includes all the presentational and disclosure requirements contained in Section 2 of the Pension SORP), summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pension and other benefits in the future.

4. **Administration, operation, management of the Fund**

The Pension Fund is funded by contributions from employees and employers, as well as investment income, and pays pensions and lump sum benefits to members. The contributions from employees are fixed by statute and the employers contributed, during 2006/07, an additional £2.40 (admitted bodies paying between £2.00 and £3.40) for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 2005 indicated a funding level of 99%. As a result, the rate of employer's contribution for Shetland Islands Council will be £2.40 for the three years commencing 1 April 2006 and the rate of employer's contribution for admitted bodies will vary according to certain circumstances peculiar to the individual employers (in line with the Funding Strategy Statement.) The method of calculating the employer's rate of contribution is known as the "Projected Unit" method.

This method determines the future contribution rate required by considering the benefits accruing over the following three years. The employer's contribution rate is set to ensure that the assets of the Fund are sufficient to cover the expected benefits. In order to determine the contribution rate, a number of assumptions are made based on the historical performance of the Fund and on forecasts for the future.

These assumptions were:

Investment returns	4.0% p.a.
Salary increases	2.8% p.a.
Pension increases	2.5% p.a.
Inflation	2.5% p.a.

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

5. **Investments**

The Fund's investments are currently managed by Capital International. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis. The Fund also uses the services of a custodian, The Northern Trust Company.

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

	Market Value at 31/3/06	Net (Purchases) /Sales during 2006/07	Realised (Profits)/ Losses	Unrealised (Profits)/ Losses	Market Value at 31/3/07
	£000	£000	£000	£000	£000
Fixed interest - public sector					
UK	(4,441)	(1,074)	116	76	(5,323)
Fixed interest - other					
Equities					
Quoted - U.K.	(114,840)	1,944	(5,905)	(2,609)	(121,410)
- Foreign	(47,903)	(5,084)	(4,828)	4,128	(53,687)
Index linked					
Unit Trusts Equity					
UK	(3,520)	(406)	0	40	(3,886)
Foreign	(7,042)	0	0	5,613	(1,429)
Unit Trusts Bonds					
UK	(5,983)	0	0	5,983	0
Foreign	(1,734)	(4,465)	47	(11,704)	(17,856)
Total investment assets	(185,463)	(9,085)	(10,570)	1,527	(203,591)

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	
	2007	2006	2007	2006	2007	2006
Contributions receivable						
employers	(6036)	(5,460)	(62)	(52)	(991)	(1,163)
members	(2563)	(2,317)	(20)	(20)	(405)	(426)
Benefits payable						
pensions	3702	3,409	16	10	247	193
lump sums	1378	799	-	20	152	160
lump sum death benefits	99	60	-	-	-	45

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

The value of purchases and sales in 2006/07 were £76.3m and £68.0m respectively as compared to £83.2m and £74.8m in 2005/06.

8. **Fund administration costs**

Expenses of the Fund in 2006/07 include an administration charge from the Council of £139,755 (2005/06 £163,413). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2006/07 amounted to £755,367 (2005/06 £678,717).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them for 2006/07 amounted to £77,743 (2005/06 £89,234). 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**

Capital International achieved a return for 2006/07 of 8.2% versus the benchmark return of 7.8%

10. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £216,590 for employee contributions (2005/06 £207,024) and £500,645 for employer contributions (2005/06 £489,383).

11. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £139,755 for administration recharge costs (2005/06 £163,413).

12. **Statement of Investment Principles**

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

13. **Funding Strategy Statement**

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

14. **Additional Voluntary Contributions**

Prudential and Equitable Life manage the Additional Voluntary Contributions investments. The market value of these investments at 31 March 2007 was £2,481,750 and total purchases for the 2006/07 were £268,477.

STATEMENT OF GROUP ACCOUNTING POLICIES

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2006: 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 three 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

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

The Council also identified two companies in which the Council holds a majority of equity capital. These are:

- Shetland Towage
- Viking Energy

Although both these companies would normally be consolidated into the Group Statements as 'subsidiaries', they have been excluded as neither company is currently operational or holds significant assets. During the year, the Council made a payment of £0.6m to Shetland Towage and wrote off its shareholding in the company which was valued at £3.6m. The Council also took formal ownership of the assets of Shetland Towage which were valued at £5.75m.

The Trusts that the Council manages have not been included in the Group Statements on the grounds of materiality. Information on these can be found in Note 21 on page 30.

3. Basis of Consolidation

The three 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 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.

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2007

2005/06 £000		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
2,625	Central services	3,028	(252)	2,776
35,974	Education services	45,884	(8,007)	37,877
4,802	Environmental services	8,144	(3,220)	4,924
953	Housing services	6,783	(6,118)	665
4,982	Cultural and related services	6,513	(507)	6,006
5,938	Planning and development services	6,188	(1,531)	4,657
9,711	Roads and transport services	10,981	(908)	10,073
9,915	Trading services	26,434	(17,376)	9,058
15,192	Social work	24,045	(6,726)	17,319
5,679	Corporate and democratic core	6,049	0	6,049
1,267	Non distributed costs	(3,909)	0	(3,909)
1,685	Police	2,077	(1)	2,076
2,402	Fire	2,042	0	2,042
(7,208)	Housing revenue account	4,966	(7,606)	(2,640)
-	Services acquired from the Islesburgh Trust	1,448	(321)	1,127
150	Share of operating results of Associates	6,417	(6,216)	201
94,067	Net Cost of Services	157,090	(58,789)	98,301
66	(Gain)/Loss on disposal of fixed assets			(44)
(82)	Loss on disposal of fixed assets of Associates			0
4,399	Interest payable and similar charges			3,047
161	Interest payable and similar charges of Associates			166
(13,291)	Interest and investment income			(14,770)
(17)	Interest and investment income of Associates			(33)
(404)	Net Surplus trading undertakings			(277)
177	Pension interest cost & expected asset return			(1,182)
1,312	Pension interest cost & expected asset return of Associates			1,442
86,388	NET OPERATING EXPENDITURE			86,650
(7,465)	Council Tax			(7,860)
(67,482)	Revenue Support Grant			(68,473)
(8,204)	Contribution from non-domestic rate pool			(8,138)
3,237	**(SURPLUS)/DEFICIT FOR THE YEAR**			**2,179**

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06 £000		2006/07 £000
3,237	(Surplus)/Deficit on Income and Expenditure Account	2,179
5,992	Surplus arising on revaluation of fixed assets	3,691
8,175	Actuarial (gains)/losses on pension fund assets and liabilitlies.	(19,672)
(3,024)	Interest on Reserves	(2,998)
14,380	Total recognised gains for the year	(16,800)

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP BALANCE SHEET
AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	TANGIBLE FIXED ASSETS		
	Operational assets		
41,786	Council dwellings	40,833	
90,324	Other land and buildings	96,913	
29,567	Vehicles, plant and equipment	34,988	
114,783	Infrastructure assets	115,610	
5,066	Community assets	5,153	
281,526			293,497
	Non-operational assets:		
4,199	Investment properties	4,193	
13,165	Assets under construction	9,120	
-	Surplus assets, held for disposal	239	
			13,552
298,890	TOTAL FIXED ASSETS		307,049
(38,446)	Investments in Associates		(37,648)
237,473	Long-term investments		231,417
6	Long-term debtors:Housing Loans		4
26	Long-term debtors:Other		22
497,949	TOTAL LONG-TERM ASSETS		500,844
	CURRENT ASSETS		
2,428	Stocks and work in progress	2,819	
8,170	Debtors, less bad debt provisions	11,131	
20,134	Short term investments	15,934	
27,811	Cash and bank	6,470	
58,543			36,354
556,492	TOTAL ASSETS		537,198
	CURRENT LIABILITIES		
(32,825)	Creditors		(14,754)
523,667	TOTAL ASSETS LESS CURRENT LIABILITIES		522,444
	LONG-TERM LIABILITIES		
-	Provision	(342)	
(5,775)	Government Grants-deferred	(7,783)	
(50)	Deferred liabilities	0	
(55,456)	Pension Asset/ (Liability)	(35,133)	
(61,281)			(43,258)
462,386	TOTAL ASSETS LESS LIABILITIES		479,186

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP BALANCE SHEET

AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	FINANCED BY:		
(79,415)	Fixed Asset Restatement Account		(74,395)
(168,147)	Capital Financing Account		(176,832)
(32)	Deferred Capital Receipts		(26)
(247)	Usable Capital Receipts		(343)
96,853	Pension Reserve		76,657
(150,988)			(174,939)
(127,242)	Capital Fund	(118,471)	
(92,522)	Repairs and Renewals Fund	(97,896)	
(91,038)	Reserve Fund	(87,273)	
(219)	Insurance Fund	(269)	
(311,021)			(303,909)
	Balances		
(377)	General Fund		(338)
(462,386)	TOTAL NET WORTH		(479,186)

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

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP CASHFLOW STATEMENT

2005/06		2006/07	2006/07
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
76,745	Cash paid to and on behalf of employees	82,273	
36,388	Other operating cash payments	60,210	
343	Housing Benefit paid out	368	
1,861	National Non-Domestic Rate payments to national Pool	4,482	
115,337			147,333
	Cash Inflows		
(3,396)	Rents (after rebates)	(3,405)	
(6,877)	Council Tax income (after rebates)	(7,047)	
(12,463)	Non-domestic rate receipts	(10,363)	
(66,877)	Revenue Support Grant	(68,488)	
(362)	DSS grants for benefits	(364)	
(13,180)	Other government grants	(19,397)	
(8,370)	Cash received for goods & services	(24,685)	
(25,954)	Other operating cash receipts	(8,535)	
(137,479)			(142,284)
(22,142)	NET REVENUE CASH (IN)/OUTFLOW		5,049
	RETURNS ON INVESTMENTS ANDSERVICING OF FINANCE		
	Cash Outflows		
939	Interest element of finance leases		0
	Cash Inflows		
(4,390)	Dividends received	(3,709)	
(8,437)	Interest received	(6,172)	
(12,827)			(9,881)
(34,030)	BALANCE c/f		(4,832)

GROUP CASHFLOW STATEMENT (continued)

2005/06 £000		2006/07 £000	2006/07 £000
(34,030)	BALANCE b/f		(4,832)
	CAPITAL ACTIVITIES		
	Cash Outflows		
37,817	Purchase of fixed assets	40,954	
213,692	Purchase of long-term investments	149,353	
2,827	Other capital cash payments	0	
254,336			190,307
	Cash Inflows		
(1,685)	Sale of fixed assets	(1,258)	
(239,720)	Sale of long-term investments	(160,108)	
(2,927)	Capital grants received	(2,212)	
(13)	Other capital cash receipts	(6)	
(244,345)			(163,584)
	ACQUISITIONS AND DISPOSALS		
3,600	Investment in subsidiary undertakings		0
(20,439)	Net cash inflow/outflow before financing		21,891
	MANAGEMENT OF LIQUID RESOURCES		
(4,385)	Increase/(decrease) in short term investments		(600)
	FINANCING		
	Cash Outflows		
334	Repayments of amounts borrowed-finance leases		50
(24,490)	(INCREASE)/DECREASE IN CASH		21,341

RECONCILIATION OF COUNCIL DEFICIT TO GROUP DEFICIT

2005/06 £000		2006/07 £000
1,713	Deficit on Council's Income and Expenditure Account	403
0	Adjustments for transactions with group entities	0
1,713	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Council	403
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to group entities	
1,524	Associates	1,776
3,237	Deficit for the year on Group Income and Expenditure Account	2,179

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

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 2006/07, Shetland contributed 49.5% (2005/06 48.4%) of the Board's costs and its share of the year-end net liability of £0.22m (2005/06 £0.48m) 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 2006/07, Shetland contributed 6.88% (2005/06 7.19%) of the Board's costs and its share of the year-end net liability of £316.2m (2005/06 £325.8m) 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 2006/07, Shetland contributed 9.66% (2005/06 6.35%) of the Board's costs and its share of the year-end net liability of £56.2m (2005/06 £56.2m) is included in the Group Balance Sheet.

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

2005/06 £000	Northern Joint Police Board	2006/07 £000
3,865	Turnover	3,873
241	Profit before Tax	264
0	Taxation	0
241	Profit after Tax	264
3,739	Fixed assets	4,624
773	Current assets	836
(379)	Liabilities due within one year	(414)
(36,726)	Liabilities due after one year or more	(36,966)

2005/06 £000	Highlands and Islands Fire Board	2006/07 £000
1,441	Turnover	2,058
(92)	Profit before Tax	(63)
0	Taxation	0
(92)	Profit after Tax	(63)
3,549	Fixed assets	3,712
291	Current assets	387
(310)	Liabilities due within one year	(388)
(9,151)	Liabilities due after one year or more	(9,333)

2005/06 £000	Orkney and Shetland Valuation Joint Board	2006/07 £000
271	Turnover	286
0	Profit before Tax	0
0	Taxation	0
0	Profit after Tax	0
0	Fixed assets	0
5	Current assets	7
(5)	Liabilities due within one year	(7)
(232)	Liabilities due after one year or more	(106)

2. Financial Impact of Consolidation

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £37.6m, representing the Council's share of the entities net liabilities. These liabilities mainly arise due to the pension liabilities of these bodies calculated under FRS17.

SHETLAND ISLANDS COUNCIL

2006/07 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 fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

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

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

The Head of Finance is responsible for Internal Audit within the Council. The Service Manager-Internal Audit is responsible to the Head of Finance for the day to day discharge of the internal audit function. In accordance with the Council's Internal Audit Charter, it is the responsibility of Internal Audit to assist management in establishing an operating environment which is controlled, efficient and effective. Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, the Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing and operates in accordance with the ISO 9001:2000 quality standard for systems based audit work.

As required by the Audit Charter, Internal Audit plan and perform their work in accordance with an annual audit plan. This plan is a prioritised schedule of assignments to be performed during the year within the framework of a 6-year risk based Strategic Audit Plan. The plan requires the approval of the Management Team and the Council's Audit & Scrutiny Committee. Six monthly reports are made to the Committee to monitor progress against the annual audit plan.

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2006/07 was that the Council's system of internal control was adequate and effective.

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

At my request, Internal Audit conducted an investigation during the year into Additional Support Needs, undertaken following large overspends and a lack of budgetary control, In their report issued in October 2006, Internal Audit raised a number of serious issues such as a lack of accountability, little definition of roles and responsibilities, a lack of management information and policy. A satisfactory action plan has yet to be developed to address these concerns and a follow-up investigation will be done in 2007/08.

Internal Audit also identified issues at Social Work concerning the lack of disclosure checks for both Social Work staff and external carers and at Building Services where the Council is being served a notice over non-compliance with the CDM regulations.

………………………………………………………

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 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account, and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and 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 applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

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

I report my opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority 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 the authority's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority'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 misstatements 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 appropriate to the local authority's and its group's 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 accounting treatment

The 2006 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position.

The Council's group accounts do not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In my opinion, the substance of the Council's relationship with these bodies represents a significant interest and their omission results in a material miss-statement of the group accounts. Based on prior year financial statements, I estimate that these bodies would contribute:

- a deficit position of approximately £5 million to the Group Income and Expenditure Account (resulting from income of £12.7 million and expenditure of £17.7 million);

- net assets of approximately £265 million to the Group Balance Sheet (resulting from fixed assets of £22 million, investments and loans of £211 million, net current assets of £33 million and long term liabilities of £1 million).

Except for the omission of these amounts from the group accounts, in my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Fiona Kordiak CPFA, Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

27 September 2007

Shetland
Islands Council

REPORT

To: **Audit & Scrutiny Committee** **30 November 2007**

From: **Service Manager – Internal Audit**

INTERNAL AUDIT – Six-monthly Internal Audit Progress Report 2007/08
Report No: F- 036 - F

1. Introduction and Key Decisions

1.1 This report is being presented to the Audit & Scrutiny Committee as the Audit Committee of Shetland Islands Council.

1.2 This report presents Members with details of progress made to date against the Audit Plan approved for 2007/08. It also highlights the main issues identified during Internal Audit assignments (Appendix 1).

1.3 Members are also reminded that Internal Audit reports are published on the Council website following legal clearance for FOI purposes. Members can find information on issues identified, but not deemed as key / main, within these reports.

1.4 Members are asked to note the contents of this report.

2. Link to Council Priorities

2.1 Although not contributing to a specific corporate priority, this report, which provides Members with an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance

3. Background

3.1 The purpose of Internal Audit, as defined in the Audit Charter, is to reassure Council Members that:

- there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and

- the Council's system of internal control is both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

4. Progress Report 2007/08

4.1 Appendix 1 details the Internal Audit activity for 2007/08 to date.

4.2 In addition to the planned audit activity an investigation has been undertaken in relation to timesheets in care homes. Additional work, as an appointed Council Investigation Officer, in relation to a staffing matter was performed.

4.3 Progress to date on the Audit Plan is substantially on target, as at the end of October, although the completion of some areas within the plan are outwith Internal Audit's control e.g. a review of the Single Status process once finalised. Notwithstanding this it is anticipated well over 90% of the plan will be completed by 31st March 2008. The situation will continue to be closely monitored.

4.4 The service has been fully staffed for the past year with the new staff settling in well to their roles. This greatly assists in ensuring plans are achieved.

5. ISO Accreditation

5.1 Internal Audit has again been assessed for ISO 9001: 2000 accreditation. This is an international quality standard which means Internal Audit have developed a quality management system, demonstrating the ability to consistently provide a service that meets customer and applicable regulatory requirements.

5.2 I am pleased to report we have been awarded continued accreditation.

6. Financial Implications

6.1 There are no financial implications arising from this report.

7. Policy and Delegated Authority

7.1 The Audit & Scrutiny Committee remit includes consideration of audit matters and one of its roles is to serve as the Council's Audit Committee.

8. Recommendations

8.1 I recommend that the Audit & Scrutiny Committee:

Note the progress being made against the Operational Plan for 2007/08.

Consider main issues identified.

Date: 30th November 2007
Our Ref: CMcI/JG Report No: F- 036 - F

Audit	Auditee	Progress Report / Key Audit Issues
Charitable Trust	Acting General Manager	The findings of this audit are not subject to report to Audit & Scrutiny Committee as this committee has no remit with regard to the Charitable Trust.
Executive Office / Policy Unit	Administration Officer	No Key issues were identified. Whilst there were audit issues these were acknowledged and a response was received indicating all issues would be resolved with immediate effect.
Emergency Planning	Emergency Planning Officer	No Key issues were identified. Whilst there were audit issues these were acknowledged and a response was received indicating they would be resolved.
Legal & Administration - Administration	Administrative Services Manager	No Key issues were identified. Whilst there were audit issues these were acknowledged and a response was received indicating they would be resolved.
Roads Maintenance	Roads Maintenance Manager	The key audit issue identified related to legal requirements surrounding LGV Driver Licences. A system required to be introduced to ensure vehicles are only being driven by those qualified, trained and authorised to do so. Responsibility for this area was to be clarified. The response from the Roads Maintenance Manager provided assurance the matter had been resolved. Other audit issues were acknowledged and commitment given to address them.

Human Resource Management	Human Resources Manager	Three key issues were identified: 1. Concerns about the adequacy of controls surrounding the creation of new posts on the CHRIS system with the consequence that establishment numbers may not be accurate. It is vital that adequate information is provided to HR to indicate that the posts are appropriately approved. 2. The *Training and Development Policy* approved by Council in December 2005 had yet to be implemented. HR had been further reminded about this issue in September 2006 by Internal Audit HR were still to progress this issue and were utilising the superseded 1998 policy, which remains on the Intranet for current guidance. Since the audit HR have taken steps to progress this matter 3 Council Standing Orders are being ignored in that there is no contract in place with the agency that the Council uses for recruitment advertising and no tendering process has been undertaken. This is particularly disappointing as this situation had been identified during previous audits and assurances given that it would be resolved. We understand that since the audit contact has been made with Contract Compliance to progress a resolution. Other audit issues were acknowledged and commitment given to address them.

Management Accountancy	Management Accountancy – Service Manager	Audit ongoing. Due for completion December 2007
Contract Compliance	Contract Compliance Manager	Audit ongoing. Due for completion November 2007
Adult Learning	Adult Learning Manager	Audit ongoing. Due for completion December 2007
Grants	Grants Officer	Audit in preparation. Due for completion December 2007
Education	Head of Schools	Audit to commence December 2007
Youth Work	Youth Development Officer	Audit scheduled for March 2008

Follow up Audit	**Auditee**	**Progress Report**
ICT Inventory	ICT Unit Manager	To be undertaken 3^{rd} / 4^{th} quarter
Social Care	Head of Community / Head of Children's Services	To be undertaken 3^{rd} / 4^{th} quarter
Treasury	Treasury Accountant	To be undertaken 3^{rd} / 4^{th} quarter
Local Taxation	Senior Local Taxation officer	To be undertaken 3^{rd} / 4^{th} quarter
ASN Investigation	Head of Schools	To be undertaken 3^{rd} / 4^{th} quarter

Investigations / Reviews	Requested by:	Progress Report
Corporate Review – Single status	Strategic Audit Plan	Unable to progress until process is finalised
ICT	Strategic Audit Plan	Specialist Computer Auditor work undertaken. Report currently being finalised.
SUMS College	Director – Shetland College	Report finalised. Significant improvement on previous years.
Performance Indicators	PWC	Report submitted to Audit Scotland. Problems identified subject to previous report to Audit & Scrutiny Committee
Procurement Checklist	Chief Internal Auditors Group	A comparison across Scotland has been undertaken to determine where Local authorities are in relation to Procurement.

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **30 November 2007**

From: **Performance Management Co-ordinator**
Organisational Development

CE-44-F

Disabled Access to Ferry Terminals

1 Introduction

1.1 A request was made at the Audit and Scrutiny Committee on 26th October for further information on disabled access to ferry terminals (min ref. 11/07). The response that was received from David Polson, Assistant Superintendent, Customer Services in the Ferries Service has been set out in section 3 of this report.

2 Link to Corporate Priorities

2.1 It is a Corporate Improvement Plan aim that we will further develop Member engagement in systematic performance reporting, review and scrutiny. This report contributes to that aim.

3 Response to issues raised – David Polson, Superintendent Engineer, Customer Services

“I've been taking the SIC lead over the past few years, working with the MCA (regulators), other domestic ferry operators and the UK Disabled Persons Transport Advisory Committee, DPTAC (Department of Transport sponsored body) to moderate the standards and expectations of "large" passenger vessel operations for "small" passenger vessel operations. This work seeks to devise the standards for employees, service and bookings, vessels and terminals pertaining to all aspects of dealing with and serving people with reduced mobility.

Things have been in a state of flux for at least a couple of years. As well as that, for a while, some of the "small" passenger vessel guideline standards are higher than Disability Discrimination Act regulations. As such, I decided to wait until we had a clear way forward as to what was required onshore.

We now have agreement on what the standards are and, where budget considerations permit, intend to install ramps, enhanced access and parking

facilities at Laxo, Toft, Ulsta, Gutcher and Belmont by the end of this financial year, in line with our Service Plan:
The Bressay terminal has been completed.

West Burrafirth, Papa Stour, Hamars Ness and Vidlin are all new, or relatively new and comply.

Symbister and Grutness are both very difficult and need a lot of consideration.

We are waiting on guidance from the Roads Service as to the provision of disabled parking to all our terminals.

Last year we engaged Disability Shetland to undertake a 'walk-though' audit of all our terminals and ferries. This is on their website and is linked from our own. DPTAC's view is that persons with reduced mobility must be able to plan their journey from beginning to end.

Accurate information on the difficulties they will encounter is essential. The link is: http://www.shetlandcommunities.org/disability-shetland/shetland-access-guide.html

Additionally, we have trained all our staff in Customer Care and Disability Awareness. This was undertaken by trainers who focused the learning on ferry operations. Again, DPTAC's view was that people, procedures and information needs to be of equal importance to buildings and infrastructure.

Guidance, which we, where practical, have to comply with, is available for Members' information".

4 Financial Implications

4.1 There are no financial implications arising from this report.

5 Policy and Delegated Authority

5.1 The remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

6 Conclusion

6.1 This report has provided further information on disabled access to ferry terminals and toilets. This follows on from a request made at the last Audit and Scrutiny Committee meeting for this information.

7 Recommendations

7.1 I recommend that members of the Audit and Scrutiny Committee note the content of this report.

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **30 November 2007**

From: **Performance Management Co-ordinator**
Organisational Development

CE-43-F

'Abandoned' Vehicles in Shetland

1 Introduction

A request was made at the Audit and Scrutiny Committee on 26th October for further information on the 'Regulations and process' for dealing with abandoned vehicles in Shetland (min ref. 11/07).

The response that was received from the Environmental Health Service Manager has been set out in this report.

2 Link to Corporate Priorities

It is a Corporate Improvement Plan aim that we will further develop Member engagement in systematic performance reporting, review and scrutiny. This report contributes to that aim.

3 Responses to issues raised

Issue	Response from Environmental Health Service Manager
How many vehicles were classified as having been 'abandoned' during 2006-07?	97 vehicles
Who notifies the Council that a vehicle is to be collected?	Notification is normally through a concerned member of the public who sees a car which appears to be abandoned, or a landowner such as the Council / Lerwick Port Authority / Shetland Livestock Marketing Group / Hjaltland Housing Association etc, where a car has been dumped on private land.

What is classified as an 'abandoned' vehicle?	There is no legal definition, but an officer's assessment is made, having consideration for the following issues; • The vehicle is no longer in a roadworthy condition; • It is in such a place as to cause aggravation or danger to others; • It has no valid tax disc on display or is being kept on a road whilst registered with a SORN (Statutory Off Road Notification) declaration (however, a vehicle may be abandoned even with a valid tax disc or SORN); • The vehicle or its contents are having a negative impact on the local environment and the visual amenity of a community; • It is in such a place and condition that it attracts the unwanted attention of vandals and anti-social behaviour; • There is evidence that the vehicle has not been moved for a considerable amount of time; • The owner or keeper cannot be identified, or fails to respond to a legal notice;
Who is responsible for 'abandoned' vehicles?	Once it has been determined that a vehicle has been abandoned, the Council has a duty to remove it. Where it is judged by the local authority that a vehicle has no value or is causing immediate danger to others, the statutory notice period is 24 hours. Where it is judged that the vehicle has some value, the statutory notice period is 7 days. However the vehicle must be taken and stored until the vehicle tax has expired. Where a vehicle is abandoned on private land, the statutory notice period is 15 days. A local authority may only remove the vehicle with the landowner's permission. When the notice periods have expired, the local authority should remove the vehicle as soon as possible.
Is it possible to recover the expenses of dealing with the abandoned vehicle from the vehicle owner?	Under the Removal, Storage and Disposal of Vehicles (Prescribed Sums and Charges etc.) Amendment (Scotland) Regulations 2005, the charges that can be levied towards anyone who abandons a vehicle (if they can be traced) are as follows: • £150 for uplift of a vehicle; • £150 for disposal; • £20 for every 24 hour period (or part thereof) for storing a vehicle;

	Abandoning a vehicle is also a criminal offence, carrying a maximum penalty of a fine of £2,500 or three months' imprisonment, or both. The Council's current approach to abandoned vehicles has been to remove vehicles on public land or at the landowner's request only. We have only uplifted vehicles which are untaxed and not on a SORN. Vehicles are removed where, in the officer's opinion, the vehicle is in such a condition as to be destroyed. A notice is fixed on the vehicle giving at least 24 hours' notice of the Council's intention to remove the vehicle and dispose of it. If the vehicle remains in situ when the notice has expired then a request is placed to the Amenity Trust to uplift and dispose of the vehicle. The Amenity Trust then notify that it has been removed. It has not been current Council practice to recharge the costs of the disposal to the last registered owner, The Environmental Health Service Manager is however putting a proposal to the next Infrastructure Committee that the approach be amended as follows: • Vehicles will be stickered and uplifted when they are untaxed on public land (or on the landowner's request) • If they are on a SORN but not on a driveway or private land then this will be reported to the police to pursue Traffic Offences; • If the Vehicle on a SORN still doesn't move after approaches from the Police, it will be stickered and uplifted as an abandoned vehicle; • Environmental Health will start to use the 15 day notice on private land to address the accumulations of abandoned vehicles around Shetland which are on private land and untaxed or unSORNed; • Environmental Health will raise invoices to the last registered keeper for £300 for every abandoned vehicle uplifted and disposed of.

4 Financial Implications

4.1 There are no financial implications arising from this report.

5 Policy and Delegated Authority

5.1 The remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

6 Conclusion

6.1 This report has provided further information on the Regulations and process concerned with the subject of Abandoned vehicles in Shetland. This follows on from a request made at the last Audit and Scrutiny Committee meeting.

7 Recommendations

7.1 I recommend that members of the Audit and Scrutiny Committee note the content of this report.

PP November 2007 CE-43-F

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **30 November 2007**

From: **Performance Management Co-ordinator**
Organisational Development

CE-41-F

Audit and Scrutiny Committee Work Programme 2007-08

1 Introduction

At the last Audit and Scrutiny Committee on 26th October, Members requested further information on a wide range of issues. In order to prioritise these items and ensure that they are actioned, the Head of Organisational Development agreed to produce a list for further discussion and prioritisation.

A Work Programme, covering the period to the Council recess in the summer, is therefore attached to this report, for discussion and agreement.

2 Link to Corporate Priorities

It is a Corporate Improvement Plan aim that we will further develop Member engagement in systematic performance reporting, review and scrutiny. This report contributes to that aim.

3 Work Programme 2007-08

3.1 As you will see from Appendix 1, the issues that were raised at the last Audit and Scrutiny Committee meeting have been inserted into the Work Programme.

3.2 In addition, items that we know will be produced at certain times of the year have also been added to the Work Programme. (e.g. Internal Audit Action Plan update, SPI analysis, Corporate Improvement Plan updates etc). This Programme will be amended during the year, as other items are raised.

3.3 Members of the Committee are asked to discuss the draft Work Programme, agree or reprioritise items, as seen fit.

4 Potential items for formal investigation

4.1 As well as the list of items that have been inserted into the Work Programme, a number of potentially substantial items were raised at the last Committee meeting. These were:

- Private use of Council vehicles - numbers, policy on usage, Tax implications etc (item raised by Cllr Henderson);
- Super low-floor buses - cost of the buses, the total anticipated income, fuel, servicing and driver costs (item raised by Cllr Smith);
- Efficient Council property use (item raised by Cllr Miller);
- Analysis of spending on overtime across the Council (item raised by Cllr Duncan);

4.2 Members are asked to decide (i) whether any of these items should be made the subject of a more detailed investigation and (ii) the order in which to carry out the investigations. It's likely that, with resources available to carry out the investigations, not more than 3 will be able to be carried out between now and the remainder of this Council session.

4.3 Should the Committee decide that any of these issues are to be formally investigated, the protocol set out in the Scrutiny Handbook for carrying these out, will have to be followed. i.e. the first step will be to complete the Scrutiny Checklist in the Handbook (attached as Appendix 2, for ease of reference).

5 Financial Implications

5.1 There are no financial implications arising from this report.

6 Policy and Delegated Authority

6.1 The remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

7 Conclusion

7.1 This report has sought to take all of the items that were raised at the last Audit and Scrutiny Committee and put them in to a Work Programme. It is hoped that this will help members of the Committee to be aware of what items to expect at future meetings. This will help planning and ensure that all of the items are actioned.

7.2 It also sets out a number of areas which Members raised and seeks a decision on whether any of these should be investigated in greater detail.

8 Recommendations

8.1 I recommend that the Audit and Scrutiny Committee

(a) consider and agree the Work Programme attached as Appendix 1, with the proviso that this will be developed as other items arise;

(b) decide whether any of the items set out in Section 4.1 require formal investigation; and

(c) decide the order in which these should be carried out.

PP November 2007 CE-41-F

Appendix 2

CHECKLIST – taken from Scrutiny Handbook 2007

To be completed by the Audit and Scrutiny Committee before deciding whether a topic is to be formally investigated.

		√ / X
1.	The topic being proposed <u>is not</u> already the subject of a review or a recently completed review?	……
2.	Can the scrutiny work be successfully delivered within existing resources?	……
3.	Is the topic something that is of concern to the public?	…….
4.	Does the topic support the achievement of the Council's corporate priorities?	…….
5.	Will scrutiny lead to improvements for the people of Shetland?	…….
6.	Will scrutiny lead to increased value for money?	…….
7.	Has the topic been identified by Members/officers as a key issue for the public of Shetland?	…….
8.	Is there new legislation or guidance that will require a significant change to the area to be investigated?	…….
9.	Has the issue been raised by an external audit body?	…….
10.	If not, are there any inspections planned in the near future?	________
	TOTAL	________

(If 6 or more ticks – the topic can be considered for formal investigation)

APPENDIX 1

Audit and Scrutiny Committee

Work Programme 2007-08

The aim of this Work Programme is to help members of the Audit and Scrutiny Committee and supporting officers organise agenda items for meetings between now and the end of this current Council session. It's hoped that this will help to manage the Committee's workload as well as improve Members' information on future agenda topics.

The Programme will be updated as new items arise.

Meeting date	Agenda Items	Officer responsible
23 January	• Corporate Improvement Plan 2007-08 - 6-month update;	P Peterson
	• Terms of Reference for any formal investigation topic(s);	J Smith / P Peterson
	• 5-year report on capital project overspends	C Medley
	• Remit of Audit and Scrutiny Committee to investigate external bodies	J Smith / P Peterson
	• Update on soft road verges issue raised by ASCC;	G Spall / I Halcrow
	Standing item • Corporate Risk Register	S Pearson
5 March	• Statutory Performance Indicators – comparative analysis with Orkney Islands Council and Western Isles Council;	P Peterson / L Saunders
	• Disabled access to Council accommodation and Accommodation Strategy;	TBC
	• Breakdown of the net controllable costs at Education and Social Care Directorate and Infrastructure Directorate;	G Johnston / H Tait
	Standing item • Corporate Risk Register	S Pearson

30 April	• Council Housing Voids – update on agreed actions from formal investigation carried out last year; • % of women in top 5% of SIC – update on agreed actions from formal investigation carried out last year; • Report on adequacy of Occupational Health arrangements; <u>Standing item</u> • Corporate Risk Register	C Medley / P Peterson J Smith J Smith / D Bell S Pearson
11 June	• Corporate Improvement Plan 2007-08 - outturn; • Audit and Scrutiny Committee Activity report 2007-08 - to be presented to full Council • Internal Audit – Action Plan 2007-08 and Operational Plan 2008-09 <u>Standing item</u> • Corporate Risk Register	P Peterson P Peterson C McIntyre S Pearson