Shetland
Islands Council

MINUTE A & B

Audit and Scrutiny Committee
Council Chamber, Town Hall, Lerwick
Wednesday 8 October 2008 at 10am

Present:

F B Grains	A T Doull
A G L Duncan	A J Hughson
C H J Miller	G Robinson
J W G Wills	

Apologies:
R S Henderson

In attendance (Officers):
H Sutherland, Executive Director – Education and Social Care
I Halcrow, Head of Roads
G Johnston, Head of Finance
J R Smith, Head of Organisational Development
D Williamson, Head of Building Services
J Emptage, Cleansing Service Manager
S Pearson, Safety and Risk Manager
E Perring, Transport Strategy Officer
P Peterson, Performance Management Co-ordinator
A Sutherland, Policy and Development Assistant
D Smith, Manager – Islesburgh Complex
A Cogle, Service Manager – Administration

Chairperson
Mrs F B Grains, Chairperson of the Committee, presided.

Circular
The circular calling the meeting was held as read.

Declarations of Interest
None.

Minute
The minute of the meeting held on 27 August 2008, was confirmed on the motion of Mrs F B Grains, seconded by Mr A Duncan.

Updates were provided on the following matters, which had been raised at the last meeting for action:

Audit Committee Training
Committee noted that this training had been extremely useful and that the trainers were to be invited to Shetland. The Committee agreed that an invitation to the training should be extended to all Councillors and Heads of Service.

Toilet Signs, Grutness Pier
The Committee noted that signs for alternative disabled toilet facilities at Grutness Pier were now in place.

Street Cleaning – Weekend Service
The Committee noted that cleaning of Commercial Street was undertaken on Saturday and Sunday mornings. It was further noted that whilst savings had been made in reducing the number of staff involved in this particular weekend service, the level of service had not reduced.

Absence/Sickness Rates
The Committee noted that a report on absence/sickness rates would be reported to the Committee by the Human Resources Manager, at its meeting in November.

Experimental Ferry Shuttle Service
The Committee noted that a report was been worked on and would be presented by the Ferry Services Manager to a future meeting of the Inter Island Ferries Board.

Waste Heat from Lerwick Power Station
The Committee noted that a report on this matter was also being worked on and would be presented by the Waste Services Manager to a future meeting of the Infrastructure Committee.

Conduct of Meetings
The Committee noted that the Service Manager – Administration would discuss this matter further with Dr Wills, and report to a future meeting of the Council.

Min. Ref.	**Subject**	**Action/Info**
31/08	**Strategic Risk Register – Economic Risks** The Committee considered a report by the Service Manager – Safety and Risk (Appendix 1). With regard to a question from Mr A Duncan regarding computerisation of the insurance and risk management system, the Service Manager – Safety and Risk advised that overall good progress was being made on its installation and implementation, and appropriate training was being organised. Mrs C Miller referred to recent issues regarding the current financial climate, and asked what the Council's strategy was for its reserves and Pension Fund investments. The Head of Finance said the situation at present was pretty unprecedented in world financial markets, but the strategy was the same as it had always been, which was to continue to liase with the Council's financial advisers and fund managers to see whether any particular action is appropriate. He said the judgement so	

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	far had been that the Council may have to 'ride out this particular storm', which had been a strategy that had served the Council well during previous, and worse, financial collapse. Mrs Miller asked if there would be any need for the Council to consider liquidating any of its assets. The Head of Finance said that Fund Managers were selling and buying on a day to day basis, and these matters were all being carefully monitored, but he would expect some liquidation to be part of that activity. Mrs Miller went on to say that her concern was the Council policy regarding the Council's Reserves not dropping below £250 million. The Head of Finance said that policy in that area related to balance sheet valuation as at 31 March. He said that the balance at 31 March is the combination of investments at cost plus the value of lending of the reserves to the HRA. The Head of Finance said that as at 31 March 2008 the balance was £288m, and the expectation was that it would still be above the £250 million policy limit by 31 March 2009. He went on to say that last week's report had the reserves valued at £250.1m, however that was a market valuation of part of the reserves, and was not a measure of the success or failure of policy. Mr A Hughson said he would be concerned for the bigger capital projects, if the reserves were to go down any further. He went on to ask when consideration would have to be given to the capital programme in the event of the reserves decreasing. The Head of Finance said that current policy required the Council to review it at the end of the financial year. He said that final outturn figures would be available by May/June 2009. However, the Head of Finance said he believed the Council's spending plans, projections and financial planning were for the longer term, and were based on long term returns on investments. He said that this was the right approach for the Council to take, as to do anything drastic in the short term would be to risk destabilising the Shetland economy at a time of general fragility. The Head of Finance said the Council had some degree of duty to provide a bit of stability. He went on to say, in response to further questions, that budgets should not be based upon current circumstances, but would be reflected upon next year once the outturn figures were available, and then to consider whether adjustment to the long term plans were appropriate. In this regard, he said it was important for the Council to take a measured approach and take a long term view, rather make than a 'knee-jerk' reaction.	

	Dr J W G Wills agreed that a 'knee-jerk' reaction was not the correct reaction, but he was concerned as to the long term effects on both revenue and capital funds. Dr Wills said that, in his view, it was inconceivable that the current situation would not affect next year's budget setting exercise. He said that the Council could not go on with its current spending plans if its reserves were not contributing what they should have been. He went on to ask what proportion of the Capital Fund, Reserve Fund and Repair and Renewal Funds was actually held in shares. He suggested that 50% of the Shetland Charitable Trust funds were overexposed in this way, and said that 25% exposure to equities could be preferable, as whilst this would result in a lower income, it would reduce exposure. Dr Wills also asked what was meant by 'broker lending risk'. The Head of Finance advised that, from time to time, and given the nature of the Council's cashflow, available amounts of cash were placed in a way which ensured best advantage for the Council. He said that very often this meant holding cash in a Bank of Scotland account that pays interest, but on occasions lending to other institutions would give better returns. He explained that such lendings were done through brokers to reliable and quality institutions, such as other local authorities or "AAA rated" banks. In terms of the Council's long term planning and its policy framework, the Head of Finance said he did not believe the value of reserves would be below £250m by the end of March 2009. Reverting back to the detail in the report, the Service Manager – Safety and Risk advised that the grading of these risks would be reported to the next meeting of the Council. Mrs C Miller moved that the Committee approve the recommendations in the report, but that (1) a comparison report be prepared for 6 months' time; and (2) a report on the full financial risks also be presented to the Council in 6 months' time. Mr A Duncan seconded, and the Committee agreed.	
32/08	**<u>Private Use of Council Vehicles</u>** The Committee considered a report by the Performance Management Co-ordinator (Appendix 2). The Performance Management Co-ordinator summarised the terms of the report, and drew attention to the recommended proposals in Section 5. Mrs F B Grains said that staff had collected a lot of data, and she was glad to see that a number of action points had been taken forward.	

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	(Dr Wills left the meeting.) Mrs C Miller referred to paragraph 5.3, and suggested that the target for reducing derv usage should be extended to the next 4 years so that this would bring a continuation into the next Council. Mrs Miller also referred to paragraph 5.5 and asked what responsibilities the Fleet Management Unit already had, and what was required to increase that responsibility. She said it seemed as though there was a role here for the Fleet Management Unit to ensure that all services were looking to procure more efficient vehicles. The Performance Management Co-ordinator said that discussions did take place with the Unit, but agreed that there could be a case made for strengthening the role of the central point during procurement exercises. The Head of Roads said that, from his perspective, if services did have a difference of opinion with the Fleet Management Unit the mechanism would have been to accede the matter to the Executive Director for a decision after hearing both cases. The Head of Roads said he did not think that matters had ever come to that, as matters had always been in agreement with the Fleet Management Unit. The Performance Management Co-ordinator agreed that there was a need for services to look at the whole specification, and not just the budgetary element, and said that this could be built into the remit of the Fleet Management Unit. *(Dr J W G Wills returned to the meeting.)* After some detailed discussion regarding the specific savings that could be made in relation to size and number of vehicles, the Head of Roads said that the recommended 5% reduction in the use of derv would be a challenging commitment for the service, but Members were happy to this target saving would be monitored through the performance review meetings. After some detailed discussion regarding the specific savings that could be made in relation to size and number of vehicles, the Head of Roads said that the recommended 5% reduction in the use of derv would be a challenging commitment for the service, and Members would be able to monitor this target saving through the performance review meetings. Mr A Doull moved the recommendations in the report, plus the suggestions made by Mrs Miller, subject also to paragraph 5.5 being amended to read "The Fleet Management Unit to be	

	given responsibility to engage at an early stage with services seeking to procure new vehicles being sought are necessary for service delivery, fit for purpose, and more fuel efficient.” Mrs Miller said this would ensure that the Fleet Management Unit would have the responsibility for decision making in relation to the purchase of vehicles. With regard to efficiency savings, Mr A Duncan asked if there was any way in which the Council could reduce the number of its vehicles or if there was any advantage in keeping them for a time longer. The Head of Roads explained that these were matters that were always being considered, and in fact over the past 2/3 years the number of lorries being operated by the Roads Service had been reduced by making greater use of the private sector. He said it was a matter of balance between keeping a vehicle longer and incurring rising maintenance costs against the capital costs of a new purchase. He said that the advice of the Fleet Management Unit would be sought on those sorts of matters. Mr A Duncan referred to paragraph 3.3.4 of the report and asked whether the duties of this post were covered when the postholder was on holiday. The Cleansing Services Manager confirmed that the post was covered by another trained member of staff during holiday periods. Mr A Duncan suggested that this was a service where there was potential for savings to be made, in that the duties could be incorporated within another post. He said he had no wish to see anyone unemployed, but suggested they could be redeployed. The Service Manager – Safety and Risk provided the Committee with background information to the requirement for skips to be checked on a regular basis, and for proper checks and corrective action to be taken when necessary. She indicated that there had been some serious incidents relating to hazardous materials being put into community skips, and the Council had to do whatever was reasonably practical to mitigate those types of incidents recurring. She added that between 1999 and 2004, 228 items had been taken out of community skips that should not have been there and were a danger to the public. She said that consideration could be given to providing this service in a more financially viable way, and offered to consider this matter further along with the Cleansing Service Manager, and present a report to the Infrastructure Committee on this matter. Members agreed. Mrs C Miller asked if central refuse collection points could be provided in rural areas similar to what was provided in Lerwick. The Cleansing Service Manager advised that many of the collection points in Lerwick had been provided by the Housing Service, but there were no plans to provide central refuse	

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	collection points in the rural areas. He added that the Council had an obligation to collect along the public road, and in some cases this did mean travelling a distance to single dwellings. He added that in those instances people were being asked to bring their refuse to the nearest main road for collection, but it was accepted that the Council had no means of insisting on this, and was obliged to collect along the public road. Mr G Robinson said that the liability for any accident occurring with the community skips lay with the Council. He agreed that a structured method of surveying the content of the skips on a regular basis was required, and he therefore favoured the status quo. The Cleansing Service Manager said he appreciated that there were perhaps flaws with the service, but it was being managed in the best way possible. He said that the Council also offered a collection service for hazardous materials and it was the same postholder that provided this and other services, all of which were valuable. The Service Manager Safety and Risk advised that proper recording satisfied the requirements of the Health and Safety Executive and the Council's insurers, and therefore on a financial and moral level the Council was doing everything possible to ensure the safety of the public. The Committee agreed to accept the recommendations in the report, subject to the amendments to paragraph 5.5 detailed above, and also that (a) a follow up report be provided in 6 months time, instead of one year and (b) a report on the options for the community skip service be presented to the Infrastructure Committee with a view to achieving a financially viable alternative to the current service. This was agreed on the motion of Mr A Duncan, seconded by Dr J Wills.	
33/08	**<u>Islesburgh Complex</u>** The Committee considered a report by the Sport and Leisure Services Manager (Appendix 3). Mrs F B Grains referred to Appendix A of the report, and asked for more information relating to the costs associated with "Hired and/or Contracted Services" and "Refuse Collection Contractor". JE confirmed that the refuse collection costs related to the provision of skips at Islesburgh Community Centre and at Islesburgh House. The Executive Director advised that she would provide Mrs Grains with the detailed information after the meeting. In response to a question from Mr A Duncan, the Executive Director confirmed that the compensation payment amounting to over £30k was in relation to equal pay compensation, as referred to in paragraph 5.4 of the report.	

	Mrs C Miller referred to the £66k deficit relating to the Central Cafe. She expressed concern that such catering establishments were in competition with the private sector, and the Council was subsidising this cafe to the detriment of the private sector. Mrs Miller asked what possibility there was of the cafe breaking even. The Executive Director advised that a £66k deficit was a significant amount to make up through charges to the users. She said that, predominantly, the deficit was made up of staffing costs involved with the running of the service, although Single Status would have an impact on the staffing costs. The Executive Director advised that the Economic Development Unit were looking into the wider provision of cafe services and their impact. Mrs C Miller said she thought the Council should not be seen to be subsiding services that could be done by the private sector. She said she would like to see a report on whether this particular service could break even, or go out to tender to the private sector. The Executive Director agreed to discuss the matter with the Head of Economic Development, and bring back a report to the appropriate forum. She added it was important not to duplicate any work that was already in progress. Mr A Duncan said he understood the profitability of the cafe was an important issue, and in many cases the Council should not be subsidising services that could be carried out by the private sector. However, Mr Duncan said that the cafe provided a very valuable service to the community, particularly young people, and said he would rather see this provision being subsidised as opposed to the adverse alternatives available to young people. Mr Duncan congratulated the Islesburgh Manager and his staff on reducing overall expenditure in many other ways. Dr J Wills agreed with Mr Duncan, and said that it was clear from the report that Islesburgh was used by a wide variety of community groups, and there were also some others who were not listed in the appendix. Dr Wills said that the cafe was also used by a lot of visitors to Shetland, and he agreed that it was an investment worth making. He added his congratulations to management. Mr G Robinson said that if operation of the cafe was put out to tender, anybody taking it on would still have to try and claw back the £60k deficit, as well as trying to make a profit, and it was unlikely anyone would be able to succeed in making such a profit.	

	Mr Robinson went on to ask for an explanation as to the high operating costs relating to general operation of the complex, such as the increase over budget in relation to computer licensing. The Islesburgh Manager advised that that particular overspend had arisen due to the timing of two payments taking place in one financial year. The Executive Director added that a change of management structure had also resulted in budget variances, although these budgets were now being reviewed year on year. Mrs C Miller said that there was no doubt Islesburgh was an exceptionally well-run facility. She asked what the reason was for the scaffolding, and what was being decided in relation to the squash courts. The Islesburgh Manager confirmed that the scaffolding was being used for the painting of window frames, to touch up some of the pointing, and to make some repairs. It had been agreed with Building Services that all these maintenance requirements would be carried out at the same time to avoid any disruption. Regarding the squash courts, the Executive Director confirmed that some ideas about its future use was being considered, and would form part of a report to the next Services Committee. The Committee noted the information contained in the report, on the motion of Mr G Robinson, seconded by Mr A Duncan.	
34/08	**<u>Statutory Performance Indicators 2007/08</u>** The Committee noted a report by the Head of Organisational Development (Appendix 4). After hearing the Head of Organisational Development summarise the terms of the report, Mr A Duncan asked if more detail could be provided on the indicators for Civil Liability Claims, which appeared to indicate a dramatic rise in comparison to previous years. The Safety and Risk Manager confirmed that there had not been a dramatic rise in claims but the rise was due to problems associated with data collection. She confirmed that ALARM (Assoc. of Local Authority Risk Managers) was taking this matter up with Audit Scotland, as it was a national problem. She added that the Service Performance Report would provide the correct figures. In response to a further question from Dr J Wills, the Safety and Risk Manager confirmed that the outturn figure for the value of claims was also incomplete, but that the actual amount had been contained in an earlier report to the Committee. The Committee noted that more detailed information would be available at the six-month performance review. It was agreed that the indicators as to whether performance was better, worse, or stayed the same would be double-checked before re-publication, The Head of Organisational Development agreed	

	that many of the indicators were obscure and were not good indicators, but that better information would be available at the performance review sessions.	
35/08	**<u>Capital Project Management</u>** The Committee considered a report by the Head of Finance (Appendix 5). The Head of Finance said the purpose of his report was to stimulate discussion of what he saw as being the weaknesses in the Council in terms of its policy framework, and relating to project choice, monitoring and decision making. He said the report was offering Members and officers the chance to discuss these matters and, if there was an agreed analysis, to consider how to move forward, perhaps with the help of a further report if the Committee were of that view. Mr A Duncan said that this report should have been presented many years ago. He said that, in his view, fault lay with the previous councillors. He said this Council was trying to grasp things and it felt as though they were taking over a dead weight. Mr Duncan said it was councillors that had been gutless and had not taken decisions where it was necessary. Mrs F B Grains said she totally disagreed with Mr Duncan. She said that Council frequently disregarded its own decisions and kept changing them. She said this Council was no better than previous Councils at sticking to decisions, and in particular she referred to the new Anderson High School project which was still going on after 20 years. Mrs Grains said that numerous decisions had been made with regard to designs and sites. She said the Council were now faced with an expensive design that appeared to have been cobbled together, crammed into a corner of the current site, and was a credit to nobody. Mrs Grains said this project was not the only project which had gone on for years, and referred to the Haggersta Road project which had also been going on for over 20 years. She said it seemed to her that Councillors just could not make decisions and stick to them. Mrs C Miller said she believed that the responsibility for the current situation starts and stops with Councillors. She said this was an excellent report and said that it should be regarded as a starting point and hoped that the Head of Finance would come forward with more reports and get other officers' input in to this and find a way forward. She said that there was a lack of clear policy and guidelines for officers, and in particular the corporate plan was not budgeted for. Mrs Miller said that this particular Council was now a year wiser, and it should take on this advice and consider how to move forward.	

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	Mr G Robinson said that he disagreed with Mr Duncan in that he did not think that this Council was entirely blameless. Regarding the AHS project, Mr Robinson said that he had taken a motion to the Council last year about this matter, because he was not happy with the direction it was taking. He said it was not a decision of this Council to move the AHS proposal away from the site, but the contractor's. Since that time, Mr Robinson said there had been another two tries to move the site. He said that the Convener had assured him earlier that to move to another site would set back the project by another 18 months, but if the site had been agreed at the earlier date, the School would be 18 months away from being finished. Mr Robinson reiterated his view that this Council was not entirely blameless, and said he fully supported another report from the Head of Finance on the way forward. Dr J Wills referred to paragraph 3.1 of the report, and to the statement that almost two thirds of Scottish projects were late or over budget. He said that this report from the Head of Finance was a devastating report, although the analysis within it was sound, and he could not disagree with its findings and the recommendations were sensible. Dr Wills went on to say that there was nothing within the conclusions that was not already best practice in public sector capital project management, and asked why the Council was not already following this best practice model. He said the reason was clearly political. He added that many of the savings already made were negated by abortive projects. Dr Wills said he was not criticising officers, but the leadership of this Council. Regarding the Bressay Bridge project, Dr Wills said this had cost the Council £1.9m in addition to the claim by Lerwick Port Authority which would be at least £4.5m. He said that claim was due to the unwise use of emergency powers to take legal action against Lerwick Port Authority. Moving on to the AHS project, Dr Wills said that £2m had been wasted on going back to the drawing board on this project for the fourth time. Regarding the Mareel, Dr Wills said the cost of this to the Council had also risen from £3.9m up to £8.4m and this was due to a serial incompetence. He added that at this Committee's cross examination of head officials, Dr Wills said that provided, to a degree, helped Members and the public to understand what was going on. However, he said that elected office bearers had to make themselves more accountable. In this regard, Dr Wills proposed that the Convener should be invited to the Audit and Scrutiny Committee to discuss this report with Members and officers. Dr Wills went on to say that the financial losses caused by	

these scenarios should be drawn to the attention of the external auditors, and in this regard he would be writing to Audit Scotland. He added that he would also be inviting them to recommend what would be best practice and in this regard Dr Wills said that he felt that best practice in the future for capital project management should ensure the following principles:

1. The project will be already defined in the brief.

2. All options will be examined in light of factual evidence and best available expert advice.

3. Councillors should choose one option and stick to it.

4. Early decision should be made on the site (if a site is part of the project).

5. An indicative budget and spending cap must be set at this stage.

6. A detailed brief is agreed before Councillors authorise implementation.

7. Committees monitor projects at each stage and as problems arise.

8. Committees review all projects once complete, and make recommendations for future project management.

Mrs Grains said she was interested in the monitoring side, and said that at Committee she would like to see more details of the financial implications as projects progressed, such as the budget, the contract price, and the outturn figures. She said that projects used to report on these matters regularly, and every month a monitoring report on every project was provided to Members, and she was of the view that this practice should be re-introduced.

(Mr A Hughson left the meeting.)

Referring to the conclusions in the report, and in particular to paragraph 6.2 and the Education blueprint, Mrs C Miller said that this would only be reported in March, but already the Council was being asked to set its capital programme and prioritise spending, without yet having formulated the process yet. She said she felt that the current process was the wrong way round, and asked for the Head of Finance to provide direction on that.

	The Head of Finance said that no-one would want to be starting off from this point, but it had to be looked at, and it could not be stopped until there was a policy framework in place and that would lead to a necessary review of the programme. In this regard, the Head of Finance said decisions would have to be taken on the various education matters that would be decided on the basis of the blueprint for Education, unless the Council decided otherwise. He said that this would proceed, and if necessary the Council would have to cut resources to other areas. The Head of Finance said there was no complete and perfect answer as to how the review should be done, but a start had to be made. He said he was aware that the report was only his own expressions of what needed to happen, and suggested that other officers' views should be sought. After further discussion, Mr G Robinson moved that the Committee approve the recommendations in the report, plus a special meeting of the Committee be called with senior officers to reconsider the report, and to take account of comments by Dr Wills. He added that the Convener should be invited to this special meeting. Regarding the AHS project, Mr G Robinson said this project was the most expensive and in this regard he also moved that the AHS Project Team be called in to attend the next scheduled meeting of the Committee. Mr A Duncan seconded, and the Committee agreed.	

The meeting concluded at 12.20 p.m.

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F B Grains
Chairperson

Shetland
Islands Council

MINUTE A & B

Special Audit and Scrutiny Committee
Council Chamber, Town Hall, Lerwick
Tuesday 28 October 2008 at 11am

Present:

F B Grains	A T Doull
A G L Duncan	A J Hughson
C H J Miller	J W G Wills

Apologies:
R S Henderson G Robinson

In attendance (Officers):
G Johnston, Head of Finance
M Craigie, Head of Transport
I Halcrow, Head of Roads
C Ferguson, Head of Community Care
J Edwards, Quality Improvement Officer
M Finnie, Capital Programme Service Manager
C Nicolson, Senior Capital Projects Manager
N Grant, Interim Head of Economic Development
R Sinclair, Senior Contract Manager
J Riise, Head of Legal and Administration
J R Smith, Head of Organisational Development
P Peterson, Performance Management Co-ordinator
L Adamson, Committee Officer

Invited to Attend:
A J Cluness, SIC Convener

Also:
J Budge, SIC
R Nickerson, SIC

Chairperson
Mrs F B Grains, Chairperson of the Committee, presided.

Circular
The circular calling the meeting was held as read.

Declarations of Interest
Mrs F B Grains advised that she would declare an interest in any discussion regarding the Bressay Bridge due to family connections. Mrs C H J Miller and Dr J W G Wills advised that they would also declare an interest as Bressay residents.

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36/08	**<u>Capital Project Management</u>** The Committee considered a report by the Head of Finance (Appendix 1). The Chairperson said that the purpose of the meeting was for Members and Heads of Service to discuss ideas on how the Capital Project system could be more efficient, and to move forward without further delays. The Head of Finance said that following wider discussion on the issues included in his report, he would prepare a further report to the next Audit and Scrutiny Committee focussing on best practise for handling projects for the future. The Convener referred to the Anderson High School (AHS) project and explained that from the outset a team had been established comprising of Members, officers, teachers and students to try to get the best possible school for the pupils of Shetland. He said that the project had been ongoing for some time, the proposals had been revisited and during the years the costs had gone up, however lessons have been learned. He said that the Executive Director, Education and Social Care has the project well planned, and a new Project Manager will be coming in to progress the project. The Convener said that a project update would be presented to the next Services Committee and would demonstrate that a school can be built in line with what the people of Shetland want, and can be built as quickly as possible. Mr A G L Duncan said that there was now evidence that the project had been ongoing for 16 years, which had involved 5 previous Councils. He stated that the blame lies with the previous Councils, who had no guts or merit to take decisions, and the project had come to this Council as dead wood. The Convener said that the decision had been made at the Council before last, to use the AHS site, and during that time a lot of effort had been made to try to provide Shetland students with the best quality facility possible. He went on to say that he accepted that the project had gone on longer than was planned, but at the end of the day, the Council was a Local Government operating on democratic principles. He added that for the Council to have credibility with the Shetland public, progress had to be made with building the new school now. During the discussion, the Chairperson stated that it was totally unfair to blame the Convener for any delays with the AHS project, as he had been only one of the Members in the team. For any decision taken there had always been some Council Members who had not agreed with the team's recommendations. She commented that the present Council	

	had been serving for 18 months, and similar debates were still going on. Mrs C H J Miller stated that this meeting was to decide how the Council could better manage capital projects in the future. She then referred to the main stages of capital project management set out in the report, namely, Policy Formulation, Project Definition, Project Planning, Project Implementation, Project Monitoring, and Post-Project Review, and said that these were the areas that the Committee should be considering today. Mrs Miller said clear Policies need to be set to give clear guidelines to officers, and that Members and officers should work as a team. The Convener agreed that priorities should be set first, however he said that with the previous Council the AHS and Bressay Bridge projects had been Council policy. The Head of Organisational Development advised that when he took up the post as Manager of the ICT Unit, recent performance in project deliverance had been a disaster, with the Council paying over £1 million for a computer system that did not work. However from that serious crisis an improved system of project delivery in ICT had been introduced which balanced political and senior management input better, with all projects since being presented to the ICT Management Board which included the Chief Executive, the Council's Executive Directors and ICT staff. He explained that this system was still highly effective, with projects getting the correct management attention and the correct level of political involvement. He stated that understanding and following a solid project management methodology was the basis to good Capital Project management. The Head of Transport reported that the Council adopted a Capital Projects Procurement Guidance document in 2003, however the Policy has not been implemented. He said that the Policy addresses all the points raised in the report prepared by the Head of Finance, with one of the main concepts being that effective planning is crucial to the successful outcome of a project. The Head of Transport proposed that the Guidance should be updated, as it would be a very good platform and starting point as a discipline to project management. The Head of Finance commented that the Guidance was good practise documented, and he was aware that the Head of Housing and Capital Programmes held the same view. Dr J W G Wills said when the Council discovers something wrong there is a duty to raise the point of detail in overall Policy. Dr Wills referred to the Feasibility Study for the AHS project dated August 2003, and to the project execution plan that had been prepared prior to the decision to concentrate	

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	efforts to build on the site adjacent to the school. He said that for the AHS project and the Bressay Bridge all the possible options had not been explored at the start of the process, and there should be clear documented evidence as to why a particular option had been taken forward. Dr Wills referred to the Feasibility Study for the AHS project where it states that when a project is found not to be economically or technically viable value engineering should be implemented to get a plan to fit. He added that political interference affected the AHS project just two months following Council approval of the Capital Projects Procurement Guidance Policy. He said that the policy was in place, however it went wrong, and the conclusion is that lessons will be learned. He added that the report by the Head of Finance contains the procedures and the Guidance document has been prepared, but will require to be updated. The Convener said that for the AHS project each area had been complied with, and the team had gone through the process in detail, and each officer was committed and had followed the process. The Head of Transport stated that staff had followed the process to the best of their ability and there needs to be confidence in the process. The Chairperson said that the AHS project was top priority; the past was the past, the bickering should stop and the project move forward, and the Convener said that where mistakes had been made, lessons would be learned for the future. Dr Wills said that the Capital Projects addressed in the report were proper subjects for scrutiny and the purpose of this Committee was to examine what has gone wrong. He questioned that if all appropriate procedures had been followed then why had there been four different versions of one school with £3 million being spent to date. He added that if the procedures were correct then there was an expectation of political interference. (*The Chairperson declared a non-pecuniary interest in the following discussion and therefore vacated the Chair. The Vice-Chairperson, Mr A G L Duncan, took the Chair*). Dr Wills outlined the main stages with the Bressay Bridge project, where the Council agreed first to progress with a bridge, and after spending £1.9m it was considered not to be the best option and the Council are now progressing through the STAG process for the options and long-terms costs for building a tunnel. The Convener advised that he had never been involved in the project team for the bridge, and said that the decision to build a bridge had essentially been taken by Council in the term before he was Convener, and was the Policy of that particular Council. The £1.9m had been spent	

	on very extensive works and the project had been ready to go ahead, however the LPA had objected to the proposal and that is where the bridge project stopped. He stated that there had been nothing wrong with the process for the bridge project. The Convener added that he could not hide his disappointment that the bridge project had not proceeded, as Bressay would by now have been linked to the mainland. The current preferred option of a tunnel would now take its place in the list of capital projects. The Head of Organisational Development said that the involvement of Council Members was an integral part of the process, but it was important to get political input at a right balance. The Head of Transport stated that both the AHS and Bressay Bridge projects had followed good practise at the time, however there was now a refined understanding and a clearer view to do things slightly differently, and officers would now take learning points and move onto the next stage of evolution to adopt a process the Council would have confidence in. Mrs C H J Miller said that she had been kept informed of progress with the Bressay Bridge project through her involvement with the Community Council, and she said there had been good partnership working with all the stakeholders involved, and lessons have been learned. Mrs Miller then asked Service Heads for their views on how capital projects could be delivered more efficiently and on Member involvement. *(Mrs F B Grains assumed the Chair).* The Senior Contract Manager said that it was important to have early definition of the Service needs, to work closely with the Service and for the project outputs to be defined at an early stage. In response to a question from Mrs Miller, the Senior Contract Manager said that the lack of the Blueprint for Education had affected the AHS project to a certain extent, however there is an agreed roll of 1000 pupils that is presently being worked to, and any variation to this would be a question for the Education Service. The Head of Transport said that an issue with any project was to do the best from the information known at the time, and to keep at the pace of political and public expectation. Mr Duncan said that it was important that the Council learns from past failures and to move to the future, however it was important to know where the failures have occurred, and to learn from them.	

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	Some discussion took place on the earlier decisions taken by previous Councils on the AHS project, with changing opinions altering the project. Dr Wills stated that all Members had to accept a Council decision if they lose the vote, but that did not prevent him from revisiting the issue and altering a decision. Mrs Miller said it was necessary to first identify a Service need, then Policy Formation, with Members having the ultimate responsibility to identify projects, to adhere to the decisions, then to move forward with Project Definition. She added that Council Policy at this time is to build a school for 1000 pupils at the AHS site and to build a fixed link to Bressay in the form of a tunnel. Mr A J Hughson said that the most important issue was to identify where a project could go wrong and to learn from mistakes. He then referred to the Council's commitment of £3 million to the Viking Energy project and questioned whether any lessons learned could be applied to the project. The Head of Finance said that the Viking Energy project was at the planning process, and a decision could be taken to not award in favour of planning permission, and the project could come to an end with the Council having spent the money getting it to that stage. The Head of Finance said that the format of his further report would be that the Guidance document would be updated, best practise identified, and that lessons had been learned. There was a need for the Council to be more disciplined in the handling of projects so that firm decisions can be taken, with less deviation as projects move on. The Head of Finance said he had confidence in the AHS project, which was now in the hands of a team and managers who would do justice to the project. He then referred to the Bressay link project and said he agreed that the STAG process was the systematic approach to hold projects in good stead for the future. He added that appropriate and firm decisions had been made on the capital projects, and he considered that the expenditure incurred so far had been properly proportionate to the type of projects. Dr Wills said that having read the report, the lessons learned were that there needs to be a clear appraisal of the options, a clear budget appraisal stage, with no budget being committed until the appraisal stage, and there should be post project updates. Dr Wills then referred to Section 4.2.6 of the report where it stated that in relation to the AHS project "..there is not yet a final settlement decision in favour of building a particular design at a particular location". He stated that it was Council policy to try to build the AHS on the existing site, and to build a tunnel to Bressay, however as yet there was no budget and he	

	considered that there should be, and there also needs to be accountability. Mrs Miller said that if the Bressay Bridge project had gone ahead then there would now be a bridge in place, however Council Policy was now to build a tunnel with no budget allocation. She added that the Council has to look very closely at linking projects with what the Council can afford to do and to be realistic. The Convener stated that all the expenditure on the three projects had gone through External Auditors and had been spent properly in accordance with legislation. He went on to say that the Auditors also look whether the money has been spent ultra vires and for accountability for Councillors and officers, and to ensure that every single pound has been spent in accordance with the law. He added that the Auditors do not consider the actual political decisions that were made, but the processes. The Chairperson said that when the Council approves a project there should be an agreed budget, specification, timetable, and contract price, with very regular monitoring and reporting as the project progresses, and the financial outturn at the end of the project to show where and why if any problems had arisen. Mrs Miller referred to Section 6.2, where it states that, “Existing policy doesn’t yet give sufficient guidance on what is required, what are the relative priorities, what are the timescales, and what are the resource constraints”, and said that sufficient guidance and relative priorities are completely at the hands of this Council. Dr Wills stated that he was grateful for the work the auditors carry out, however if the auditors do not examine whether the Council has followed best practise and policy, then he questioned who would. The Convener said that the auditors question procedures, but whether the Council made the right decisions was a different matter, and the buck stops with the Council. Dr Wills then referred to the report where it stated that, “the Mareel Project was not generated by a policy imperative. Instead it was generated by an enthusiastic arts community…..”. During the discussion, the Convener advised that the Council decided to invest a certain amount of money in the Mareel project, which was agreed in advance, as the project required external funding. He added that the project was taken forward essentially at the Council’s request. The Head of Finance said that proper decisions were taken, albeit	

	done in the absence of Policy, however the decision would be strengthened by the creation and maintenance of a Policy framework. With the agreement of the Chairperson, Mr R C Nickerson addressed the meeting and clarified that it was Council Policy in the Corporate Plan of the previous Council to proceed with the Mareel project, however the project had been allocated to an external body. Dr Wills referred to one of the Council's procedures for the requirement to conduct a full appraisal of project/s, and he asked why the Council had not insisted that an outside body conduct a full appraisal of the Mareel project. The Convener said that after the original Council decision, the Council had considered this but had been satisfied that an investigation had been undertaken. The Chairperson added that the Council had been satisfied that the outside body was capable and able to do what was required. Dr Wills then enquired whether arms-length projects were required to meet the same standards as Council projects. The Head of Finance said that insofar as the Council has yet to develop consistent definitions of option appraisal, it had not insisted on a vigorous approach, however option appraisal had to be developed and be applied to both Council and outside projects. Mrs Miller thanked the Heads of Service for attending and contributing at the meeting. The Committee agreed to the suggestion that any additional points they might have could be discussed further with the Head of Finance and included in his report as appropriate.	

The meeting concluded at 12.25pm.

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F B Grains
Chairperson

Shetland Islands Council

Report to Members and the Controller of Audit on the 2007/08 Audit

Audit Scotland

October 2008

Shetland Islands Council

Report to Members and the Controller of Audit on the 2007/08 Audit

Contents

Key Messages

Introduction

In 2007/08 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 from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given a **qualified** opinion on the financial statements of Shetland Islands Council. This is the third year that the council has received a qualified opinion on the financial statements. The council are of the view that in 2007/08 the results of the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT) 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 misstatement of the group accounts.

The council's net operating expenditure in 2007/08 was £83.717 million. This was met by government grants and local taxation of £88.089 million, resulting in an income and expenditure account surplus of £4.372 million. Adjustments are then made to the surplus for accounting adjustments required by statute and to reflect transfers to and from the council's reserves which leave the general fund balance as nil each year. The budget set for 2007/08 was based on a planned contribution of £32.724 million from reserves; £5 million to meet the general fund deficit, £7.724 million to meet planned expenditure and £20 million to fund the capital programme. Efficiency savings of £2.600 million were identified; £1.300 million on social care and a further £1.300 million across all services which offset unbudgeted costs of £1.720 million in respect of equal pay settlements. The final draw on reserves was £29.217 million; £3.574 million to meet the general fund deficit, £9.955 million to meet planned expenditure and £15.688 million to fund the capital programme, an overall decrease of £3.507 million.

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 2008 was £289 million. The council's 2008/09 budget forecasts the use of £32 million from the discretionary reserves (£4 million to meet the general fund deficit, £20 million to fund the capital programme and £8 million to meet planned expenditure).

The council has not yet reached a single status agreement. The council believes that unions and management are now close to an agreement and have agreed a revised project timetable. In December 2008, the council will then decide on the final details of the package to be offered to all single status employees. The council hopes that full implementation will be concluded by the end of 2008/09 financial year.

The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. The council has worked extensively with the full range of community planning partners to develop the agreement in parallel with the council's new corporate plan. The council's challenge is now to align the monitoring arrangements for the SOA with those of the new corporate plan. It is important that an updated action plan is developed to identify lead responsible officers and planned timescales to allow members to monitor progress against these stated targets.

Audit Scotland issued a report on the council's best value arrangements in 2005. A progress report in January 2007 concluded the council had made a start in addressing the improvement plan which was drafted in response to the best value report. However, at that time, a number of initiatives were relatively recent and consequently were not fully embedded and had not had an impact in terms of improved service delivery or outcomes. Since January 2007 the council has continued to take forward issues raised in these reports through an improvement plan which supported the 2007/08 corporate plan. Key improvements made include the 2008-11 corporate plan, which includes the targets and priorities of the community plan. Governance arrangements have been strengthened with the establishment of the audit and scrutiny committee. However, key areas where improvement has still to be achieved include effective asset management and procurement.

The council still does not have a comprehensive system in place for measuring asset management performance. The council has experienced slippage in consolidating the estates and maintenance records into a single database. In addition, a council plan to complete the review of the non housing estate by the end of March 2008 is still outstanding and it is unlikely this will be completed prior to March 2009. Until the council has completed these reviews there is a risk that the assets of the council are not being utilised in the most effective way.

Currently procurement within the council remains largely a devolved area of work amongst all services and as such there has been no one service or individual with the role to co-ordinate procurement across services, or to assess the benefits of national contracts for Shetland or to seek local collaboration between various Trusts and the NHS. Whilst the council has made positive steps they acknowledge the procurement policy requires to be further developed to realise the potential for significant savings and to fully incorporate the aims of the corporate plan.

The council has acknowledged that delivery of care at home packages are currently close to saturation point. There have been a number of instances recently where clients had to remain in hospital or respite care because it was not possible to put services in place quickly enough. There remains a shortage of staff employed as home helps and social care workers although managers are trying to resolve this situation by either appointing new staff or getting existing staff to take on additional contracted hours. Over the next few years it is likely that demand will increase further for care at home services. The council should ensure that budgets have been fully reviewed and are in line with council priorities.

During 2008 reviews have been undertaken within the education and benefits services. An HM Inspectorate report on the council's education function was published in January 2008. There were ten quality indicators which were examined. Five of these indicators were evaluated as very good, four evaluated as good and one was evaluated as adequate. The schools service will prepare an action plan indicating how the main points for action will be addressed and presented to the services committee in October 2008.

From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. The key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. The assessment of the council was undertaken in September 2008. It was found that the council clearly demonstrates an awareness of what constitutes an effective, efficient and secure benefits service, and has much in place to support local and national objectives. Although the benefits service is performing well, a number of risks to continuous improvement were identified which should be addressed by the council.

Outlook for future audits

In March 2008 the SDT was directly placed within the council's governance structures and the results of the SDT are to be included in the group accounts for 2008/09. The position of the SCT has yet to be resolved and will require further consideration in 2008/09.

The council's financial strategy is to continue to reduce the demand upon reserves year on year so that by 2012/13 there will be no general fund deficit to be met from reserves. Currently the discretionary reserves (reserve fund, capital fund and repairs and renewals fund) are used to finance any in year deficits on the general fund, to finance the capital programme and to provide funding for the reserve fund planned programme of work. The council's financial plans will need to be closely monitored and reviewed on a regular basis to take account of continuing financial pressures.

Although there has been improvement in the council's budget setting processes and efficiencies have been achieved in certain areas, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of the overall priorities and spending needs of the council. The council needs to review budget allocations as part of the 2009/10 budget setting process.

The council has reported that its capital programme includes projects of £112.491 million to be completed or commenced beyond 2009/10 - 2013/14. As part of this programme, expenditure required to complete projects scheduled for 2009/10 and 2010/11 totals £69.866 million (this excludes the revised estimated costs of £49 million for the Anderson High School Project). However the available funding identified is only £33.200 million, resulting in a funding gap of £36.666 million.

In June 2008 Audit Scotland published a report, Review of major capital projects in Scotland – How Government Works. This report highlighted that the scale of capital expenditure and its importance in supporting the delivery of public services, puts a premium on ensuring capital projects are well managed and provide value for money. In October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage. Any future discussions should consider the recommendations of the Audit Scotland report to ensure a strategic approach to managing the programme of capital projects is developed.

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

AUDIT SCOTLAND

October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of Shetland Islands Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. 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 is set out in our Annual Audit Plan (AAP), which was submitted to the council in January 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.

3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:

   - 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
   - technical accounting and regulatory developments.

4. We also undertook a number of detailed exercises during the year which resulted in separate audit reports, for example, a review of financial systems report and a data handling report. Within this report, where appropriate, we highlight key messages from those separate reports for the consideration of members.

5. 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 which we wish to draw to the attention of members and the action planned by management to address them.

Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

7. 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.

8. 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 internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

9. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the council and publication.

10. We have given a **qualified** opinion on the financial statements of Shetland Islands Council for 2007/08. The *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* 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 (SDT) and the Shetland Charitable Trust (SCT), 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 £3.325 million to the group income and expenditure account (resulting from income of £12.726 million and expenditure of £16.051 million)

- net assets of approximately £276.826 million to the group balance sheet (resulting from fixed assets of £29.240 million, investments and loans of £231.545 million, net current assets of £18.027 million and long term liabilities of £1.986 million).

This issue is discussed further at paragraph 13.

Accounting practice

11. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes impacting on the council's financial statements are in accounting for financial instruments and some changes to the capital accounts disclosed in the balance sheet, some of which are discussed below.

Presentation of accounts

12. Although there was an improvement in the overall presentation of the financial statements in comparison to the 2006/07 unaudited accounts, there were still a significant number of presentational issues that required amendment to the 2007/08 financial statements following our audit. Overall, we are now satisfied that the revised financial statements have been prepared in accordance with the SORP. As is normal practice, any unadjusted errors remaining have been reported to the head of finance via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance.* Details of significant accounting issues arising in the course of our audit are summarised below:

    - the addition of a statement of accounting policies in respect to the changes required by the 2007 SORP, and for the inclusion of intangible assets for the first time in 2007/08
    - the inclusion of a paragraph in relation to the 2006/07 qualification and how this will be taken forward
    - the application of an effective interest rate calculation on available-for-sale financial assets, and associated prior year adjustments
    - adjustments to the revaluation reserve and capital adjustment account in relation to the disposal of fixed assets
    - separate disclosure of depreciation charged in the year and the accumulated depreciation written back on the disposal or revaluation of fixed assets during the year.

Key Risk Area 1

Group accounts

13. As reported above, the SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates or joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position. The council's 2007/08 financial statements include group accounts, with Orkney and Shetland Valuation Joint Board, Northern Joint Police Board, Highlands and Islands Fire Board and Zetland Transport Partnership incorporated as associates.

14. However as was the position for the last two years, we have again in 2007/08 issued a qualified opinion on the financial statements due to the council's failure to include the SDT and SCT in its group accounts. In our opinion the omission of these bodies resulted in a material misstatement of the group accounts.

15. 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 SDT and the SCT:

    - the charitable trust provides services (arts and culture, amenity and environment, recreation and care facilities) which benefit the council community, 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 is an indication 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 another clear indication of 'influence and control'.

16. In January 2008 a revised structure for the SDT was proposed by the chief executive for the re-establishment of a development committee within the council to deal with all matters related to economic development, with the SDT retaining a minimal number of financial related staff to monitor and manage its ongoing investments.

17. On the basis of the proposed new structure legal advice recommended that the results of the SDT should be included in the group accounts, whilst the position of the SCT required further consideration. In March 2008 the SDT was directly placed within the council's governance structures and the council has stated that the results of the SDT are to be included in the group accounts for 2008/09. The council took the view that that neither trust should be included within the 2007/08 financial statements.

18. In 2008/09 there have also been some operational and managerial changes within the SCT, including the appointment of a trust general manager to replace the council's chief executive. Whilst the impact

of these changes will be reviewed by us in forming an opinion on the appropriate accounting treatment of the SCT in the council's 2008/09 group accounts, it is likely to remain our view that the SCT should be included in the council's group accounts. The council has explained that the trust is concerned about their charitable status if they were to provide accounts to the council for group consolidation purposes. The council has explained that the trust is having discussions with the charities regulator OSCR over these concerns. Currently it remains our view that charitable trusts should be consolidated into group accounts where it is required to comply with the accounting code of practice.

Key Risk Area 2

19. To ensure that group accounts are compliant with accounting requirements (UK GAAP), adjustments should be made to include any assets and liabilities (and any associated income and expenditure) where the reporting authority controls the deployment of the assets. The council administers eight trust funds to the value of £0.702 million which have been excluded from the group accounts on the grounds of materiality.

Fixed assets

20. It was reported last year that audit work on the area of fixed assets identified a number of errors in the way in which the council accounted for the disposal of assets. This was the case again in 2007/08. Specifically, these were in relation to the entries within the revaluation reserve and capital adjustment account, and the calculation for the loss or gain on disposals. In addition, it was also found that a number of fixed assets had been omitted from the council's asset register. Given the number of issues identified within our review of fixed assets, the council must ensure that weaknesses within the fixed asset register and capital accounting system are fully addressed.

Key Risk Area 1

Financial instruments – investments

21. As reported above, the current year SORP introduced major changes in accounting for financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

22. Given the council's debt free position, the main area for consideration is the council's external investments. The council has total investments of £257.266 million recorded in their balance sheet as at 31 March 2008. All investments are classified as available-for-sale and are shown at fair value which is based on the quoted market bid price provided by the council's external fund managers.

23. Of the council's total investments, £97.012m relates to bonds. The 2007 SORP requires the effective interest rate method is applied to these financial assets to determine the interest and investment income to be included in the 2007/08 Income and Expenditure Account, and associated prior year adjustments. More specifically, it is necessary to formally calculate an effective interest rate where a bond has been purchased at a premium or discount to ensure that the premium/discount is amortised over the life of the bond. The council did not apply this method for inclusion within the financial statements. We have included this as an estimated unadjusted error, within our International Standard on Auditing 260 (ISA 260) letter, *Communication of audit matters with those charged with governance*. It can be seen that the net effect of the above transactions would be to overstate the general fund balance by £1.430 million and understate the available for sale reserve by the corresponding amount. Assurances have been given that a full review will be undertaken in 2008/09.

24. At each year end an assessment should be made of whether there is evidence that any financial asset or group of financial assets may have suffered a decrease in its value i.e. its value is impaired. The council did not carry out a review of its assets to consider whether an impairment review was necessary. However written assurances have been obtained from the head of finance to confirm that he is not aware of any financial assets requiring significant revaluation as at 31 March 2008. The council should ensure an assessment is carried out at 31 March 2009 to identify any assets that may require revaluation.

Legality

25. 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.

26. We reported last year that 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, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

27. The only additional potential legality issues arising from our audit which require to be brought to members' attention relates to the state aid issues reported at paragraph 90, on which the council is appealing the ruling.

Financial reporting outlook

IFRS adoption

28. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI. Finance staff should consider the need to incorporate elements of IFRS within the 2008/09 financial statements.

Key Risk Area 1

The EC Landfill Directive

29. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. From 1 April 2008, Scottish councils will be allowed to trade landfill allowances. At this point it becomes a ‘cap and trade’ scheme and should be accounted for in accordance with the SORP. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. Measures should be put in place to ensure that the necessary disclosures can be made from 2008/09 onwards.

Key Risk Area 1

Financial position

Introduction

30. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, 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 SARA 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.

31. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

Council tax and the general fund

Operating performance 2007/08

32. The council's net operating expenditure in 2007/08 was £83.717 million. This was met by government grants and local taxation of £88.089 million, resulting in an income and expenditure account surplus of £4.372 million. Adjustments are then made to the surplus for accounting adjustments required by statute and to reflect transfers to and from the council's reserves which leave the general fund balance as nil each year.

33. The budget set for 2007/08 was based on a planned contribution of £32.724 million from reserves; £5 million to meet the general fund deficit, £7.724 million to meet planned expenditure and £20 million to fund the capital programme. Efficiency savings of £2.600 million were identified; £1.300 million on social care and a further £1.300 million across all services which offset unbudgeted costs of £1.720 million in respect of equal pay settlements. The council finances in year deficits on the general fund from its reserves. One of the reserves, the 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 final draw on reserves was £29.217 million; £3.574 million to meet the general fund deficit, £9.955 million to meet planned expenditure and £15.688 million to fund the capital programme, an overall decrease of £3.507 million. This was as a result of:

General Fund

- a net departmental expenditure underspend of £1.824 million against the original budget, over and above the required savings of £2.600 million that have been incorporated into the budget
- an underspend of £0.575 million against the original budget for net recharges
- additional council tax generated from improvements in council tax collection.

Reserve Fund

- £1.321m of capital to revenue transfers that were not originally budgeted for.

Housing Revenue Account

34. 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 2007/08 was based on an average weekly rent level of £53.85, an increase of 2% on the previous year. A contribution of £0.085 million from the housing repairs and renewal fund was originally planned.

35. The housing revenue account shows a deficit on HRA services of £0.597 million for 2007/08. A total draw of £1.520 million was required from the housing repairs and renewals fund to allow a contribution of £0.469 million to fund capital expenditure and £1.051 million to take the HRA account to zero in accordance with council policy.

36. The total draw of £1.520 million on the HRA is £1.435 million greater than originally planned. This was partly due to additional capital financing costs of £0.584 million and a net departmental overspend of £0.754 million. The HRA revenue overspend together with the overspend on HRA capital projects discussed at paragraph 80, highlights the need to monitor expenditure to ensure overspends are managed and financial targets are met. If not there is a risk that HRA reserves will be fully depleted by 2013.

Key Risk Area 3

Reserves and balances

37. Table 1 shows the balance of the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £305.445 million, an increase of £1.536 million on the previous year. These include the reserve fund, a capital fund, an insurance fund and a repairs and renewals fund.

Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	0	0
General Fund – Housing Revenue Account	0	0
Reserve Fund	87.220	87.273
Capital Fund	116.545	118.471
Insurance Fund	0.267	0.269
Repair and Renewal Fund	101.413	97.896
	305.445	**303.909**

38. The council have earmarked elements of these funds totalling £16.404 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 2008 is £289.041 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 4

39. The capital fund can be used to defray capital expenditure or repay loan principal; £7.123 million of capital expenditure was funded during the year. Capital expenditure is discussed further at paragraph 75. The repairs and renewals fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. £4.577 million of capital expenditure was funded during the year. A range of financial issues which could further impact on the reserves position are discussed in our financial outlook section below.

Group balances and going concern

40. As reported earlier, the widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all associates on the group balance sheet is to reduce net assets by £36.100 million, substantially as a result of pension liabilities. All the associate bodies' accounts have been prepared

on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax. The impact of the omission of the SDT and the SCT, and their related subsidiaries has been reported within the financial statements section above.

41. The council 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. All of these boards had an excess of liabilities over assets at 31 March 2008. In total these deficits amounted to £397.094 million, with the council's group share being £40.113 million.

Spending on assets and long-term borrowing

Capital performance 2007/08

42. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets 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.

43. The council's prudential indicators for 2007/08 were set in February 2007. 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 council has maintained a policy of having no debt on the general fund since March 1992 (the Debt Free Policy), with a view to leaving no funding burdens for future generations in Shetland.

44. Capital expenditure in 2007/08 totalled £18.785 million, a reduction from prior years of £21.018 million in 2006/07 and £40.334 million in 2005/06. Capital investment in the last two years was funded as shown in Chart 1. Overall, an underspend of £5.562 million was reported to the council in September 2008. During the year there was project slippage of £2.120 million, including the Rova Head Reinstatement and the Uyeasound Harbour Development where £0.782 million and £0.694 million has been reallocated respectively.

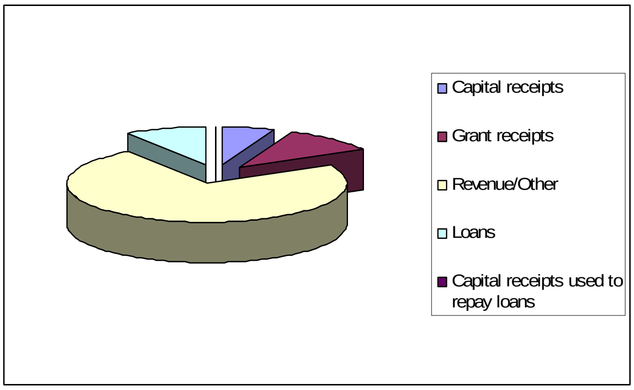
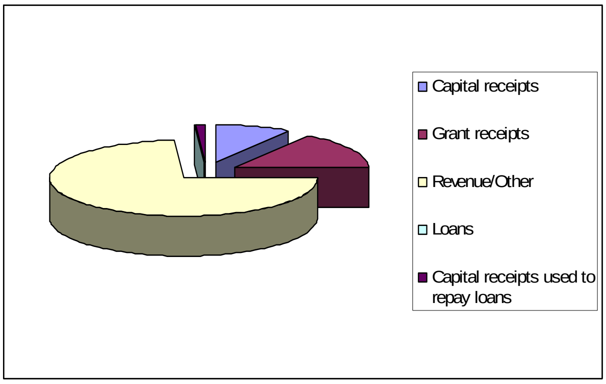
45. Included within the overall underspend of £5.562million above, there was slippage of £2.196 million within the HRA. This was mainly due to delays in planning and building control issues with the HRA's new build project, and a delay in Communities Scotland signing off the council's proposed delivery plan to meet the Scottish housing quality standard by 2015.

46. The council made a submission to the Executive in May 2008, where it was indicated there should be compliance with the Scottish housing quality standard by 2015. Since the submission was completed,

the council has undertaken a review of housing across Shetland to obtain an accurate database on the condition of all housing accommodation. This review is now almost 75% complete, and as a result, there will be an opportunity to review the position more accurately, and determine the investment required to bring housing to the SHQS standard.

Key Risk Area 3

Chart 1: Sources of finance for capital expenditure 2007/08

2006/07	2007/08
	

Significant trading operations

47. 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.

48. The council has two STOs, highways and building maintenance. Both met the statutory target to return a cumulative surplus for the three years to 31 March 2008.

Pension funds

49. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and 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.

50. The council is responsible for the management and administration of Shetland Islands Council Pension Fund. 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 3,206 members, including 361 who are members of other admitted bodies and 14 who are members of a scheduled body. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

51. The investment assets for the fund are under the management of external fund managers. Over the year, net assets of the fund decreased on a market value basis by approximately £11.957 million to £199.761 million at 31 March 2008. The trend over the last few years is indicated by the following table:

Table 2: Pension Fund Investments

	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000
Shetland Islands Council	149,529	191,198	211,718	199,761

52. The last actuarial valuation of the fund as at 31 March 2005 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 2007/08 and 2008/09.

Pension liabilities

53. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the pension fund by £18.107 million, reducing from £35.133 million in the previous year. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009/10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Financial outlook

Sustainability of resources

54. The local government sector faces a tight financial situation in the period 2008/09 to 2010/11 including a requirement to freeze council tax levels, develop asset management and continue to deliver efficiency savings. The council's financial strategy is to continue to reduce the demand upon reserves year on year so that by 2012/13 there will be no general fund deficit to be met from reserves. It will be challenging for the council to deliver a medium term financial and efficiency strategy that achieves balanced budgets while maintaining effective service delivery.

55. The Scottish Government partially removed the ring fencing of funding in the 2007 financial settlement. This removal of ring fenced funding together with a lack of a detailed breakdown of the 3 year settlement from the Scottish Government meant the council faced risks in the budget preparation process which they had not faced in the past. In addition, there were a significant number of new members for whom the 2008/09 budget was their first experience of discussing and approving the council's annual budget.

56. In February 2008 the head of finance presented a report outlining the general fund revenue estimates and council tax for 2008/09. The head of finance advised that the settlement from the Scottish Government was £5 million more than anticipated and proved vital to the achievement of a budget in line with the council's financial strategy. In addition the council were advised that despite the overall financial pressures, a pattern of under-spending of a number of approved budgets has emerged in recent years, with evidence that this pattern is continuing into 2008/09.

57. The current strategy for the general fund capital programme is to limit the draw on reserves to £20 million per annum, for as long as that can be sustainably supported. Currently the discretionary reserves (Reserve Fund, Capital Fund and Repairs and Renewals Fund) are used to finance any in year deficits on the general fund, to finance the capital programme and to provide funding for the reserve fund planned programme of work.

58. In 2007/08, £35 million of expenditure was planned from the general fund reserves across general fund revenue, reserve fund revenue, capital programme and single status. Actual expenditure on these activities was £30.500 million, £4.500 million less than anticipated. The unallocated balance on reserves as at 31 March 2008 was £289 million.

59. In September 2008 the head of finance reported on the implications of the council's financial circumstances on the discretionary reserves. These findings were used to give direction to the budget exercise for the financial year 2009/10. The report concluded that:

- the council's £250 million reserve floor policy should be reaffirmed, to provide sustainable future funding for the general fund capital programme and the reserve fund programmes
- a 2009/10 target be set to restrict the use of the reserves to £30.700 million (£3 million to meet the general fund deficit, £7.700 million to meet the reserve fund programme expenditure and £20 million for the capital programme).

60. Recently the value of investments has fallen significantly. External investments with fund managers are reflected in the financial statements at a value of £257.266 million for the single entity accounts and £180.800 million for the pension fund. An estimate of the effect of the fall in investment values for the council cannot be reasonably made due to the ongoing volatility within the markets.

61. For the council to maintain its reserves at £250 million, whilst ensuring sustainability and quality of services, a comprehensive policy led approach to budgeting is required. This would demonstrate which of the council's objectives could be delivered within the resources available each year. It would provide the information needed by the council to prioritise its objectives if the council's reserves were at risk of falling below the target level in the longer term. Although there has been some improvement in the council's budget setting processes, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of overall priorities and spending needs of the council.

Key Risk Area 5

Equal pay

62. 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, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2006/07.

63. In June 2008, it was reported to council that the failure to meet equalities duties has already cost the council over £3 million in equal pay compensation; the cost for 2007/2008 was over £1 million. A provision of £0.214 million is included in the accounts at 31 March 2008 (£0.342 million at 31 March 2007) to cover the estimated costs to settle claims taken to employment tribunal. Equal pay compensation liabilities will continue to rise throughout 2008/2009 and until single status is eventually introduced. Therefore significant risks remain while existing pay reward structures are in place. In addition to the provision above, a contingent liability has been disclosed in the accounts highlighting the possibility of further currently unquantifiable claims.

Key Risk Area 6

Single status

64. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.

65. More than half of Scottish councils have now implemented single status or have firm plans in place for implementation soon. Shetland Islands Council is one of the councils that does not expect to implement an agreement until April 2009 at the earliest. Following the rejection of a proposed settlement in March 2007, a single status steering group and project team was formed in July 2007. The council decided that job redesign and job families should be the basis of joint investigation by management, unions and staff to progress single status.

66. The September single status news letter notes that the unions and management are now close to an agreement and have agreed a revised project timetable. It is anticipated that the issuing of individual letters will be undertaken at the end of October and will mark the start of the employee consultation period. The consultation feedback will be collated and presented to the council meeting in December 2008. The council will then decide on the final details of the package to be offered to all single status employees. The council hopes that full implementation will be concluded by the end of the 2008/09 financial year.

67. The work of the project team has confirmed that delivery of single status pay rises, and the full assimilation of all adversely affected staff to avoid pay losses, will increase the annual pay bill by a projected £4 million. This is in line with the estimates previously reported to council. The council must ensure that these costs are factored into their financial planning.

Key Risk Area 6

Procurement

68. In July 2007, the council approved a procurement strategy which covered a number of initiatives to progress a more efficient approach to the council's procurement processes. In June 2008, the Waste Services Manager was assigned to establish a corporate procurement function within the capital programme service and to progress the implementation of the procurement strategy.

69. The report presented to council in September 2008 identified that currently procurement within the council remains largely a devolved area of work amongst all services. As such there has been no one service or individual with the role to co-ordinate procurement across services, to engage with the national agencies (Procurement Scotland, e-Procurement Scotland and Scotland Excel) to represent

the needs of Shetland Islands Council and to assess the benefits of national contracts for Shetland or to seek local collaboration between various Trusts and the NHS.

70. The benchmarking process to date has demonstrated that the council can achieve significant savings (£366,000) through participation with Scotland Excel and Procurement Scotland. The conditions of membership are such that procuring officers would require to have a sound business case for the procurement of goods, work and services not to be sourced via Scotland Excel. One such example where the council has agreed with Scotland Excel that it will not be pursuing national contracts is the purchase of local food.

71. Whilst the council has made positive steps they acknowledge the procurement policy requires to be further developed so that it fully incorporates the aims of the corporate plan.

Key Risk Area 7

Effective management of assets

72. Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as stock and facilities.

73. As reported in 2006/07 the council do not have a comprehensive system in place for measuring asset management performance. Whilst work is being undertaken to implement a Computer Aided Management System (CAMS) there has been slippage in consolidating the estates and maintenance records into a single database to improve the availability of information on the council's asset base. At present there is a risk that council assets are not being effectively utilised.

74. In March 2008, we reported in our Strategic Audit Risk Analysis that the corporate estates management plan was progressing and the council had plans in place to complete the review of the non housing estate by the end of March 2008. As yet the council has still to complete this review and has advised that it is unlikely this will be completed until March 2009. Until the council has completed the estate management reviews there is a risk that the assets of the council are not being utilised in the most effective way.

Key Risk Area 8

Future capital programme

75. The current strategy for the general fund capital programme is to limit the draw on reserves to £20 million per annum, for as long as that can be sustainably supported. Council forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards.

76. The council's capital programme comprises a prioritised list of capital projects of £21.100 million for 2008/09; this is based on anticipated slippage of £1.100 million being rolled forward from 2007/08. The 2008/09 housing capital programme is £2.496 million.

77. In September 2008 the capital programme review team identified slippage of £1.758 million on a number of projects during 2008/09 mainly caused by the New Mid Yell junior high school. In response the council agreed to re-allocate the slippage in order of current priority. 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 regular basis.

78. The council has reported that its capital programme includes projects of £112.491 million to be completed or commenced beyond 2009/10 - 2013/14. As part of this programme, expenditure required to complete projects scheduled for 2009/10 and 2010/11 totals £69.866 million (this excludes the revised estimated costs of £49 million for the Anderson High School Project). However the available funding identified is only £33.200 million, resulting in a funding gap of £36.666 million.

79. In response to identification of the funding gap, in September 2008 a report was presented to council which outlined a revised process to the prioritisation of the capital programme. This followed a call by members for the existing point system to be removed and replaced with a system that allows each committee to decide priorities. This proposed process places a responsibility on all Boards and Committees to liaise with the relevant services to identify projects in advance and in good time. Furthermore, it is hoped the proposed process will remove the complications and uncertainty caused by allocation of slippage, which has been an ongoing issue for the council.

Key Risk Area 9

80. For several years up to 2007/08, HRA revenue expenditure was mainly funded from rents and the housing support grant. This led to the policy decision that the housing repairs and renewals reserve would be dedicated to achieving increases in housing stock. Since 2006, a range of purchases have been made and more projects are currently in development. However, a deficit of £0.597 million has been reported in 2007/08 which has to be met from the HRA reserves. Should this persist, it will diminish the availability of reserves to invest in extra housing stock. Projections based on current trends suggest that the HRA reserve will be exhausted by 2013, after which there will be no means to support either revenue or capital expenditure within the HRA.

Key Risk Area 3

Governance

Introduction

81. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

82. Corporate governance is concerned with structures and processes for decision-making, accountability, internal controls and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that, with the exception of the capital accounting system discussed further at paragraph 103, the council has systems in place that operate well, within a sound control environment.

Political Governance

83. Elected members are responsible and democratically accountable to the local electorate for the overall performance of the council. In carrying out their role elected members require to balance the interests of their individual wards and the council as a whole. Members play a key role in making choices between competing priorities, setting objectives that reflect the needs and aspirations of their communities and ensuring that these are met through the services that the council provides.

84. Since the 2007 elections a number of training courses have been delivered as part of the programme to help support the new members. These include: Local Government Finance, Financial management and monitoring, Local Government and the wider world, and Performance Management for elected Members. In general these courses have been well attended. While there is no formal mechanism in place to monitor the impact of the training, a review with members is planned prior to Christmas. This will seek to gather qualitative data from members on how well they feel the training and development programme has met their needs.

85. Elected members play an important role in community planning and in the development of shared services. Where councils set up external organisations to deliver services and decide that elected members are to represent the council on boards of companies or on trusts, councils must ensure that those members are properly supported and advised about their roles and responsibilities. The principles set out in the joint COSLA and Accounts Commission "Code of Guidance on Funding External Bodies and Following the Public Pound" are therefore of increasing importance. This underlines the need for good governance and clear accountabilities, in relation to both finances and performance.

86. In March we reported that members represent the council on a number of arms length organisations, with subsequent potential for conflicts of interest. We recommended that to avoid restrictions in the member's role, the council should review the need for member involvement in arms length organisations. Furthermore, where it is decided that continued involvement in arms length organisations is warranted, dispensations should be pursued as appropriate to maximise the capacity of members to engage in any necessary representative role without compromising obligations under the Councillors Code of Conduct.

87. The council has advised that a training course in this area has still to be delivered to members. However the aim of the committee services team has been to raise members' awareness of the potential for conflict. The committee services manager e-mails each member once a month reminding them to update their Register of Interest. The members' declaration of interests is now included on the agenda at every committee meeting. The council intend to revisit member plans early in the New Year to obtain feedback to confirm whether conflicts of interest is an area where they believe they would benefit from training.

Key Risk Area 10

Audit Committee

88. 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. The scrutiny committee was established in November 2005 with the committee's remit expanded in March 2007 to include the audit function.

89. Training was provided by CIPFA for all audit and scrutiny committee members in August 2007. In June 2008 an activity report was presented to the audit and scrutiny committee. As well as reviewing activity over the previous year the report also considered how its effectiveness could be enhanced in light of feedback gathered from members and officers.

State Aid

90. In November 2007 the EU Commission issued its decisions on three of the council's schemes, namely 'First Time Shareholders', 'Fishing Vessel Modernisation' and 'Fish Factory Improvement'. These decisions were all negative and required a full repayment to the council of grants paid plus compound interest added from the date of payment. The Commission has addressed its decision to the UK Government and the council is obliged to recover the monies from the beneficiaries within 4 months of the decision although the council have appealed against this ruling. 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 2007/08.

91. To avoid future state aid problems, it is important that all staff understand the principles and the more routine practices of awarding financial assistance under the state aid regulations. The council has recognised this and the head of business development presented a report to council in September 2008. It was recommended and accepted that a state aid manual should be issued to all staff engaged in providing financial assistance for economic activities. The manual emphasises the methods that can be used to advance projects within the state aid framework.

Key Risk Area 11

Internal Audit

92. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against ***CIPFA's revised Code of Practice for Internal Audit in Local Government 2006.*** We found that the function continues to deliver quality work in accordance with a risk based framework. We were able to place specific reliance on the sections work on payroll, stock and the SPIs. During 2007/08 internal audit successfully retained its ISO 9001:2000 quality accreditation standard.

93. For 2007/08 Internal Audit has achieved 94% of their audit plan, this compares to 92% completion in 2006/07. The main areas of slippage were the corporate review of single status which cannot be progressed until the process is finalised, the audit on youth work which has been re-scheduled for 2008/09, and the follow up of the additional support needs investigation which was carried forward to 2008/09 at the request of the Executive Director of Education and Social Care.

94. It was noted that the follow up audit of social care identified that progress made by the service in implementing recommendations was disappointing. However, upon further review, the internal audit manager is now content with the revised action plan, which shows that positive solutions are being progressed. The executive director has agreed to provide a 6-month progress report in October 2008.

Risk Management

95. Risk management involves the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve. The Risk Management Board is responsible through the Executive Management Team for monitoring and directing the control of strategic and corporate risk across all areas of the council. The board is currently in the process of reviewing the strategic risk register. The council's risk management arrangements will be updated to align corporate and community risks alongside the single outcome agreement arrangements. Community planning partners will be invited to share and participate in those activities.

Capital Project Management

96. In June 2008 Audit Scotland published a report, Review of major capital projects in Scotland – How Government Works. This report highlighted that the scale of capital expenditure and its importance in supporting the delivery of public services, puts a premium on ensuring capital projects are well managed and provide value for money. To achieve this, a strategic approach to managing the programme of capital projects is required.

97. The recommendations included in the report which are particularly relevant to the council are that they should:

- prepare robust business cases for every project. These should be clear about the project aims and benefits, and include assessment of risks and the range of options to be considered
- ensure cost, time and quality targets are clear from the outset, include the costs of all stages of the project and properly recorded
- ensure that risk management strategies explicitly consider and mitigate the risk of changes in scope after the contract has been awarded
- ensure appropriate project management and governance arrangements are put in place for every project from the outset.

98. In October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage. The costs and timescales for each project is summarised below:

- **Anderson High School:** Since 2000/01 £3 million has been spent to date however the final specification for the project has still to be agreed and contract awarded.
- **Bressay Transport Links project:** Since 1999/00 £2 million has been spent but the project has not yet started as no agreement has been reached over the preferred approach to improve the transport links.
- **The Mareel project:** Since 2000/01 £1.100 million has been spent but the project has not yet started. Recently agreement has been reached on the buildings design and site.

99. The intention is now to convene a special audit and scrutiny committee meeting which will invite a number of senior officers and councillors to discuss the findings of this report. Any future discussions should consider the recommendations of the Audit Scotland report to ensure a strategic approach to managing the programme of capital projects is developed.

Key Risk Area 12

Systems of internal control

100. A Statement on the System of Internal Financial Control (SSIFC) for the council and its group was included within the financial statements. The conclusion of internal audit, reporting to the audit & scrutiny committee, on 2007/08 was that the council's system of internal control was adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

101. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. The head of finance concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its associates.

102. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- payroll
- debtors
- housing rents
- creditors
- local taxation (council tax and non domestic rates)

103. Due to the number of fixed asset errors identified during the 2006/07 audit of the financial statements, capital accounting was selected as a system where a full review of the controls would be performed as part of the 2007/08 audit. Our work was planned to start in December 2007, however, due to technical problems with the system, we were unable to undertake any of the systems work prior to our final accounts audit. This resulted in additional substantive testing work during final accounts to give us the required assurances on the reliability figures included within the financial statements.

104. A key recent development has been a change in the available good practice guidance with the introduction of 'Delivering Good Governance in Local Government.' The new guidance recommends that the review of the effectiveness of the system of internal control should be reported in an Annual

Governance Statement. The council should consider preparing an Annual Governance Statement to comply with best practice accounting requirements.

Key Risk Area 1

Prevention and detection of fraud and irregularities

105. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption.

NFI in Scotland

106. The council participates in the National Fraud Initiative (NFI) in Scotland. 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. The exercise was extended in 2006/07 to include information on tenants.

107. In May 2008 we reported that there was no evidence of the NFI results being presented to the council, audit and scrutiny committee, or senior management. In order to raise the profile of NFI, it was recommended that the council make regular presentations to the audit & scrutiny committee on the national position. The council agreed that they would report any issues in a timely manner, should they arise.

Housing Benefit

108. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. The key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities.

109. The assessment of Shetland Islands Council was undertaken during the quarter July to September 2008. It was found that the council clearly demonstrates an awareness of what constitutes an effective, efficient and secure benefits service, and has much in place to support local and national objectives.

110. Although the benefits service is performing well, a number of risks to continuous improvement were identified, including the following:

- the Finance Service Plan 2008/09, which is the key strategic document for the service, lacks a clear focus on what the benefits service should deliver each year against national and local objectives

- the council has no specific counter-fraud function and relies on the DWP to investigate suitable cases on their behalf
- the Anti-Fraud policy, which has not been updated since 2002, and the Fraud Sanctions policy do not reflect current legislation and working practices.

Key Risk Area 13

Data handling and security

111. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation. The Scottish government has created a working group to review local government data handling and security. The group will develop principles to influence future information management and security.

112. The council recognise the importance of this matter and carried out work to identify their risks, and have developed a number of policies and procedures, such as the information security policy, to provide the control environment needed to ensure an appropriate level of information awareness and security.

Governance outlook

Single outcome agreements

113. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

114. The council accepted the concordat at a meeting in February 2008 and has worked extensively with the full range of community planning partners to develop the agreement in parallel with the council's new corporate plan. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.

Key Risk Area 14

Performance

Introduction

115. In this section we summarise how the council manages its performance. We discuss the council's performance in the current year, including consideration of the statutory performance indicators and the progress against best value, before reviewing the overall arrangements in place for managing and reporting performance. We give an outlook on future performance, including our views on the current status of identified risks from our SARA where these have not been addressed elsewhere in this report. Finally, we comment on the findings of Audit Scotland's national performance studies, relating them to the situation within the council.

Corporate objectives and priorities

116. As part of its ongoing development of a systematic approach to corporate performance management, the council identified three priority areas for 2007-08:

- the production of a new corporate plan (discussed below)
- the introduction of community planning priorities and targets (see paragraph 115)
- formally aligning the service planning and budget setting processes (see paragraphs 118-119).

117. A new corporate plan for 2008-11 was approved by the council on 19 March 2008. This is the key mechanism for driving improvement and change and sets out the council's key priority areas for the next three years. Its principal aim is to ensure that what the council intends to do will help to contribute to improving Shetland's sustainability. The plan is structured to reflect three themes:

- a sustainable economy
- a sustainable society
- sustainable environment and transport.

118. The council has further identified it requires to be a sustainable organisation in order to deliver these three key themes.

119. A total of 8 targets and priorities are linked to these themes. These targets and priorities were developed by the Community Planning Board (CPB) as a way of setting some long-term aspirations for Shetland. The council, as a lead member, agreed to help achieve and support these aspirations and these targets and priorities are included within the council's corporate plan. The targets and priorities, which align with the national outcomes set out in the Scottish Government's 'Concordat', are set out below:

- increase employment opportunities by 1,000 full-time equivalents by 2025
- increase average personal and household income by 10% above 2005 in real terms
- increase the supply of housing to 12,000 by 2025
- place more effort on stimulating demand for living in the remoter areas of Shetland by ensuring that the ratio of jobs to people and housing is the same
- be internationally renowned by ranking in the top 5% for Quality of Life on a European stage
- ensuring that equal opportunities exist for all, no matter an individual's age, race, gender, faith, sexual orientation or disability and decrease social inequalities
- be world renowned for being clean and green islands, decreasing CO2 emissions by 30% by 2020
- increase the population of Shetland to 25,000 by 2025.

Performance Management

120. As noted above, through its corporate plan, the council is committed to delivering on the outcomes set out in the Scottish Government's 'Concordat'. The targets and priorities detailed above have been aligned with the indicators contained within the council's Single Outcome Agreement. Delivery of the corporate plan will therefore deliver on the outcomes from the Single Outcome Agreement.

121. An implementation plan was created to support the corporate plan. This identified lead responsible officers accountable for the delivery of each project. Planned timescales were established to allow members to monitor progress against these stated targets. However with the development of the Single Outcome Agreement (SOA) the implementation plan has been superseded. The council's challenge is now to align the monitoring arrangements for both.

Key risk area 14

122. In the February 2008 report to council on the General Fund Revenue Estimates for 2008/09 it was noted that budget responsible officers have had some success in reducing their budgets. However, in the big spending areas of community care and schools & children's services, the target was missed by approximately £5 million.

123. In October 2007, the creation of a Finance Review Panel (FRP) was approved as part of the budget strategy. One of the recommendations made by the FRP has been to set up working groups to look at budget proposals, review services in order to remove inefficiencies and make savings across all services. The FRP would then consider the outcomes from these working groups. Since its creation the FRP has met regularly to consider proposals for budget reductions.

Key risk area 15

Overview of performance in 2007/08

Annual Report

124. 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. It is also forward looking detailing developments the council is planning in the future. Some of the key achievements in the year are detailed below:

- 233 speakers of other languages improved their English language through a joint programme with Shetland College, a rise of 153% from 06/07. This was recognised as “Good Practice” by Her Majesty’s Inspectors of Education.
- Currently 41.7% of all people over 65 who receive long-term care receive their care at home rather than in a residential setting compared to the government target of 30%
- The Energy Recovery Plant and the Gremista Waste Management Facility were commended by the Chartered Institute of Waste Management.
- Shetland has the lowest housing management costs in Scotland.

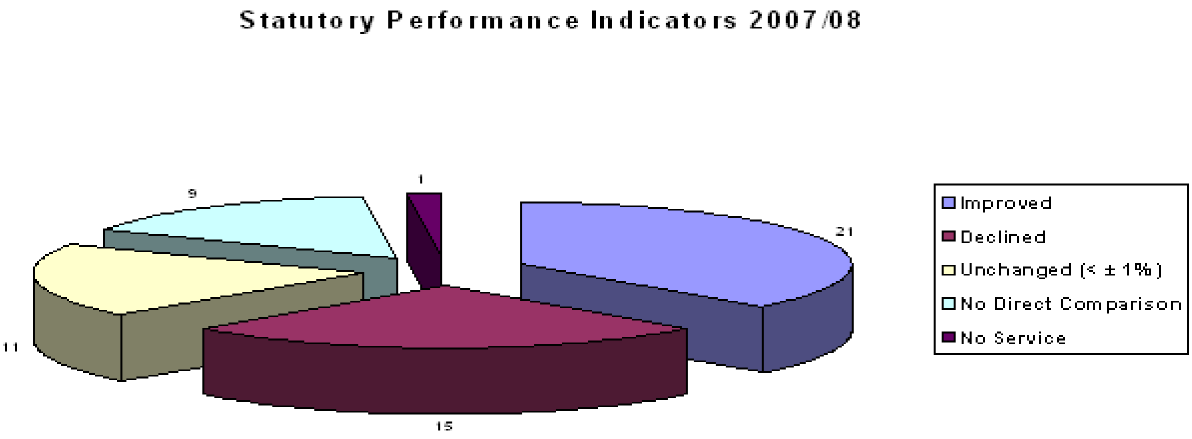
Statutory performance indicators

125. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). In 2007/08, a total of 57 SPIs were reported and published by 30 September 2008 on the council website and are submitted to the council’s audit and scrutiny committee. The committee considers this information and will consider how performance can be further improved.

126. Each year we review the reliability of the council’s arrangements to prepare SPIs. Overall, the processes in place to support the submission of the SPI data have improved from last year. We are pleased to conclude that all of the 2007/08 SPIs reported are considered to be reliable. This compares favourably to the 2006/07 when the council failed to report the information required for three indicators and seven were concluded to be unreliable by us. However the quality and timeliness of the supporting working papers varied and we will continue to work with the council to improve the overall arrangements for 2008/09.

127. In overall terms, the following chart confirms that the council has made improvement in a number of areas:

Chart 2: Improvements demonstrated by SPIs (Total 57 indicators)



128. Particular areas of improvement include:

- for those aged 65+ there has been a rise in day time respite care (up 36.6%)
- processing time of individual changes to benefit claims has been reduced (down 36.6%)
- the costs of collecting council tax has been reduced (down 28.9%)
- there has been an increase in the time available for day time respite care for children aged 0-17 (up 11.6%)
- an increase within children's hearing reports submitted in time (up 33.5%)
- a larger percentage of premises requiring a hygiene inspection classed as "Greater than 12 months" have been inspected (up 29.2%)
- there has been a reduction in the net costs of waste disposal per premise (down 13%).

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

- there has been a reduction in the number of nights available for respite care for those aged 18-64 (down 13.7%)
- the number of household planning applications dealt with within 2 months has fallen (down 46.7%)
- the required number inspections for premise requiring a hygiene inspection every 6 months has fallen (down 40%)
- there has been an increase in the cost for the net collection of waste per premise (up 14.7%).

Best Value audit

130. 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.

131. A Best Value and Community Planning audit of the council was completed in 2005. A progress report was issued in January 2007 which outlined the steps taken by the council during 2005/06 and the extent to which the objectives of the Improvement Plan had been achieved. This report concluded that the council had made a start in addressing the issues raised, but that a number of initiatives were relatively recent and consequently not fully embedded and had not yet had an impact in terms of improved service delivery or outcomes.

132. Since January 2007 the council has continued to address and monitor the risks arising from the BV follow up report some of which are highlighted below and referred to in more detail elsewhere in this report:

- the improvement plan was a detailed action plan which supported the 2007/08 corporate plan
- the implementation plan was created to support the new corporate plan
- the targets and priorities of the community plan are now included within the council's corporate plan
- the council has a capital programme prioritisation system in place
- continued improvement within the council's performance management framework
- a procurement strategy is being progressed with the recommendation that the council join Scotland Excel
- an audit and scrutiny committee was established in March 2007.

133. As noted above, the council now need to align their monitoring arrangements of the corporate plan, community plan and single outcome agreement whilst continuing to track the recommendations included within the best value report and subsequent follow-up report to allow members to monitor progress.

Key risk area 14

Performance outlook – opportunities and risks

Introduction

134. In the course of our audit work we identified some of the strategic risks to the council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into risk themes. A number of these risks relate directly to governance and financial themes and progress was detailed in these earlier sections of the report. The risks relating to performance are detailed in the following paragraphs.

135. It should be noted that risk exists in all organisations which are committed to continuous improvements 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.

Efficient use of resources

136. Significant efficiencies are required for the council to both balance its budget and to meet targets set out in the Scottish Executive's Efficient Government programme. The council presented its efficiency statement for 2007/08 to the Audit and Scrutiny committee in August 2008 which showed that the council achieved total efficiencies of £0.792 million. As noted above, during the past year, the FRP, consisting of elected members and the Executive Management Team, was established. Their remit was to monitor efficiency activity and ensure that required savings were being made. As well as that, having analysed the 2008 Efficiency Statement, the audit and scrutiny committee has, over the past 11 months, taken an active interest in promoting the efficiencies agenda and have carried out studies into a number of areas.

137. The council's focus for efficiency activity in 2008/09 is on the following areas:

- improving procurement practices (this is discussed above at paragraphs 68-71)
- further rationalisation of the staffing structures, seeking wherever possible, to reduce establishment numbers without impacting on service levels
- seeking to spend to save on various council building upgrades and reduce the overall amount of fuel being used across council services
- joining the National Recruitment Portal – a website which will host all Scottish Local Authority jobs, thereby reducing the need to advertise in national newspapers
- carry out a review of vessel docking contracts.

Effective partnership working

138. The community plan (Sustaining Shetland) has been endorsed by the council and was formally adopted by all partners in 2006. It contains clear priorities and explicit targets to be achieved by the council and its partners. Sustaining Shetland is regularly monitored and annual reports are presented to the community planning board and the council. The third annual report is due to be reported in October / November 2008. As noted above the community planning priorities and targets set the high-level objectives for Shetland to aspire to over the medium to long term. These priorities and targets have been adopted as part of the corporate plan and have been aligned with the SOA.

139. Due to the relative size of the council compared to the other partnership bodies they are able to direct partnership working from many of the local agencies. The two largest local trusts, the SCT and the SDT, are aligned with the council's aims and there are strong partnership arrangements in place. However in their report, issued to the council in March 2008, Dundas & Wilson noted the council is also under an obligation to follow the principles of Following the Public Pound. The report went on to recommend that the council and the Trusts, in particular the Charitable Trust, consider how best to address the issue of Community Planning and, in that context, Best Value and the principle of Following the Public Pound.

140. 'The Power to Advance Well Being', within the Local Government Scotland Act 2003, presents opportunities for the council to promote economic development and carry out all the functions currently undertaken by the SDT. This links in to the council's corporate plan which sets out a range of priorities to more effectively organise the council's business.

141. In the report dated 19 March 2008, the council agreed to a recommendation that a development committee within the council should be re-established to deal with all economic development matters and a transfer of the activities and undertakings of the SDT to the council. This recommendation followed on from the report by Dundas and Wilson, which detailed that trust status no longer attracted the same tax advantages and that it no longer provides a defence against State Aid.

142. Last year we reported a risk in relation to the lack of a formal review of community planning processes by the council. In March 2008, members of the Community Planning Board (CPB) discussed and agreed proposals for restructuring of the Board. Members agreed to replace the CPB with a Community Planning Partnership (CPP). Membership of the CPP will be:

- all Council Members
- all NHS Board Members
- all Shetland Charitable Trustees
- Police and Fire boards

- ASCC executive
- chairs of all strategic groups
- council's executive management team.

143. It was also agreed that a Community Planning Delivery Group (CPDG) be set up 'to provide leadership and facilitation to community planning in Shetland, through the adoption and overall monitoring of Shetland's Single Outcome Agreement / Sustaining Shetland. The CPDG is responsible for taking the priority areas that have been set by the CPP and ensuring a structure is developed to deliver on these in the short, medium and longer term.

Workforce planning

144. Workforce related issues are at the forefront of the council's priorities as it aims to achieve workforce efficiencies whilst negotiating a single status settlement and dealing with outstanding equal pay claims including those at industrial tribunal. Both these issues are considered within the financial position section of the report.

145. In 2006/07 the council introduced a management development programme to ensure service managers have the relevant skills to drive the council forward in the achievement of its corporate objectives. The programme involves 360 degree review to ensure that a complete view of performance and potential development areas is achieved. Succession planning was the driver behind the introduction of this programme to ensure key staff are identified and provided with the necessary management skills for the future. This programme has been successful as recent internal promotions have been made to fill management positions.

146. The ongoing single status review has resulted in a delay in implementing a structured training plan for each individual member of staff. The council is using the single status review to establish a skeleton corporate training plan which can then be built on for each individual group of staff. There is a risk that without a structured training plan in place staff will not have the appropriate skills to undertake the additional responsibilities within their revised job descriptions.

Key risk area 16

147. The staff survey which was originally planned for April 2007 was undertaken in May 2008. The survey was developed by Gallup and has been used previously in a wide range of public and private sector businesses. The survey generated 693 responses by e-mail and 61 paper copies, a total of 754 responses, or 22 per cent of the total workforce. The council has reported that overall the results are very positive although it is acknowledged that there area number of areas where there is room for improvement. The council intend to publish the results of the survey on the council's intranet site. Human resources intend to work with managers to review the results and agree what action needs to be taken to increase the response rate and address areas for improvement.

National studies

148. 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 described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

Sustainable waste management

149. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/6
- there has been slow progress in developing facilities to treat residual waste and there is a significant risk that across Scotland EU landfill directive targets might not be met.

150. Sustainability, self-sufficiency and the proximity principle, and the waste hierarchy are key principles that underpin the National Waste Strategy. The waste hierarchy summarises the objectives of sustainable waste management which are to:

- minimise the amount of waste generated
- optimise the amount of material that can be reused or recycled
- minimise the amount of waste disposed of in landfill sites.

151. The aim is to move from the bottom to the top of the hierarchy and to eliminate landfill as far as possible. In Scotland, most of the movement has been in diverting material from landfill via recycling and composting. However, the report highlighted that Shetland is only one of two councils to take this to the next stage in reducing waste by recovering energy with heat and power. Shetland's hub for waste disposal and recycling is the Energy Recovery Plant in Lerwick at the Greenhead base. The waste incinerator provides heat to the Lerwick district heating scheme, which now has over 400 customers. A report was presented to the Development Committee in August 2008 on renewable energy projects within Shetland. The energy recovery plant is one of a number of options being considered for future development.

152. As discussed at paragraph 29 above, from 1 April 2008, Scottish councils will be allowed to trade landfill allowances. The council does not anticipate any issues with the EC Landfill Directive as it is

already meeting its target for 2020. The total biodegradable waste land filled in 2007/08 was 583 tonnes, well below the council's limit of 2567 tonnes.

Free personal and nursing care

153. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in January 2008 found that:

- councils have interpreted the legislation and guidance relating to food preparation differently across Scotland
- councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services
- councils should provide clear information to older people on what is covered by FPNC
- councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

154. Shetland Islands Council provides one of the highest levels of care at home hours (per head of population) of all local authorities within Scotland (Source – Scottish Government, Home Care Services (2006)). Shetland is the only local authority area that does not levy a charge for care at home services. The actual cost for delivering each hour of personal care is £14.83 and the cost for delivering domestic care is £9.70.

155. The council prioritises services under the following criteria:

- Priority 1 tasks are those which are essential to the client if they are to remain in the community and not be admitted to residential care or hospital.
- Priority 2 tasks need to be done, but the client could cope without harm if the service was not immediately available or had to be reduced to meet greater need elsewhere.
- Priority 3 tasks are a minimum service provided for preventative reasons. If necessary, service could be withdrawn for a long period with no risk to the client.

156. Currently, all Priority 1 clients receive a service and as many Priority 2 and 3 clients as is possible within current staff availability. New clients assessed as not being at definable risk are not receiving new services. Existing staff are being consulted about increasing their hours and work is ongoing to address these issues.

157. The council has acknowledged that delivery of care at home packages are currently close to saturation point. There have been a number of instances recently where clients had to remain in hospital or respite care because it was not possible to put services in place quickly enough. There remains a shortage of staff employed as home helps and social care workers although managers are trying to resolve this situation by either appointing new staff or getting existing staff to take on additional contracted hours. Over the next few years it is likely that demand will increase further for care at home services. The council should ensure that budgets have been fully reviewed and are in line with council priorities.

Key risk area 17

Scotland's school estate

158. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

- better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy
- greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building
- making environmental sustainability a key element of school design
- doing more to identify and share good (and bad) practice in school design and estate management
- estimating pupil rolls for at least ten years ahead with a minimum annual review.

159. In July 2007, the services committee agreed a 4-year plan, as the service element of the council's Corporate Plan. In relation to the schools service, the plan states:-

"Shetland schools population projections anticipate a substantial reduction in pupils within a relatively short time frame. The challenge for the authority is, therefore, to develop a modern "blueprint" for the shape of the service across Shetland for 10 years time. This model will consider the educational and financial viability levels for schools, their host communities as well as important associated issues such as transport requirements. It is anticipated that significant capital investment will be required to bring some schools and facilities up to a modern standard".

160. The council are committed to producing a model for education by 2009 that considers the educational and financial viability for schools and communities. At the services committee in January 2008 a report was presented entitled, "Developing a "Blueprint" for the Education Service". The committee agreed to the establishment of the working group to undertake the 'blueprint' review. The Blueprint working group met in April and it was decided to have sub-groups to look at quality education and transitions at three stages: Pre-School/Primary, Secondary/Further and for pupils with Additional Support Needs. These reviews are currently being progressed.

161. On 1st May 2008 the education secretary launched the Scottish Government's own consultation entitled "Safeguarding our Rural Schools and Improving School Consultation Procedures", which makes proposals for changes to current legislation. The council schools service response to the consultation, submitted in September, has been developed in discussions with central staff and head teachers taking into account the range of differing views held in different communities across Shetland.

162. The education function of the council was inspected in January 2008 as part of HM Inspectorate commitment to inspect and report on the quality of education and to help secure improvement across Scotland. The report by HM Inspectorate of Education was published on 8 July 2008. Inspectors evaluated the education function of the council under four main questions:

- How good are attainment and achievement of children and young people and how well are they supported?
- What impact has the authority had in meeting the needs of parents, carers and families, staff and the wider community?
- How well is the authority led?
- What is the council's capacity for improvement?

163. There were ten quality indicators which were examined. Five of these indicators were evaluated as very good, four evaluated as good and one was evaluated as adequate. The schools service will prepare an action plan indicating how the main points for action will be addressed and presented to the services committee in October 2008. The District Inspector will continue to monitor progress made as part of the agency work with the council.

164. The new Anderson High School (AHS) capital project is the largest individual capital investment project within the current capital programme. The project is fundamental to the council being able to deliver a quality education provision to more than 800 pupils. It was reported in June 2008 that the project, as currently designed, would be well over the indicative budget of £48 million. In August,

members were asked to agree to a revised programme, with a target date for submission of a planning application of March 2009 and slightly amended governance and management arrangements. The Anderson High School staff, together with representatives from the schools service management team and the architect involved in the project, has been working up a revised accommodation schedule, to meet the 15,000 m2 limit and the £49 million revised financial budget. The council also contacted the Head of Schools Division within the Scottish Government who has a remit which includes development of school estates. It is anticipated that he could be invited to advice on best practise across Scotland on school design. The council faces a number of difficult decisions in relation to the educational service within the current financial constraints. There is a risk that the council do not address the difficult financial choices required to provide a sustainable educational service.

Key risk area 18

Overview of sport in Scotland

165. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies
- the level of participation and funding in sport has been declining and participation by younger people falls short of targets
- Sportsscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.

166. Shetland is unique in that it is the Shetland Recreational Trust and not the council which is the largest provider of sport and leisure facilities in Shetland. The trust operates a network of leisure centres and swimming pools throughout the islands. The Shetland Charitable Trust (SCT) has provided the recreational trust with capital funding for the seven leisure centres that are located adjacent to local secondary schools throughout the islands, as well as the Clickimin leisure complex in Lerwick. In addition to the capital funding, the SCT continue to provide a major contribution towards the running costs.

Final Remarks

167. 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.

168. 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 issues 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.

169. Appropriate mechanisms 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 2008/09 audit.

170. 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	12 20 28 29 104	**Financial Statements** Procedures are not adequate to ensure financial statements are prepared and presented in accordance with the SORP. Specifically, in 2007/08 issues were raised in respect of fixed assets, investments and the treatment of unspent grants ***Risk: the financial statements do not present fairly the result of council activities.***	The council will review the procedures for preparing the 2008/09 financial statements. Specific areas for early consideration include: • fixed asset/ capital accounting • investments • disclosures re landfill allowances • publication of a corporate governance statement • IFRS issues	Head of Finance	March 2009
2	18	**Group Accounts** In 2007/08 the council did not include the results of the charitable trust and development trust in the group accounts. Audit disagrees with this accounting treatment. ***Risk: the council may continue to receive a qualified audit opinion.***	The results of the development trust will be included in the group accounts from 2008/09. The situation regarding the charitable trust requires further consideration.	Chief Executive	Ongoing
3	36 46 80	**HRA Budget** Financial pressures in the HRA have resulted in a deficit in 2007/08 which has to be met from the HRA reserves. ***Risk: HRA reserves will continue to be used to cover in year deficits. Projections suggest that the HRA reserves could be exhausted by 2013, after which there will be no means of support for either revenue or capital expenditure. This could impact on compliance with the SHQS standard by 2015.***	The council will monitor HRA expenditure to ensure that overspends are managed and financial targets are met.	Head of Finance	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	38	**Revenue Budgets** As well as ongoing financial pressures, particularly from education and social care services and single status, the council faces the ongoing challenge of budgeting for no increase in council tax for 2009/10 and 2010/2011. The need to identify and deliver efficiency savings is therefore essential. ***Risk: reserve balances will be used to support general fund expenditure. The target balance of £250 million may not be achieved and maintained.***	The council will monitor general fund expenditure to ensure that overspends are managed and financial targets are met.	Head of Finance	December 2008
5	61	**Budget setting process** The council should undertake a review of budget allocation to ensure that these are properly matched to service need. ***Risk: There is a risk that without a full review the budget allocated to service departments will not reflect current service provision.***	The council will continue to review budget allocations as part of the 2009/10 budget setting process.	Head of Finance	January 2009
6	63 67	**Single Status/ Equal Pay** The council has yet to implement single status, it is expected that this will be achieved in 2009. As a result the equal pay compensation liability will continue to rise throughout 2008/2009 and until single status is eventually introduced. ***Risk: the council are exposed to continuing risks while the existing pay and grading structure remains in place, for example associated costs cannot be fully quantified and as a result initial and continuing costs may be considerably higher than expected levels.***	The council is to progress the implementation of single status and equal pay agreements.	Chief Executive	March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	71	**Procurement** Procurement policies need improvement. The council could make efficiency savings through membership of Scotland Excel. ***Risk: there is a risk that best value will not be achieved until the procurement efficiencies are generated.***	The council will continue to work to further develop procurement policies in 2008/09.	Chief Executive	December 2008
8	74	**Effective management of assets** The council has yet to consolidate the estates and maintenance records or review the non housing estate. ***Risk: there is a risk that the assets of the council are not utilised in the most effective way.***	The council will progress implementation by March 2009.	Head of Finance	March 2009
9	79	**Capital Programme** The capital programme is heavily over-subscribed, with a funding gap of £36.666 million identified to 2010/11. This is before the inclusion of Anderson High School at an estimated cost of £49 million. Current forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards. ***Risk: the capital programme may slip or may not be delivered and corporate priorities not achieved.***	The council will prioritise the capital programme to reflect corporate aims and objectives. Council officers will closely monitor the achievement of the capital programme and report areas of slippage to the council on a regular basis.	Capital Programme Review Team	Ongoing
10	87	**Political Governance** To ensure that members are fully aware of any conflict of interests a formal training programme should be provided. ***Risk: there is a risk that members' are not fully aware of a conflict of interest.***	Officers will provide a formal training programme after consultation with members.	Head of Organisational Development	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
11	91	**State Aid** The European Commission has ruled three council schemes amounted to state aid and have calculated the total amount repayable is £1.2 million. The council have appealed against this ruling. A draft state aid manual is to be issued to all staff engaged in providing financial assistance for economic activities. ***Risk: further breaches of state aid rules may have taken place prior to the introduction of the state aid manual.***	The council will review its arrangements to ensure that no other breaches of state aid rules have taken place.	Head of Finance	September 2008
12	99	**Capital project management:** The council needs to ensure that capital projects are well managed and provide value for money. ***Risk: there is a risk that without a clear project brief additional expenditure will be incurred and projects will be deferred.***	The audit and scrutiny committee will consider this at a specially convened meeting.	Head of Finance	December 2008
13	110	**Housing Benefit:** The council needs to address the findings from the benefits review to ensure continuous improvement is achieved. ***Risk: there is a risk that there is not clear focus on delivering against national and local objectives and fraud is not fully considered.***	The council will address the findings of the benefits review.	Benefits Manager	December 2008
14	114 121 133	**Performance management** The council need to ensure there is a detailed action plan in place that clearly links the SOA, the corporate plan, the community plan and the BV recommendations. ***Risk: there is a risk that projects are not properly monitored***	The council are in the process of aligning monitoring arrangements in order to streamline reporting	Head of Organisational Development	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	123	**Performance management** The council need to ensure that the 2009/10 budget setting process considers the findings of the financial review panel. ***Risk: there is a risk that budgets do not properly reflect service provision.***	The council will ensure that the findings of the FRP are considered as part of the 2009/10 budget setting process.	Head of Finance	January 2009
16	146	**Workforce Planning** As part of the single status implementation it is important that detailed training plans are provided to individual staff members. ***Risk: there is a risk that staff will not be properly supported or trained to take on additional responsibilities within the revised job descriptions.***	The project team will ensure that training plans are formalised to support staff during the implementation of single status	Human Resources Manager / Project Management Team	December 2008
17	157	**Free Personal & Nursing Care** The council must ensure that budgets are reviewed to reflect the changing service demands. ***Risk: there is a risk that the council will no longer be able to meet the demands of the service.***	The council are aware that the delivery of care at home packages are at full capacity. The council is looking at a number of options to resolve this ongoing issue.	Executive Director of Education and Social work	December 20008
18	164	**School estate** The council faces a number of difficult decisions in respect of providing an educational service within certain financial constraints. ***Risk: there is a risk that the council do not address the difficult financial choices to provide a sustainable educational service.***	The council is committed to producing a model for education by 2009.	Executive Director of Education and Social work	March 2009

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **19 November 2008**

Shetland Islands Council **3 December 2008**

From: **Head of Finance**

Abstract of Accounts 2007/08 & Report by the Auditor
Report No: F-037-F

1. Introduction

1.1 The 2007/08 Abstract of Accounts (Appendix A) is enclosed with this report.

1.2 Enclosed as Appendix B 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 2008.

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 3 December 2008 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 2007/08 and to provide any officer comment on the Audit Scotland's report.

2. 2007/08 Abstract of Accounts

2.1 This document is the final formal statement of the Council's financial affairs for the year ended 31 March 2008. 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.

I am pleased to report that, as in the previous fourteen years, the Abstract was submitted to the Scottish Government and the external auditor in accordance with the statutory deadline.

2.3 As in 2006/07, the audit opinion on the Council's Abstract has been qualified on the issue of group accounts. The auditor was of the view that they should have included the Shetland Charitable Trust and the Shetland Development Trust.

3. Report to Members and the Controller of Audit

3.1 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.

3.2 On the issue of group accounts and the audit qualification, as noted in the auditor's report on pages 8 and 9, the changes to the structure of the Shetland Development Trust and the re-establishment of a Development Committee will result in the Development Trust being included in the group accounts in 2008/09.

The situation with the Shetland Charitable Trust remains under review with any resolution for the Council also being conditional upon the agreement and co-operation of the Trust.

4. Financial Implication

4.1 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.

5. Policy and Delegated Authority

5.1 As the final statement of the Council's financial affairs for 2007/08, 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.

6. Conclusions

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

7. Recommendations

7.1 It is recommended that the Audit and Scrutiny Committee recommend to the Council that they should note the contents of this report, Appendix A and the Abstract of Accounts for 2007/08 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.

Date: 11 November 2008 Report No: F-037-D1
Our Ref: DAH/DS/A/9/30

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2007/08

SHETLAND ISLANDS COUNCIL - 2007/08 ABSTRACT OF ACCOUNTS

Contents

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

EXPLANATORY FOREWORD

1. Introduction

The Council's accounts and the Group accounts for the year ended 31st March 2008 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 2007.

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 £108.2m.

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 Surplus to Group Surplus 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 budget for the year on the General Fund envisioned a draw on reserves of £5m. In the event the draw was limited to £3.57m which included an unbudgeted cost of £1.72m in respect of Equal Pay settlements. Equal pay costs were not included in the original budget as it was expected that the single status agreement would have been implemented by April 2007, and therefore extinguish the need to make ongoing equal pay payments. The equal pay costs and the need for a reduced draw on reserves were due to under-spends on Education and Social Care staffing budgets where there were delays in recruitment and obtaining sufficient staff, a higher than expected level of income from fees and charges of £1.6m and a general focus by budget responsible officers on providing services more efficiently.

Housing Revenue Account net expenditure was £0.75m over budget due mainly to overspends on maintenance. This was offset by less spend on house purchases financed from revenue, resulting in the contribution from the Housing Repair and Renewal Fund of £1.52m being £0.22m under budget.

Harbour Account income was £2.85m higher than expected, including £1.4m extra on the Jetty Maintenance contract, but this was partly offset by increased capital and jetty maintenance costs. Income from the smaller harbours' dues was £0.65m greater than budget and there were revenue expenditure savings of £0.5m as a consequence of the drive for greater efficiencies. This resulted in a contribution to the Reserve Fund being £1.3m more than budget.

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 2007/08 included work on the new AHS (£1.4m) and other major capital spend included work on the re-instatement of the Rova Head dump (£1.2m).

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 2007/08 which consists of:

continuing to have external management arrangements for all major funds;

operating to a stringent set of borrowing and lending guidelines.

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

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

Major fixed asset disposals during 2007/08 occurred on Council house sales.

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

The Council has prudently built up extensive reserves of £305m 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 2008 of £289m (£287.5m at 31 March 2007). 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 £79.9m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £2m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.5m to fund the payment of rent rebates and allowances.

The remaining sources of Council funding are levied locally, the most significant being the Council Tax which raised £8.2m, £5.4m from rents and charges to Council house and hostel tenants and £13.1m 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 2008. This indicated a net pension liability of £18.1m compared to a net liability of £35.1m as at 31 March 2007.

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 2008.
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 7 to the Core Financial Statements.

10. **Trusts**

The Council's 2006/07 Accounts were qualified in respect of a failure, in the Auditor's opinion, of the Council to group its accounts with those of Shetland Development Trust and Shetland Charitable Trust. The Auditor's view was based upon the close relations between these organisations, whereas the Council's position was based upon the separation which exists between these bodies. The debate on this difference of view has continued, but in practice changes in the governance of the Shetland Development Trust (which have brought it into closer connection with the Council) mean that the Council now accepts the need to group Council and Development Trust accounts, and that will be done at the earliest opportunity (in practice, in the 2008/09 Accounts). The difference of view about grouping Council and Charitable Trust accounts remains unresolved, and remains a practical impossibility while the Charitable Trust exercises its independence and withholds its cooperation.

11. **Change in Accounting Policies**

The Code of Practice on Local Authority Accounting in the United Kingdom 2007, usually referred to as the SORP, brought in three changes that affect the accounting policies of the Council. These are explained below with an indication of their effect on the accounts.

The system for capital accounting was again changed with the Fixed Asset Restatement Account and Capital Financing Account being replaced respectively by the Revaluation Reserve and the Capital Adjustments Account. The operation of these new reserves are similar to those they replace although the accounting entries required are now more UK GAAP compliant than previously. In particular, the Council is required to maintain a record of the depreciated historical cost of individual assets and the Revaluation Reserve records the gains on fixed assets arising from increase in value together with the part of depreciation charges that have been incurred as a consequence of revaluation. The Capital Adjustment Account records the write down of the historical cost of assets as they are consumed by depreciation and the resources set aside to finance capital expenditure. No prior year adjustment was required on the introduction of these new reserves but the closing balances of the Fixed Asset Restatement Account and the Capital Financing Account as at 31 March 2007 were combined to form the opening balance of the Capital Adjustment Account. Although these changes affect the capital accounting entries in the Council's Income and Expenditure Account and Balance Sheet, they have no affect on the available resources of the Council to provide services.

The SORP brought in a new treatment of financial assets and liabilities that in particular affected how the Council accounts for its investments, mainly held through external fund managers. These financial assets were previously shown at historic cost (i.e. what they cost to buy) in the Council's Balance Sheet but are now shown at fair or market value with the difference from historic cost held in a new reserve, the Available-for-sale financial instruments reserve.

The Council has for the first time disclosed intangible assets within its Balance Sheet. These are assets such as software or software licences that provide benefits beyond the year in which they are purchased. They are accounted for, written down and revalued in a manner similar to tangible fixed assets. As for tangible assets, the accounting entries have no ultimate effect on the resources the Council has available to provide services.

STATEMENT OF ACCOUNTING POLICIES

1. **Introduction**

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

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

2. **Debtors and creditors**

All known debtors and creditors have been provided for, on an actual or estimated basis, in the accounts as at 31 March 2008.

3. **Allocation of Central Support Costs**

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

4. **Capital Charges**

General Fund services have been charged depreciation for the use of assets.

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

Although the Harbour account, shown under Trading Services includes depreciation, the charges to the users of Council harbours and the balancing of the account by Reserve Fund contributions are based on actual capital charges as the account operates on a commercial basis with the oil industry.

5. **Fixed Assets and Depreciation**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis, subject to a de-minimis limit for capital expenditure of £10,000. The £10,000 applies to individual assets or planned programmes where individual assets are below £10,000 but the programme exceeds £10,000, e.g. plant purchases.

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

Intangible assets have been included in the balance sheet for the first time. These are assets such as software that have no tangible existence but provide benefit to the Council beyond the year in which they are purchased. They have been included as a result of a change in the SORP and are included at historic cost.

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 2008, and the effective date for the valuation was 1 April 2007 unless the property became operational after that date. There are a number of properties with a value of £5,000 or less where the effective date of valuation remains at 1 April 1996. These are being included within the programme of revaluations as resources permit.

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 have all been revalued as at 1 April 2007 based on 'beacon properties' in ward/geographical areas, adjusted for different numbers of apartments. The valuation has also been adjusted to reflect all disposals during 2007/08. Non-operational properties were valued by reference to their market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions. Outstanding life and residual values have also been reviewed for all assets that have been revalued this year.

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

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

7. **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at average cost, except for Ferry and Port stock (latest price), fuel (FIFO basis) and aggregates (lower of selling price/production cost). The Ferry and Port stock is not valued in accordance with the SORP due to the stock system used being unable to provide such a valuation. However, the high value of items combined with a slow turnover is likely to mean that the valuation will not be significantly different from that required by the SORP.

8. **Financial Assets**

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

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. Viking Energy has no assets and is not currently operational. The functions of Shetland Towage were transferred to the Council and it is also no longer operational. It has current assets of £0.2m but is likely to incur costs in the wind up of its pension scheme. As these assets are regarded as immaterial, its shares as well as those of Viking Energy have been valued at zero.

10. **Provisions**

The Council has made provision, where necessary, for bad and doubtful debts in respect of miscellaneous debtors, non-domestic rate debtors, council tax debtors and housing rent debtors. The Council made equal pay offers to staff but a number of them declined to accept these offers. The Council has accordingly made provision for possible costs should the staff who did not accept an offer pursue the matter at an Employment tribunal.

11. **Reserves**

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

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

The Revaluation Reserve and Capital Adjustment Account, which replaced the Fixed Asset Restatement Account and the Capital Financing Account because of a change in accounting guidance, are kept for the purposes of fixed asset accounting and the Pension Reserve for the purpose of retirement benefits. These reserves do not represent usable resources for the Council.

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

12. **Capital receipts**

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

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

13. **<u>Grants</u>**

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. **<u>Interest on balances</u>**

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. **<u>Leases</u>**

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. **<u>Provisions for pensions</u>**

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. **<u>Contingent Assets and Liabilities</u>**

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

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

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2008

2006/07 £000		2007/08 Expenditure £000	2007/08 Income £000	2007/08 Net £000
2,776	Central services	3,056	(317)	2,739
37,877	Education services	46,257	(8,009)	38,248
4,924	Environmental services	9,951	(4,664)	5,287
665	Housing services	5,377	(3,652)	1,725
6,006	Cultural and related services	6,834	(1,364)	5,470
4,657	Planning and development services	9,116	(1,128)	7,988
10,073	Roads and transport services	12,006	(2,430)	9,576
9,058	Trading services	28,212	(18,437)	9,775
17,319	Social work	27,076	(7,878)	19,198
6,049	Corporate and democratic core	5,745	0	5,745
(3,909)	Non distributed costs	414	0	414
2,076	Police	1,947	(1)	1,946
2,042	Fire	2,099	0	2,099
(2,640)	Housing revenue account	5,437	(7,451)	(2,014)
1,127	Services acquired from the Islesburgh Trust	0	0	0
98,100	Net Cost of Services	163,527	(55,331)	108,196
(44)	(Gain)/Loss on disposal of fixed assets			(30)
3,047	Interest payable and similar charges			3,501
(14,770)	Interest and investment income			(25,803)
(277)	Net Surplus trading undertakings			(84)
(1,182)	Pension interest cost & expected asset return			(2,063)
84,874	NET OPERATING EXPENDITURE			83,717
(7,860)	Council Tax			(8,216)
(68,473)	Revenue Support Grant			(71,842)
(8,138)	Contribution from non-domestic rate pool			(8,031)
403	**(SURPLUS)/DEFICIT FOR THE YEAR**			**(4,372)**

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE.

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

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

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

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

2006/07 £000		2007/08 £000
403	(Surplus)/Deficit on Income and Expenditure Account	(4,372)
(403)	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	4,372
0	Decrease in General Fund balance for the year	0
0	General Fund balance brought forward	0
0	General Fund balance carried forward	0

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2006/07 £000		2007/08 £000
403	(Surplus)/Deficit on Income and Expenditure Account	(4,372)
4,579	Surplus arising on revaluation of fixed assets	(29,519)
0	Surplus arising on revaluation of available-for-sale financial assets	(7,825)
(17,986)	Actuarial (gains)/losses on pension fund assets and liabilities	(16,970)
(2,998)	Interest on Reserves	0
(16,002)	Total recognised gains for the year	(58,686)

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2008

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
0	Intangible Assets		1,424
	TANGIBLE FIXED ASSETS		
	Operational assets		
40,833	Council dwellings	60,440	
96,913	Other land and buildings	97,409	
34,988	Vehicles, plant, furniture and equipment	39,331	
115,610	Infrastructure assets	115,784	
5,153	Community assets	5,104	
293,497			318,068
	Non-operational assets:		
4,193	Investment properties	4,444	
9,120	Assets under construction	15,360	
239	Surplus assets, held for disposal	245	
			20,049
307,049	TOTAL FIXED ASSETS		339,541
231,417	Long-term investments		241,125
4	Long-term debtors:Housing Loans		4
22	Long-term debtors:Other		18
538,492	TOTAL LONG-TERM ASSETS		580,688
	CURRENT ASSETS		
2,819	Stocks and work in progress	3,092	
11,131	Debtors, less bad debt provisions	11,243	
15,934	Short term investments	16,141	
6,470	Cash and bank	5,196	
36,354			35,672
574,846	TOTAL ASSETS		616,360
	CURRENT LIABILITIES		
(14,754)	Creditors		(12,312)
560,092	TOTAL ASSETS LESS CURRENT LIABILITIES		604,048
	LONG-TERM LIABILITIES		
(342)	Provision	(214)	
(7,783)	Government Grants-deferred	(10,207)	
(35,133)	Pension Asset/ (Liability)	(18,107)	
(43,258)			(28,528)
516,834	TOTAL ASSETS LESS LIABILITIES		575,520

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2008

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
	FINANCED BY:		
(248,032)	Capital Adjustment Account		(252,323)
-	Revaluation Reserve		(28,012)
-	Available-for-sale Financial Instruments Reserve		(7,825)
35,133	Pension Reserve		18,107
0	Capital Receipts Reserve		0
(26)	Deferred Capital Receipts		(22)
(212,925)			(270,075)
(118,471)	Capital Fund	(116,545)	
(97,896)	Repairs and Renewals Fund	(101,413)	
(87,273)	Reserve Fund	(87,220)	
(269)	Insurance Fund	(267)	
(303,909)			(305,445)
	Balances		
0	General Fund		0
(516,834)	TOTAL NET WORTH		(575,520)

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

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

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

CASHFLOW STATEMENT

2006/07		2007/08	2007/08
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
82,273	Cash paid to and on behalf of employees	85,088	
60,210	Other operating cash payments	68,061	
368	Housing Benefit paid out	398	
4,482	National Non-Domestic Rate payments to national Pool	4,210	
147,333			157,757
	Cash Inflows		
(3,405)	Rents (after rebates)	(3,561)	
(7,047)	Council Tax receipts	(7,526)	
(10,363)	Non-domestic rate receipts	(12,180)	
(68,488)	Revenue Support Grant	(71,273)	
(364)	DSS grants for benefits	(417)	
(19,397)	Other government grants	(16,455)	
(24,685)	Cash received for goods & services	(27,404)	
(8,535)	Other operating cash receipts	(10,002)	
(142,284)			(148,818)
5,049	NET REVENUE CASH (IN)/OUTFLOW		8,939
	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES		
	Cash Inflows		
(3,709)	Dividends received		(2,214)
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Cash Inflows		
(6,172)	Interest received		(6,413)
(4,832)	BALANCE c/f		312

CASHFLOW STATEMENT (continued)

2006/07		2007/08	2007/08
£000		£000	£000
(4,832)	BALANCE b/f		312
	CAPITAL EXPENDITURE & FINANCIAL INVESTMENT		
	Cash Outflows		
40,954	Purchase of fixed assets	18,582	
149,353	Purchase of long-term investments	401,700	
190,307			420,282
	Cash Inflows		
(1,258)	Sale of fixed assets	(1,767)	
(160,108)	Sale of long-term investments	(413,763)	
(2,212)	Capital grants received	(2,893)	
(6)	Other capital cash receipts	(4)	
(163,584)			(418,427)
21,891	Net cash inflow/outflow before financing		2,167
	MANAGEMENT OF LIQUID RESOURCES		
(600)	Net Increase/decrease in short term deposits		(893)
	FINANCING		
	Cash Outflows		
50	Capital element of finance lease rental payments		0
21,341	NET INCREASE/DECREASE IN CASH		1,274

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2006/07 £000		2007/08 £000	2007/08 £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		
(10,433)	Depreciation	(13,221)	
350	Government Grants deferred amortisation	566	
44	Net gain/(loss) on sale of fixed assets	30	
2,337	Net charge made for retirement benefits in accordance with FRS17	56	
(7,702)			(12,569)
	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		
1,989	Principal repayments	2,023	
1,640	Capital Expenditure financed from revenue	1,781	
(4,073)			3,804
	Transfers to and from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
2,515	Transfer to Capital Fund		5,149
0	Transfer to Pilot Boat Renewal Fund		48
5,460	Transfer to Repair & Renewals Fund		8,421
(393)	Transfer from Housing Repair & Renewal Fund		(432)
0	Transfer to Quarry Repair & Renewal Fund		8
(4,074)	Transfer from Reserve Fund		(363)
112	Transfer to Marine Fund		308
50	Transfer from Insurance Fund		(2)
(403)			4,372

2. **Service Expenditure Analysis of Services**

The service lines within the Net cost of services section of the Income and Expenditure account are as per the Service Expenditure Analysis set out in the Best Value Accounting Code of Practice. The Police and Fire categories mainly relate to the payment of requisitions to respectively the Northern Joint Police Committee and the Highlands & Islands Fire Board.

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

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

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

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 2007/08 payments made for assets acquired under finance and operating leases.

Finance and Operating Lease Payments:

2006/07 £000		2007/08 Land & Buildings £000	2007/08 Other Assets £000	2007/08 Total £000
50	Finance leases	0	0	0
1,498	Operating leases	1,727	193	1,920
1,548	Total	1,727	193	1,920

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2008/09	£1,231,298	£99,162	£1,330,460
2009/10- 2012/13	£4,317,979	£292,089	£4,610,068
2013/14 onwards	£10,577,461	£154,398	£10,731,859

4. **Publicity expenditure**

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2007/08 expenditure.

Publicity expenditure

2006/07 £000		2007/08 £000
207	Recruitment advertising	133
176	Other advertising	209
383	Total	342

5. **Agency expenditure**

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

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

Net Income 2006/07 £000		Expenditure 2007/08 £000	Income 2007/08 £000	Net Income 2007/08 £000
(54)	Scottish Water	0	(57)	(57)
(54)	Total	0	(57)	(57)

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

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

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

Net Expenditure 2006/07 £000		Expenditure 2007/08 £000	Income 2007/08 £000	Net Expenditure 2007/08 £000
0	Northern Joint Police Committee	35	(35)	0
0	Highlands & Islands Fire Board	9	(9)	0
0	Total	44	(44)	0

7. **Significant Trading Operations**

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

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

The three year rolling basis cumulative total is shown in the table below and both operations have met the target.

	2005/06	2006/07	2007/08	Cumulative Total
	£000	£000	£000	£000
Highways				
Turnover	(6,676)	(7,561)	(6,618)	
(Surplus)/Deficit	(272)	(219)	(64)	(479)
Building Maintenance				
Turnover	(4,106)	(4,131)	(4,278)	
(Surplus)/Deficit	(163)	(218)	(83)	(440)

The figures for 2007/08 and 2006/07 exclude notional interest in accordance with the SORP. However the cumulative total includes notional interest as this was properly chargeable in 2005/06.

8. **Audit Costs**

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

2006/07		2007/08
£000		£000
186	External Audit fees	198
60	Audit Scotland Recharge	61
246		259

9. **Members' Allowances/Remuneration and Expenses**

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

2006/07 £000		2007/08 £000
392	Allowances/Remuneration	365
128	Expenses	82
520		447

10. **Officers' Emoluments**

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

Remuneration Band	2006/07 No.	2007/08 No.
£50,000 - £59,999	41 (6)	47 (1)
£60,000 - £69,999	12 (7)	14 (10)
£70,000 - £79,999	1	2
£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.

11. **Related Parties**

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

Central Government Grants	£'000
Revenue Support Grant	71,842
Non-domestic rates	9,342
Housing Benefit Subsidy	2,503
Council Tax Benefits Subsidy	791
Housing Support Grant	2,012
Other Government Grants	9,301

Other Public Bodies Grants	£'000
Scottish Further & Higher Education Council	1,984
Highlands & Islands Enterprise	324
Communities Scotland	353
Sports Scotland	332
Shetland Transport Partnership	447
Lottery Grants	65
Scottish Arts Council	158
Scottish Natural Heritage	61

During the year, the Council made payments of £4.33m to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £4.87m 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 £7.39m in employers contributions and strain costs and charged the Fund £0.14m in administration costs.

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

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

Movements in fixed assets in 2007/08 were:

Operational Assets	**Intangible Assets**	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure**	**Community Assets**	**Investment Assets**	**Assets Under Construction**	**Surplus Assets**	**Total All Assets**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Certified valuation at 31 March 2007	0	40,783	104,480	44,391	131,616	5,159	4,417	9,120	239	340,205
Accumulated Depreciation & Impairment	0	50	(7,567)	(9,403)	(16,006)	(6)	(224)	0	0	(33,156)
Net book Value of assets at 31 March 2007	0	40,833	96,913	34,988	115,610	5,153	4,193	9,120	239	307,049
Movement in 2007/08										
Additions	1,864	1,628	2,091	3,835	3,162	9	0	7,915	0	20,504
Disposals	0	(1,465)	(6)	(53)	0	0	(17)	(282)	0	(1,823)
Revaluations	0	19,664	149	(445)	0	(57)	218	0	0	19,529
Depreciation in year	(440)	(664)	(3,168)	(2,808)	(3,158)	0	(68)	0	(4)	(10,310)
Depreciation written back	0	(40)	702	3,813	0	0	118	0	0	4,593
Transfers/Appropriations	0	485	728	0	170	0	0	(1,393)	10	0
Net Book Value of Assets at 31 March 2008	1,424	60,441	97,409	39,330	115,784	5,105	4,444	15,360	245	339,542

The intangible assets consist of purchased software and software licences.

The table below analyses the sources of finance utilised in 2007/08 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2007/08:

2006/07 £000		2007/08 £000
1,977	Loans	0
1,264	Capital receipts	1,771
0	Capital receipts-used to repay debt	(211)
2,358	Grant receipts	2,989
15,419	Revenue/Other	14,236
21,018	Total	18,785

13. **Significant commitments under capital contracts beyond 31 March 2008:**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2008. These amounts relate to contracts commenced but not concluded by the end of the financial year.

	Outstanding Contractual Liability beyond 31/3//08 £000
Uyeasound Pier	2,500
Rova Head Reinstatement	1,900
Anderson High School	700
Sandwick ASN	500
Marinas	475
Cinema & music venue	300
Knab dyke	271
Oversund Junction	260
Mid Yell JHS	200
Feasability Studies	200
Total	7,306

14. **Progress of Valuation Rolling Programme**

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

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

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

GBV as at 31/03/08	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	15,358	15,358
Valued at current value in:					
2007/08	60,321	8,448	N/A	1,380	70,149
2006/07	40,783	25,114	N/A	775	66,672
2005/06	41,739	2,200	N/A	0	43,939
2004/05	43,151	60,012	N/A	1,875	105,038
2003/04	42,976	8,659	N/A	187	51,822

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.

15. **Information on Assets Held**

The Table below gives information on the numbers of some of the Fixed Assets held by the Council as at 31 March 2008.

2007		2008
1,956	**Council Dwellings**	1,920
	Community Assets	
32	Burial Grounds	32
20	Museum Exhibits:	16
1	Other Community Assets	1
	Non Operational Assets	
43	General Non Operational Assets	43
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	Other 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
16	Offices	17
26	Public Conveniences	26
35	Schools	35
8	Social Services Homes	8
29	Other Misc Land and Bldgs	29
	Intangible Assets	
0	Software	25
	Vehicles Plant, Furniture and Equipment	
1	Aircraft	1
241	Vehicles	270
137	Plant	151
13	Ferries	13
11	Boats/Tugs	11
20	Computer Equipment	80
22	Other Equipment	0
	Infrastructure Assets	
1,047	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.

16. Depreciation Methodologies

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

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

The useful life of an asset has been determined by the officers of the Council in charge of the relevant asset. The life of the operational and non-operational properties 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**
Intangible Assets	3-7
Council Dwellings	30-45
Community Assets	100
Infrastructure Assets	0- 60
Other Land & Buildings	0- 120
Vehicles, plant, furniture & equipment	0- 50
Non-operational Land & Buildings	0- 60

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

Asset	**Depreciation 2007/08 £000**	**Cumulative Depreciation £000**
Intangible Assets	440	440
Council Dwellings	664	655
Community Assets	0	7
Infrastructure assets	3,158	19,164
Other Land & Buildings	3,168	10,033
Vehicles, plant, furniture & equip	2,808	8,397
Non operational assets	72	178
	10,310	38,874

17. **Analysis of Debtors and Creditors**

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

31 March 2007 £000		31 March 2008 £000
	Debtors:	
3,010	Sundry Debtors	3,156
66	Recoverable Costs	122
1,325	Value Added Tax	1,628
671	Council Tax	646
548	Non Domestic Rates	376
451	Rents	505
47	Payroll	485
0	Government Grants	2,050
5,731	Other Debtors	2,966
11,849	Gross debtors	11,934
(237)	Bad debt provision - Sundry Debtors	(197)
(197)	Bad debt provision - Council Tax	(180)
(135)	Bad debt provision - Non domestic Rates	(137)
(149)	Bad debt provision - Rents	(177)
11,131	Net Debtors	11,243
	Creditors:	
(9,796)	Sundry Creditors	(6,812)
(459)	Non Domestic Rates	(454)
(1,966)	Government Grants	(41)
(691)	Employee	(1,018)
(524)	Council Tax	(580)
(1,318)	Other Creditors	(3,407)
(14,754)		(12,312)

18. **Movements in Provisions**

The Council has made provision for the risk of incurring bad debts on its General Fund and Housing Revenue Account. The provision has been determined by the Council's Income and Recovery Manager, using his professional judgement and experience.

The tables below show the movement in the provision.

2006/07 £000		2007/08 £000
(446)	Opening balance-General Fund	(544)
43	Miscellaneous Invoices written off	7
9	Non-domestic Rates written off	46
42	Council Tax written off	38
1	Community Charge written off	0
0	Cash received on debts written off	0
(193)	Charge to General Fund for new provision	(42)
(544)		(495)

(140)	Opening balance-Housing Revenue Account	(174)
10	Miscellaneous Income written off	14
24	Rents written off	10
(68)	Charge to HRA for new provision	(46)
(174)		(196)

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2008 for possible bonus payments.

2006/07 £000		2007/08 £000
0	Opening balance	(342)
(342)	Charge for new provision	0
0	Release of provision no longer required	128
(342)		(214)

19. **Analysis of net assets employed by the various funds**

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

Analysis of net assets employed:

31 March 2007 £000		31 March 2008 £000
248,032	Capital Adjustment Account	252,323
0	Revaluation Reserve	28,012
0	Available-for-sale Financial Instruments Reserve	7,825
(35,133)	Pension Reserve	(18,107)
0	Capital Receipts Reserve	0
26	Deferred Capital Receipts	22
203,419	General Fund	205,390
84,515	Reserve Fund	84,152
12,398	Housing Revenue Account	11,967
3,577	Harbour Accounts	3,936
516,834	Total	575,520

20. **Movements in Reserves**

	Balance as at 1/04/07	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/08
	£000	£000	£000	£000
Capital Adjustment Account	(248,032)	12,457	(16,748)	(252,323)
Revaluation Reserve	0	(28,753)	741	(28,012)
Available-for-sale Financial Instruments Reserve	0	(7,825)	0	(7,825)
Pension Reserve	35,133	(17,026)	0	18,107
Capital Receipts Reserve	0	(1,767)	1,767	0
Deferred Capital Receipts	(26)	0	4	(22)
Capital Fund	(117,652)	(5,148)	7,123	(115,677)
Pilot Boat Renewal Fund	(819)	(49)	0	(868)
Repairs & Renewals Fund	(85,368)	(8,421)	4,577	(89,212)
Housing Repairs & Renewals Fund	(12,398)	(1,089)	1,520	(11,967)
Quarry Repairs & Renewals Fund	(130)	(8)	0	(138)
Central Energy Efficiency Fund	0	(96)	0	(96)
Reserve Fund	(84,515)	(9,370)	9,733	(84,152)
Marine Superannuation Fund	(2,758)	(353)	43	(3,068)
Insurance Fund	(269)	(22)	24	(267)
General Fund	0	7,733	(7,733)	0
Housing Revenue Account	0	1,051	(1,051)	0
	(516,834)	**(58,686)**	**0**	**(575,520)**

The Fixed Asset Restatement Account and the Capital Financing Account were replaced by a Revaluation Reserve and Capital Adjustment Account, with the closing balance on both transferred to the Capital Adjustment Account. 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 £0.004m were released in the year.

The Capital Receipts Reserve was established for the purpose of financing capital expenditure and its capital can be applied for that purpose. Returns in the year are credited to the General Fund. The source of funding for the reserve is capital receipts not applied during the year. All receipts received in the year were applied to fund £1.62m of Housing Revenue Account and £0.15m of General Fund capital expenditure.

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

The Capital Fund was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of the principal of loans. £7.12m 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. £4.58m of capital expenditure was funded during the year.

The Housing Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council's Housing Revenue Account. During the year, a contribution of £1.52m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.47m to the Capital adjustment account to fund capital expenditure and covered a deficit of £1.051m 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 £4.55m was transferred to the fund and a transfer of £0.76m was made to the Capital Adjustment Account to fund capital expenditure. A transfer of £13.525m was made to the General Fund, consisting of £9.955m to cover a planned expenditure programmes and £3.57m 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 £0.043m to the Harbour Account during the year.

The Insurance Fund may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk. It made a contribution to the General Fund in the year of £0.024m.

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

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund. A contribution of £1.051m was received for that purpose.

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

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

Trust funds:

Fund Balance at 31/3/07		Fund Balance at 31/3/08
£000		£000
(630)	Zetland Educational Trust	(642)
(49)	Gilbertson Trust	(50)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(4)	Other	(5)
(688)	Total	(702)

The Zetland Educational Trust, with an income of £35,433 and expenditure of £23,589, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,358, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £120 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**

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £257m for the Council's accounts. An estimate of the effect of the fall in investment values for the Council cannot be reliably made due to the ongoing volatility within the markets.

23. **Statement of Authorisation of Issue**

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008 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 progressing an alternative approach to Single Status involving grouping similar types of posts in Job Families and re-designing jobs to mitigate possible loss of pay. Latest estimates indicate this approach may add around £4m to the Council's annual pay bill.

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.

The Council has provided security cover, in the form of a irrevocable letter of credit for £244,704, to National Grid Electricity Transmission plc in respect of its agreement with Viking Energy in relation to an inter connector cable to Shetland. The sum would only be payable if Viking Energy withdrew from the wind farm project and therefore would not need a grid connection.

26. **Pension Costs (Teachers)**

In 2007/08 the Council paid an employer's contribution of £2.2m (£2.0m in 2006/07) 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 2007/08 these amounted to £0.67m (£0.64m in 2006/07), representing 4.0% of teachers pensionable pay (2006/07 4.0%).

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.

2006/07 £000		2007/08 £000
9,971	Current service costs	9,082
(4,438)	Past service costs	224
529	Curtailments and settlements	190
(12,258)	Expected return on assets	(14,311)
11,076	Interest cost	12,248
7,217	Actual employers contributions payable	7,489

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 2007/08, pension costs have been charged to the Income and Expenditure Account on the basis of the contributions payable for the year to the Pension Fund, based on the formal actuarial valuation as at 31 March 2005.

Although the net pension liability of £18.1m exceeds the General Fund balance which, by Council policy, is balanced to zero each year, the Council has other funds available including a Reserve Fund of £83.5m. The actuarial valuation sets the appropriate employer's contribution rates and this, together with returns on investments, will be utilised to meet the fund's commitments.

Net Pension Liability

The Council's assets and liabilities amounted to:

2007 £'000		2008 £'000
187,924	Share of Pension Fund Assets	179,810
(202,373)	Less:Estimated liabilities in Pension Fund	(178,602)
(20,684)	Estimated liabilities for discretionary pensions	(19,315)
(35,133)	Net pension asset/(liability)	(18,107)

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

2007 %	2007 Market Value £'000	2007 Expected rate of return %		2008 %	2008 Market Value £'000	2008 Expected rate of return %
89.9	168,823	7.8	Equity Investments	83.6	150,389	7.7
7.3	13,795	4.9	Bonds	5.8	10,452	5.7
0.0	0	5.8	Property	4.7	8,394	5.7
2.8	5,306	4.9	Cash	5.9	10,575	4.8
	187,924				179,810	

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:

2007 %		2008 %
3.2	Price Increases	3.6
4.7	Salary Increases	5.1
3.2	Pension Increases	3.6
5.4	Discount Rate	6.9

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

31 March **2007** £000		31 March **2008** £000
1,773	Difference between the expected and actual return on assets	(28,053)
187,924	Value of assets	179,810
0.9%	Percentage of assets	15.6%
(1,128)	Experience gain/(loss) on liabilities	(112)
223,057	Present value of liabilities	197,917
0.5%	Percentage of the present value of liabilities	0.1%
17,341	Change in financial assumptions underlying the present value of liabilities	45,135
7.8%	Percentage of the present value of liabilities	22.8%

29. **<u>Reconciliation of the movement in cash to the movement in Net Debt</u>**

Reconciliation to Net Debt

2006/07 £000		2007/08 £000
21,341	(Increase)/decrease in Cash	1,274
0	Decrease in Debt Financing	0
4,200	(Increase)/decrease in Liquid Resources	(207)
25,541		1,067
(47,945)	Opening Net Debt as at 01/04/07	(22,404)
(22,404)	Closing Net Debt as at 31/03/08	(21,337)

Analysis of Net Debt

	Balance at 01/4/07 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/08 £000
Cash and bank	(6,470)	1,274	0	(5,196)
Overdraft	0	0	0	0
	(6,470)	1,274	0	(5,196)
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
	0	0	0	0
Current Investments	(15,934)	(1,323)	1,116	(16,141)
Total	(22,404)	(49)	1,116	(21,337)

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

2006/07		2007/08	2007/08
£000		£000	£000
403	(Surplus)/Deficit for Year	(4,372)	
	Net additional amount required by statute and non-statutory proper practices to be		
(403)	credited to the General Fund Balance	4,372	
0			0
	Non cash transactions		
9,598	Contributions to/from reserves	11,968	
(1,939)	Loans Fund principal repayments	(2,023)	
(1,640)	Capital from current revenue	(2,537)	7,408
	Items on an accruals basis		
391	Movement in stocks	272	
2,232	Movement in debtors	1,236	
(1,557)	Movement in creditors	1,919	3,427
	Items classified elsewhere		
(50)	Finance lease capital	0	
0	Finance lease interest	0	
(2,571)	Interest paid	(2,721)	
585	Other	825	(1,896)
5,049			8,939

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

	Balance at 01/04/07 £000	Balance at 31/3/08 £000	Movement 2007/08 £000
Management of Liquid Resources			
Short Term Investments	15,934	16,141	(207)
Financing			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	0	0	0
Principal element of finance lease rental			0
			0

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 2007/08:

2006/07 £000		2007/08 £000	2007/08 £000
(68,488)	Revenue Support Grant		(71,273)
	Rebates Grants		
(831)	Council Tax Rebate	(781)	
(2,368)	Rent Rebate	(2,066)	
(364)	Rent Allowance	(417)	
(72,051)			(3,264)
	Other Revenue Grants		
(2,147)	Housing Support Grant	(2,012)	
(1,874)	Further Education Grant	(1,511)	
(383)	Training Grants	(267)	
(12)	Milk Subsidy	(14)	
(79)	Housing Benefit Administration	(88)	
(41)	Council Tax Administration	(46)	
(11,662)	Other	(9,670)	
(16,198)			(13,608)
(88,249)	Total Revenue Grants		(88,145)
(2,212)	Capital Grants		(2,893)
(90,461)	Total		(91,038)

33. **Risks arising from Financial Instruments**

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

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

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

Credit Risk

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

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

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

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

At the 31st March 2008 the Council only had deposits with the Council's own bank, amounting to £12.3 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial years experience, where no default or loss has occurred. No credit limits were exceeded during the reporting period and the authority does not expect any losses or default in relation to these current deposits.

Liquidity Risk

The authority has external investments with fund managers amounting to £257 million at the 31st March 2008. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

There are no current capital borrowings and there is no requirement for capital borrowings during 2008/09. All trade and other payables are due to be paid in less than one year.

Market Risk

The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31st March 2008 is diversified between the following markets:

UK Equities	36%
Overseas Equities	20%
UK Government Bonds	31%
Overseas Bonds	5%
Corporate Bonds	2%
Cash	6%

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

The authority's external investments are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised by the Statement of Total Recognised Gains and Losses (STRGL). The largest investment is in UK Equities and any movement of the UK market will have the greatest impact on any gains or losses. A general shift of 5% in the UK Stock Market (positive or negative) would result in a gain or loss being recognised in the STRGL in the region of £4.6 million for 2007/08.

Foreign Exchange Risk

The authority has £62 million invested in overseas equities and bonds which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates are greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

34. **Financial Investments**

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

	Long-term	**Current**
	31 March 2008 £000	31 March 2008 £000
Available - for-sale financial assets	241,125	16,141

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

2006/07		2007/08	2007/08
£000		£000	£000
	INCOME		
(4,993)	Dwelling rents (gross)	(4,999)	
(372)	Non-dwelling rents (gross)	(371)	
(2,147)	Housing Support Grant	(2,012)	
(94)	Other income	(69)	
(7,606)	Total Income		(7,451)
	EXPENDITURE		
2,392	Repairs and maintenance	2,790	
381	Supervision and management	359	
1,613	Depreciation & impairment of fixed assets	1,643	
68	Bad or doubtful debts	47	
512	Other expenditure	424	
4,966	Total Expenditure		5,263
(2,640)	Net cost of HRA services per Authority Income and Expenditure Account		(2,188)
0	HRA share of Corporate & Democratic Core		174
(2,640)	Net Cost of HRA Services		(2,014)
(71)	Gain on sale of assets		(126)
2,489	Interest payable and similar charges		2,791
(21)	Pension interest cost & expected return on assets		(54)
(243)	(Surplus)/Deficit for the year on HRA services		597

STATEMENT OF MOVEMENT ON THE HRA BALANCE

2006/07		2007/08
£000		£000
(243)	(Surplus)/Deficit on the HRA Income and Expenditure Account	597
243	Net additional amount required by statute to be debited or credited to the HRA balance for the year	(597)
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

2006/07		2007/08	2007/08
£000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year.		
(1,627)	Depreciation of fixed assets	(1,647)	
0	Government Grants deferred amortisation	14	
71	Gain on sale of assets	126	
(29)	Net charge for external benefits under FRS17	12	
(1,585)			(1,495)
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,939	Loans Fund principal	1,949	
841	Transfer to Capital Adjustment Account	469	
(952)	Transfer to Housing Repair & Renewal Fund	(1,520)	
			898
243			(597)

Number and types of dwelling

Housing stock:

31 March 2007 No.		31 March 2008 No.
84	1 Apartment	84
409	2 Apartment	406
572	3 Apartment	561
741	4 Apartment	720
40	5 Apartment	40
1	6 Apartment	1
1	8 Apartment	2
1,848	Total	1,814

Amount of rent arrears

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

The trend shown below is of a drop in the number of properties in arrears by 85 and the total amount of arrears has fallen considerably.

Rent arrears:

31 March 2007		31 March 2008
141	Amount (£000)	126
417	Number of properties in arrears (No.)	332
22.6	Properties in arrears as share of total stock (%)	18.3
339	Average amount per property in arrears (£)	379

Provision for bad debts

The following table summarises the movements on the bad debt provision during 2007/08

Bad debt provision:

2006/07 £000		2007/08 £000	2007/08 £000
(140)	Balance as at 1st April		(174)
	Bad rent debt written off		
12	Over £1,000 (Council approved)	8	
12	Under £1,000 (delegated authority)	2	
24			10
10	Miscellaneous bad debt written off		14
(106)			(150)
(68)	Contribution to/(from) Housing Revenue Account		(46)
(174)	Balance as at 31st March		(196)

COUNCIL TAX INCOME ACCOUNT

2006/07		2007/08
£000		£000
(9,009)	Gross Council Tax levied and contributions in lieu	(9,460)
(9,009)		(9,460)
(41)	Council Tax benefits (net of Government grant)	(14)
45	Provision for bad and doubtful debts	21
1,114	Other discounts and reductions	1,189
31	Adjustment to previous years' Council Tax	48
(7,860)	Transfer to General Fund	(8,216)

1. **Council tax base**

Overleaf is the analysis of the Council Tax base used to set the 2007/08 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 2007/08

	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.)		3,149	1,781	2,517	1,524	1,023	183	41	1	**10,219**
Gross Tax Base (Properties x Weighting)		18,894	12,467	20,136	13,716	11,253	2,379	615	18	**79,478**
Adjusted Properties (Band D Equivalents)		2099.33	1385.22	2237.33	1524.00	1250.33	264.33	68.33	2.00	**8,831**
Vacant Properties (No.):										
Mandatory Standard Exemptions		(188)	(74)	(53)	(27)	(16)	(2)	(1)	(1)	**(362)**
Chargeable Dwellings subject to Disabled Reduction (No.)		(10)	(7)	(13)	(11)	(6)	(1)	(1)	0	**(49)**
Dwellings Effectively Subject to Tax by Virtue of Disabled Relief (No.)	10	7	13	11	6	1	1	0	0	**49**
Class 18 (MoD) Dwellings (No.)	0	24	22	7	0	1	0	0	0	**54**
Revised Total Properties (No.)	10	2,982	1,735	2,469	1,492	1,003	181	39	0	**9,911**
Types of Property (No.):										
Single Discount (25%)	3	1,294	685	890	324	139	11	8	0	**3,354**
Double Discount (50%)	0	328	100	75	34	17	4	1	0	**559**
No Discount (0%)	7	1,336	928	1,497	1,134	846	166	30	0	**5,944**
	10	2,958	1,713	2,462	1,492	1,002	181	39	0	**9,857**
Properties Subject to Council Tax (No.)	9.25	2,470.50	1,491.75	2,202.00	1,394.00	958.75	176.25	36.50	0.00	**8,739.00**
Net Tax Base (Properties x Weighting)	46	14,823	10,442	17,616	12,546	10,546	2,291	548	0	**68,858**
Adjusted Properties (Band D Equivalents)	5.14	1,647.00	1,160.25	1,957.33	1,394.00	1,171.81	254.58	60.83	0.00	**7,650.94**
COUNCIL TAX 2007/08:										
General Fund Charge										
Tax Yield (£)	6,494	1,734,291	1,221,743	2,061,072	1,467,882	1,233,911	268,076	64,058	0	**8,057,527**
Charge per Property (£)	**702.00**	**702.00**	**819.00**	**936.00**	**1,053.00**	**1,287.00**	**1,521.00**	**1,755.00**	**2,103.00**	

NON-DOMESTIC RATE INCOME ACCOUNT

2006/07		2007/08
£000		£000
(14,806)	Gross rates levied and contributions in lieu	(14,555)
(14,806)		(14,555)
39	Provision for bad and doubtful debts	48
0	Payment of interest	2
2,422	Reliefs and other deductions (net)	2,346
(12,345)	Contribution to national non-domestic rate pool	(12,159)

1. **Analysis of rateable values**

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

The amount paid for Non-Domestic Rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Government. The national Non-Domestic Rate poundage set for 2007/08 was £0.441 (2006/07 £0.449). 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 2007/08, the supplement was 0.30p (0.40p in 2006/07).

Category	No. of Subjects	Rateable Value
		£000
Commercial	570	6,270
Industrial	485	18,257
Other	795	8,467
TOTAL	1,850	32,994

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

PENSION FUND ACCOUNT 2007/08

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

2006/07 £000		Notes	2007/08 £000	2007/08 £000
	Dealings with members, employers and others directly involved in the scheme			
	Contributions receivable			
	From Employers			
(7,089)	Normal	6	(7,385)	
(414)	Additional		(278)	
(7,503)				(7,663)
	From Members			
(2,988)	Normal	6		(3,111)
	Transfers in			
(1,909)	Individual transfers in from other schemes		(2,356)	
(1,909)				(2,356)
	Other income			
(20)	Other income			(21)
	Benefits Payable			
3,965	Pensions	6	4,363	
1,530	Commutation of pension and lump sum retirement benefits	6	1,691	
99	Lump sum death benefits	6	13	
5,594				6,067
	Payments to and on account of leavers			
16	Refunds of contributions		16	
16	State Scheme Premiums		22	
300	Group transfers out to other schemes		0	
947	Individual transfer out to other schemes		422	
1,279				460
	Administrative expenses			
182	Administrative expenses	8		172
(5,365)	**NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS**			(6,452)

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

PENSION FUND ACCOUNT 2007/08

NET ASSETS STATEMENT AS AT 31 MARCH 2008

2006/07 £000		Notes	2007/08 £000	2007/08 £000
	RETURNS ON INVESTMENTS			
	Investment income			
(230)	Quoted UK - interest on fixed interest securities		(167)	
(5,597)	Quoted UK - dividends from equities		(4,521)	
(962)	Quoted overseas - dividends from equities		(1,640)	
0	Unquoted UK - income from pooled investment vehicles		(51)	
(245)	Interest on cash deposits		(688)	
(45)	Other		(154)	
(7,079)				(7,221)
(9,042)	**Change in market value of investments**			24,481
65	**Taxation - irrecoverable witholding tax**			78
901	**Investment management expenses**	8		1,071
(15,155)	**Net returns on investments**			18,409
(20,520)	**Net (increase)/decrease in the fund during the year**			11,957
(191,198)	Add : Opening net assets of the scheme			(211,718)
(211,718)	**Closing net assets of the scheme**			**(199,761)**

PENSION FUND ACCOUNT 2007/08

NET ASSETS STATEMENT AS AT 31 MARCH 2008

2006/07		Notes	2007/08	2007/08
£000			£000	£000
	INVESTMENT ASSETS			
(5,323)	Fixed interest securities (Public sector)		(3,147)	
(175,097)	Equities		(152,283)	
(23,171)	Pooled Investment Vehicles (Unit Trusts)		(11,934)	
0	Pooled Investment Vehicles (Property Unit Trusts)		(9,030)	
0	Other investment		(3,293)	
(203,591)		5	(179,687)	
	Other investment balances-			
(72)	Interest receivable		(27)	
(886)	Dividends receivable		(1,018)	
(14)	Tax recoverable		(68)	
			(1,113)	
(204,563)	Total investment assets			(180,800)
	Net current assets and liabilities			
(6,081)	Bank and cash - external		(12,446)	
(1,002)	Bank and cash - internal		(5,870)	
(1,044)	Debtors	10	(1,196)	
972	Creditors	11	551	
(7,155)	Net current assets			(18,961)
(211,718)	**Net Assets**			**(199,761)**

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

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 3,206 members (2006/07 3,127) including 361 (2006 /07 336) who are members of other admitted bodies and 14 (2006/07 13) who are members of a scheduled body, 756 (2006/07 703) pensioners, 153 (2006/07 149) dependents and 939 (2006/07 838) deferred members. These figures do not include teachers, who are covered by the Scottish Teachers Pension Scheme.

The scheduled body is:

Orkney and Shetland Valuation Joint Board

The admitted bodies are:

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

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

2. **Accounting Policies**

The transactions of the Fund are accounted for on an accruals basis, thereby taking into account all known and determinable amounts due by and due to the Fund in 2007/08.

Valuations of all the investments have been carried out by the custodian, The Northern Trust Company, at mid market values on 31 March 2008.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2008.

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 2007/08, 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**

Record Currency Management and Schroders who were appointed 28 June 2007 and 11 July 2007 respectively and Capital International currently manage the Fund's investments. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis.

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

This is reflected in the investments held, with the introduction of Property Unit Trusts and Currency Unit Trust during this financial year.

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 31.3.07 £'000	Investment Sector	Market Value at 31.3.08 £'000
	Fixed interest securities - public sector	
(5,323)	Quoted - UK	(3,147)
	Equities	
(121,410)	Quoted - UK	(75,540)
(53,687)	Quoted - Overseas	(76,743)
	Pooled Investment Vehicles (Unit Trusts)	
(12,383)	Unquoted - UK	(8,604)
(10,788)	Unquoted - Overseas	(3,330)
	Pooled Investment Vehicles (Property Unit Trusts)	
0	Unquoted - UK	(6,164)
0	Unquoted - Overseas	(2,866)
	Other Investments	
0	UK	(3,293)
(203,591)		**(179,687)**

6. **Contributions receivable and benefits payable**

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

	Administering Authority £000		Scheduled Body £000		Admitted Bodies £000	
	2008	2007	2008	2007	2008	2007
Contributions receivable						
employers	(6,336)	(6,036)	(63)	(62)	(986)	(991)
members	(2,670)	(2,563)	(20)	(20)	(421)	(405)
Benefits payable						
pensions	3,856	3,702	17	16	261	247
lump sums	1,563	1,378	-	-	127	152
lump sum death benefits	13	99	-	-	-	-

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

The value of purchases and sales in 2007/08 were £155.0m and £154.0m respectively as compared to £76.3m and £68.0m in 2006/07.

8. **Fund administration costs**

Expenses of the Fund in 2007/08 include an administration charge from the Council of £142,947 (2006/07 £139,755). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2007/08 amounted to £800,130 (2006/07 £755,367).

The fees for Recorder Currency Management Limited were £105,183 and Schroder Fund £21,583

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2007/08 amounted to £100,348 (2006/07 £77,743). 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 2007/08 of –8.8% versus the benchmark return of –4.2%. Recorder Currency Management achieved a return of –34.5% versus the benchmark of +4.4%. Schroders achieved a return of +1.2% versus the benchmark of –11.8%.

10. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £229,019 for employee contributions (2006/07 £216,590) and £542,750 for employer contributions (2006/07 £500,645).

11. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £142,947 for administration recharge costs (2006/07 £139,755).

12. **Statement of Investment Principles**

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

13. **Funding Strategy Statement**

The Council has 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 2008 was £2,746,818 (2006/07 £2,481,750) and total purchases for the 2007/08 were £351,400 (2006/07 £268,477). The amounts are not included in the Pension Fund Accounts in accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) regulations 1998 (SI 1998 No. 1831).

15. Events after the Balance Sheet Date

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £180.8m for the Pension Fund's accounts. An estimate of the effect of the fall in investment values for the Pension Fund cannot be reliably made due to the ongoing volatility within the markets.

STATEMENT OF GROUP ACCOUNTING POLICIES

1. **Introduction**

The Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (the SORP) requires Councils to consider their interests in external organisations including limited companies and other statutory bodies. Where such interests are considered material, the Council is required to prepare group financial statements in addition to those of Shetland Islands Council.

2. **Combining Entities**

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

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

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.

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 31.

The position regarding the grouping of Council accounts with the Shetland Development Trust and the Shetland Charitable Trust, which has been the subject of disagreement between the Council and its Auditors, is detailed in note 10 on page 5.

3. **Basis of Consolidation**

The four bodies are all subject to the SORP, as is the Council, and so their single entity accounts were already in a SORP compliant format. These associates have been incorporated using the equity method where an opening investment is recognised in the Group Balance Sheet and is adjusted each year by the Council's share of the associate's operating results and other gains and losses.

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

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

GROUP INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2008

2006/07 £000		2007/08 Expenditure £000	2007/08 Income £000	2007/08 Net £000
2,776	Central services	3,056	(317)	2,739
37,877	Education services	46,257	(8,009)	38,248
4,924	Environmental services	9,951	(4,664)	5,287
665	Housing services	5,377	(3,652)	1,725
6,006	Cultural and related services	6,834	(1,364)	5,470
4,657	Planning and development services	9,116	(1,128)	7,988
10,073	Roads and transport services	12,006	(2,430)	9,576
9,058	Trading services	28,212	(18,437)	9,775
17,319	Social work	27,076	(7,878)	19,198
6,049	Corporate and democratic core	5,745	0	5,745
(3,909)	Non distributed costs	414	0	414
2,076	Police	1,947	(1)	1,946
2,042	Fire	2,099	0	2,099
(2,640)	Housing revenue account	5,437	(7,451)	(2,014)
1,127	Services acquired from the Islesburgh Trust	0	0	0
201	Share of operating results of Associates	7,693	(7,528)	165
98,301	Net Cost of Services	171,220	(62,859)	108,361
(44)	(Gain)/Loss on disposal of fixed assets			(30)
0	Loss on disposal of fixed assets of Associates			(28)
3,047	Interest payable and similar charges			3,501
166	Interest payable and similar charges of Associates			153
(14,770)	Interest and investment income			(25,803)
(33)	Interest and investment income of Associates			(72)
(277)	Net Surplus trading undertakings			(84)
(1,182)	Pension interest cost & expected asset return			(2,063)
1,442	Pension interest cost & expected asset return of Associates			1,571
86,650	NET OPERATING EXPENDITURE			85,506
(7,860)	Council Tax			(8,216)
(68,473)	Revenue Support Grant			(71,842)
(8,138)	Contribution from non-domestic rate pool			(8,031)
2,179	**(SURPLUS)/DEFICIT FOR THE YEAR**			**(2,583)**

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2006/07 £000		2007/08 £000
2,179	(Surplus)/Deficit on Income and Expenditure Account	(2,583)
3,691	Surplus arising on revaluation of fixed assets	(29,458)
0	Surplus arising on revaluation of Available-for-sale Financial Instruments	(7,825)
(19,672)	Actuarial (gains)/losses on pension fund assets and liabilitlies.	(20,368)
(2,998)	Interest on Reserves	0
(16,800)	Total recognised gains for the year	(60,234)

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

GROUP BALANCE SHEET
AS AT 31 MARCH 2008

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
0	Intangible assets		1,424
	TANGIBLE FIXED ASSETS		
	Operational assets		
40,833	Council dwellings	60,440	
96,913	Other land and buildings	97,409	
34,988	Vehicles, plant, furniture and equipment	39,331	
115,610	Infrastructure assets	115,784	
5,153	Community assets	5,104	
293,497			318,068
	Non-operational assets:		
4,193	Investment properties	4,444	
9,120	Assets under construction	15,360	
239	Surplus assets, held for disposal	245	
			20,049
307,049	TOTAL FIXED ASSETS		339,541
(37,648)	Investments in Associates		(36,100)
231,417	Long-term investments		241,125
4	Long-term debtors:Housing Loans		4
22	Long-term debtors:Other		18
500,844	TOTAL LONG-TERM ASSETS		544,588
	CURRENT ASSETS		
2,819	Stocks and work in progress	3,092	
11,131	Debtors, less bad debt provisions	11,243	
15,934	Short term investments	16,141	
6,470	Cash and bank	5,196	
36,354			35,672
537,198	TOTAL ASSETS		580,260
	CURRENT LIABILITIES		
(14,754)	Creditors		(12,312)
522,444	TOTAL ASSETS LESS CURRENT LIABILITIES		567,948
	LONG-TERM LIABILITIES		
(7,783)	Government Grants-deferred	(10,207)	
(342)	Provision	(214)	
(35,133)	Pension Asset/ (Liability)	(18,107)	
(43,258)			(28,528)
479,186	TOTAL ASSETS LESS LIABILITIES		539,420

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

GROUP BALANCE SHEET

AS AT 31 MARCH 2008

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
	FINANCED BY:		
(251,227)	Capital Adjustment Account		(255,232)
0	Revaluation Reserve		(28,281)
0	Available-for-sale Financial Instruments Reserve		(7,825)
76,657	Pension Reserve		58,220
(343)	Capital Receipts Reserve		(381)
(26)	Deferred Capital Receipts		(22)
(174,939)			(233,521)
(118,471)	Capital Fund	(116,545)	
(97,896)	Repairs and Renewals Fund	(101,413)	
(87,273)	Reserve Fund	(87,220)	
(269)	Insurance Fund	(267)	
(303,909)			(305,445)
	Balances		
(338)	General Fund		(454)
(479,186)	GROUP BALANCES AND RESERVES		(539,420)

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HEAD OF FINANCE

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

GROUP CASHFLOW STATEMENT

2006/07		2007/08	2007/08
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
82,273	Cash paid to and on behalf of employees	85,088	
60,210	Other operating cash payments	68,061	
368	Housing Benefit paid out	398	
4,482	National Non-Domestic Rate payments to national Pool	4,210	
147,333			157,757
	Cash Inflows		
(3,405)	Rents (after rebates)	(3,561)	
(7,047)	Council Tax income (after rebates)	(7,526)	
(10,363)	Non-domestic rate receipts	(12,180)	
(68,488)	Revenue Support Grant	(71,273)	
(364)	DSS grants for benefits	(417)	
(19,397)	Other government grants	(16,455)	
(24,685)	Cash received for goods & services	(27,404)	
(8,535)	Other operating cash receipts	(10,002)	
(142,284)			(148,818)
5,049	NET REVENUE CASH (IN)/OUTFLOW		8,939
	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES		
	Cash Inflows		
(3,709)	Dividends received		(2,214)
	RETURNS ON INVESTMENTS ANDSERVICING OF FINANCE		
	Cash Inflows		
(6,172)	Interest received		(6,413)
(4,832)	BALANCE c/f		312

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

GROUP CASHFLOW STATEMENT (continued)

2006/07		2007/08	2007/08
£000		£000	£000
(4,832)	BALANCE b/f		312
	CAPITAL EXPENDITURE & FINANCIAL INVESTMENT		
	Cash Outflows		
40,954	Purchase of fixed assets	18,582	
149,353	Purchase of long-term investments	401,700	
190,307			420,282
	Cash Inflows		
(1,258)	Sale of fixed assets	(1,767)	
(160,108)	Sale of long-term investments	(413,763)	
(2,212)	Capital grants received	(2,893)	
(6)	Other capital cash receipts	(4)	
(163,584)			(418,427)
21,891	Net cash inflow/outflow before financing		2,167
	MANAGEMENT OF LIQUID RESOURCES		
(600)	Increase/(decrease) in short term investments		(893)
	FINANCING		
	Cash Outflows		
50	Repayments of amounts borrowed-finance leases		0
21,341	(INCREASE)/DECREASE IN CASH		1,274

RECONCILIATION OF COUNCIL SURPLUS TO GROUP SURPLUS

£000		£000
403	(Surplus)/Deficit on Council's Income and Expenditure Account	(4,372)
0	Adjustments for transactions with group entities	0
403	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Council	(4,372)
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to:	
1,776	Associates	1,789
2,179	(Surplus)/Deficit for the year on Group Income and Expenditure Account	(2,583)

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
Shetland Transport Partnership (ZetTrans)

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government reorganisation. The Board provides the valuation service for Orkney and Shetland and is funded by the two Councils who share running costs and any surpluses or deficits. In 2007/08, Shetland contributed 51.8% (2006/07 49.5%) of the Board's costs and its share of the year-end net liability of £0.55m (2006/07 £0.22m) 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 2007/08, Shetland contributed 6.77% (2006/07 6.88%) of the Board's costs and its share of the year-end net liability of £300.9m (2006/07 £316.2m) 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 2007/08, Shetland contributed 9.34% (2006/07 9.66%) of the Board's costs and its share of the year-end net liability of £51.7m (2006/07 £56.2m) is included in the Group Balance Sheet.

Shetland Transport Partnership (ZetTrans) was established in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005. In 2007/08 Shetland contributed 64.1% (2006/07 67.4%) and net year-end liability was zero.

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

2006/07 £000	Northern Joint Police Board	2007/08 £000
3,873	Turnover	3,963
264	Profit before Tax	36
0	Taxation	0
264	Profit after Tax	36
4,624	Fixed assets	4,476
836	Current assets	1,098
(414)	Liabilities due within one year	(520)
(36,966)	Liabilities due after one year or more	(35,939)

2006/07 £000	Highlands and Islands Fire Board	2007/08 £000
2,058	Turnover	2,099
(63)	Profit before Tax	116
0	Taxation	0
(63)	Profit after Tax	116
3,712	Fixed assets	3,939
387	Current assets	349
(388)	Liabilities due within one year	(311)
(9,333)	Liabilities due after one year or more	(9,173)

2006/07 £000	Orkney and Shetland Valuation Joint Board	2007/08 £000
286	Turnover	291
0	Profit before Tax	3
0	Taxation	0
0	Profit after Tax	3
0	Fixed assets	0
7	Current assets	9
(7)	Liabilities due within one year	(9)
(106)	Liabilities due after one year or more	(18)

2006/07 £000	Shetland Transport Partnership (ZetTrans)	2007/08 £000
612	Turnover	1,176
3	Profit before Tax	9
0	Taxation	0
3	Profit after Tax	9
0	Fixed assets	0
540	Current assets	1,324
(540)	Liabilities due within one year	(1,324)
0	Liabilities due after one year or more	0

2. **Financial Impact of Consolidation**

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £36.1m, 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.

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

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £257m for the Group's accounts. An estimate of the effect of the fall in investment values for the Group cannot be reliably made due to the ongoing volatility within the markets.

SHETLAND ISLANDS COUNCIL

2007/08 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 2008.

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

SHETLAND ISLANDS COUNCIL

2007/08 Abstract of Accounts

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

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

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

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2007/08 was that the Council's system of internal control was adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

The effectiveness of internal financial control is also informed by:

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

Notwithstanding the above, issues surrounding disclosure checks continue to be a problem. However, the situation is gradually improving. Controls around school funds and comfort funds are causing concern and are currently under review. It is also intended to review Register of Interests processes. Issues surrounding standing orders being applied in relation to contractible services have also been identified. Due to a lack of progress as a result of a follow up audit on Social Care, the Executive Director has agreed to provide a 6-month progress report in October 2008. There was also during the year a major revision of the risk registers by the Safety and Risk service. These identify areas where the Council runs significant risks and will inform the allocation of resources towards the management of these risks and audit of the system of control.

The Council identified four entities that it treats as 'associates' and has included them within its Group Accounts. Two of these entities, the Orkney and Shetland Valuation Joint Board and the Shetland Transport Partnership (ZetTrans) are operated by the officers of the Council using the systems of the Council and are therefore effectively covered by its systems of internal financial control. The other two entities, the Northern Joint Police Board and Highlands and Islands Fire Board, are operated by Highland Council and so the Council's influence over their systems of internal financial control is limited to the involvement of the members that represent the Council on these boards.

………………………………………………………

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 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account, Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account, and the related notes and the Statement of Accounting Policies, together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

I report my opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you, if in my opinion, the local 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 compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local 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. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

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

Qualified opinion arising from disagreement about accounting treatment

The 2007 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 both of these bodies represents a significant interest and their omission results in a material miss-statement of the group accounts.

In March 2008, the Council obtained legal advice which recommends that the results of the Shetland Development Trust should be included in the group accounts, whilst the position of the Shetland Charitable Trust required further consideration. Despite this advice, for 2007/08 the Council has not included either of the trusts in the group accounts.

Based on prior year financial statements, I estimate that these bodies would contribute:

- a deficit position of approximately £3 million to the Group Income and Expenditure Account (resulting from income of £13 million and expenditure of £16 million);

- net assets of approximately £277 million to the Group Balance Sheet (resulting from fixed assets of £29 million, investments and loans of £232 million, net current assets of £18 million and long term liabilities of £2 million).

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

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Shetland Islands Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and

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

Fiona Mitchell-Knight FCA
Assistant Director of Audit (Local Government)
Audit Scotland
7th Floor Plaza Tower
East Kilbride, G74 1LW

30 September 2008

Shetland
Islands Council

REPORT

To: **Audit & Scrutiny Committee** **19 November 2008**

From: **Service Manager – Internal Audit**

INTERNAL AUDIT – Six-monthly Internal Audit Progress Report 2008/09
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 2008/09. 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 2008/09

4.1 Appendix 1 details the Internal Audit activity for 2008/09 to date.

4.2 In addition to the planned audit activity, additional work, as an appointed Council Investigation Officer, in relation to a staffing matter was performed.

4.3 Members may recall in June it was reported that the Social Care follow up audit had been disappointing and that the Executive Director had undertaken to provide a further progress report. This has been submitted as agreed and indicates progress has been made albeit some issues are still outstanding. Nevertheless the Executive Director states plans are in place to complete the tasks as agreed.

4.4 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 at least 90% of the plan will be completed by 31st March 2008. The situation will continue to be closely monitored.

4.5 The service has been fully staffed for the past year with staff performing well in 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 2008/09.
- Consider main issues identified.

Date: 11 November 2008
Our Ref: CMcI/DS Report No: F-036-F

Audit	Auditee	Progress Report / Key Audit Issues
Capital Programme Service	Capital Programme Service Manager	Five key audit issues were identified: • A robust system must be put in place in order to ensure the requirements; controls and procedures in connection with the acquisition of performance bonds exist. An absent bond for an ongoing project should be acquired as a mater of urgency. Previous commitments in 2004, to address issues surrounding performance bonds have not been implemented. • The Early Contractor Involvement budget must be clearly defined and the Anderson High School 2007/08 overspend reported. (This issue was addressed by CPRT and SIC in June 2008). • Budget reporting must be transparent and preferably include whole project / contract accountability. • The project management and financial administration of the Mareel project must be clarified and the VAT situation rectified. • Until such time as an Approved Contractor List is established, inclusion to pre-selection for contractors that have a 'poor track record' must require approval by Head of Service level and not at Project Manager level. • In order to ensure best value, consideration should be given to increasing in-house provision of services because of the rising costs of consultancy.

		Other audit issues were acknowledged and commitment given to address them.
Roads – Network & Design	Roads Network & Design Manager	No Key issues were identified. Whilst there were audit issues these were acknowledged and a response was received indicating they would be resolved.
Library	Library & Information Services Manager	Three Key Audit issues were identified: • A public internet usage policy must be clearly defined and thereafter be consistent with procedures and configuration. Authority and responsibility for levels of internet access, filtering configuration, categorisation, maintenance and changes should be established, along with a policy on methods of monitoring. • The 'moderation preference' should be activated on all search engines and a technical solution on the ability to disable the moderation functions should be addressed as soon as possible in order to prevent both adults and children from accessing inappropriate material. • All Library staff omitted from the renewal programme for Disclosure Scotland should be processed as soon as possible. The Disclosure database must be checked for completeness. It was acknowledged that direct responsibility for this is outwith the domain of the Library and Information Service Manager. Other audit issues were acknowledged and commitment given to address them.

Legal & Admin - Legal	Acting Divisional Manager - Legal	Two Key Audit issues were identified: • The review of staffing arrangements at Legal Services should be finalised with the post of Acting Divisional Manager dealt with as a matter of urgency. • Council house sales require to be more expeditiously dealt with.
Youth Work	Youth Services Manager	One Key Audit issue was identified: Some staff have not been Disclosure checked although the extent of non-disclosure is unclear due to problems with the database. It was acknowledged that direct responsibility for this is outwith the control of the Youth Services Manager.
Ferries	Ferry Operations Manager	Audit ongoing scheduled to finish Nov / Dec 2008.
Ports & Harbours	General Manager – Ports & Harbours	Audit ongoing scheduled to finish Nov / Dec 2008.
Transport	Service Manager - Transport	Scheduled to commence Dec 2008.
Finance – Income & Recovery / Cashiers	Income & Recovery Manager	Scheduled for 4th Quarter 2008/09.
Finance – Benefits & Rents	Benefits Manager	Scheduled for 4th Quarter 2008/09.

Environment – Waste Services	Waste Service Manager	Scheduled for 4th Quarter 2008/09.
Environment – Burial Grounds	Burial Ground – Service Manager	Scheduled for 4th Quarter 2008/09.
Environment – Cleansing Services	Cleansing Service Manager	Scheduled for 4th Quarter 2008/09.

Follow up Audit	**Auditee**	**Progress Report**
ASN Investigation	Head of Schools	A significant number of issues have still to be progressed to conclusion. Management require to drive these forward. Internal Audit will assess progress during the next scheduled audit of the School Service. An Action Plan has been received from the Head of Schools which if implemented would resolve the issues requiring progression. In addition the Executive Director has commented as follows: *"The management, systems and control weaknesses, as identified by Internal Audit in the Special Investigation Report into the ASN service, are of a long standing nature. I accept the recommended improvement actions identified by the Audit, which the Department committed to achieving through an agreed Action Plan. In particular, there is a need to develop the service at a strategic level, to assist with long term planning and resource allocation. Progress towards implementing the improvement actions has been slow, but the Department is still committed to the Action Plan. Work continues to clarify managerial roles and responsibilities and recruitment is in hand to replace the dedicated Educational Support Officer with responsibility for ASN services. An updated Action Plan with revised timescales was*

		prepared for the timescale set by Internal Audit (24 October 2008), recognising that management time within the Schools Service will be diverted onto Single Status and Blueprint consultation between now and the end of December 2008.”
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 – Executive Office	Most issues had been addressed. We are now advised outstanding matters have now been resolved.
Legal & Admin - Admin	Service Manager - Administration	Matters have been substantially resolved with commitment to address other areas made.
Roads Maintenance	Roads Maintenance Manager	A key audit issue had not been fully resolved. We are assured this has now been completed. Others matters were either already addressed or are being addressed.
Emergency Planning	Emergency Planning & Resilience Manager	We were advised the one outstanding issue would be resolved.
Human Resource Management	Human Resource Manager	Scheduled to commence November 2008.
Grants	Grants Co-ordinator	Scheduled for 3rd Quarter 2008/09.
Adult Learning	Adult Learning Manager	Scheduled for 3rd Quarter 2008/09.
Management Accountancy	Service Manager – Management Accountancy	Scheduled for 4th Quarter 2008/09.
Contract Compliance	Contract Compliance Manager	Scheduled for 4th Quarter 2008/09.
Schools Service	Head of Schools	Scheduled for 4th Quarter 2008/09.

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	Currently being finalised. No significant issues to report.
Performance Indicators	Audit Scotland	Report submitted to Audit Scotland.
Software Review	Strategic Audit Plan	Scheduled for 3rd Quarter 2008/09.
Remote Working Review	Strategic Audit plan	Scheduled for 4th Quarter 2008/09.

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **19 November 2008**

From: **Head of Finance**

CAPITAL PROJECT MANAGEMENT: THE WAY FORWARD
Report No: F-035-F

1. INTRODUCTION

1.1 The Audit and Scrutiny Committee considered a report on Capital Project Management (F-028-F) at the regular meeting on 8 October 2008 (Min. Ref. 35/08) and at a special meeting on 28 October 2008 (Min. Ref. 36/08). The Committee widely debated the issues raised by the report, and committed to work further towards the goal of identifying best practice on capital project management, and promoting the implementation of best practice around the Council. As an initial step along that path, the Committee called for this further report, focussed upon finding the best way forward.

2. LINKS TO THE CORPORATE PLAN

2.1 This report seeks to continue the scrutiny of capital project management, with a view to promoting best practice. This contributes to the Corporate Plan aim of seeking to ensure the Council is sustainable in everything it does.

3. BACKGROUND

3.1 The main conclusions of the previous report were as follows:

3.1.1 Existing processes of policy formulation need to be strengthened and broadened to cover all services, with clear reference to relative priorities, in order to provide an adequate framework for all stages of capital project management. Existing policy doesn't yet give sufficient guidance on what is required, what are the relative priorities, what are the timescales, and what are the resource constraints. There are, however, examples of what could develop into good practice which can be built on, such as the Transport strategy, the forthcoming Education blueprint, and the work being done on the new capital project prioritisation regime, incorporating greater levels of politically driven priority setting.

3.1.2 Project definition also needs to be strengthened, which will partly come from improved policy formulation. Rigorous development and appraisal of the various feasible options is a vital stage, which should close off alternative options at an earlier developmental stage and clearly lead to a conclusive choice of a particular project. The differing roles of officers (who should provide the fullest possible objective evidence to distinguish between the options) and Members (who should overlay consideration of the objective professional advice with all the other considerations (e.g. political, non-quantifiable) which make up good quality decision-making) need to be clearly recognised. In fact, the roles and responsibilities of everyone involved in capital project management need to be clearly defined, understood and agreed, as a prerequisite for achieving good management and accountability. Important work has already been done on this in the Capital Projects Procurement Guidance.

3.1.3 Project planning and implementation stages also deserve attention, both in terms of the improvements required in the foregoing stages and in seeking improvements in detailed monitoring and accountability.

3.1.4 Post project reviews should also be carried out, with a view to developing best practice for the future.

3.2 In the debate, Members were generally of the view that in future there needed to be firm, clear and definitive decision-making in the Council Chamber, based upon complete and high quality analysis of all the issues and options for projects. Members must be fully involved in all the key decision making stages, including policy formulation, project definition, project planning, project implementation, project monitoring and review. And at each key stage there should be a clear budget setting decision point at which resource allocation and resource constraints are clearly determined, in the full light of the implication of those decisions for other projects and priorities. It was recognised that changing course after a project is substantially under way is a costly thing to do, and must only be considered when there is a compelling evidence-based case for making such a change.

3.3 The challenge is to build upon experience gained with the work already done to identify and develop best practice, and to ensure that it is consistently and rigorously applied around the Council.

4. CAPITAL PROJECT MANAGEMENT: THE MAIN STAGES

4.1 <u>Policy Formulation</u>

4.1.1 Good projects should be born out of Council policy (including the Corporate Plan, and Service Plans). The need to do something should derive from an identified problem or objective defined in Council policy. When that is done well, there will be maximum clarity about what the project needs to achieve, and that will be of tremendous assistance to the officers involved in project management in setting clear criteria for measuring the success of the project. Done well, projects born out of clear policy will give the entire project team a clear goal to focus on, and that clarity should help see projects through to a successful outcome.

4.1.2 The building blocks of policy are already there in many (though not all) areas. It starts with European Union, United Kingdom and Scottish Government policy direction, then moves into the local dimension with Shetland-wide Community Planning, and coordination of policy with key partners such as the Shetland Charitable Trust, NHS Shetland and Hjaltland Housing Association. Internal Council policy begins at the corporate level with the Corporate Plan and corporate financial policy, before getting down to service level in the form of Committee policy and individual Service Plans.

4.1.3 A lot of valuable work has been done at all these levels, and is continuing. It is very important to continue that work, and to extend it into service areas where the policy framework is relatively undeveloped or insubstantial. The biggest challenge, however, is to knit all the strands of policy into a coherent whole, and that is primarily a challenge for the full Council. The main weaknesses at present are as follows. At the corporate level the Corporate Plan isn't specific enough (it doesn't set timetables or priorities with sufficient clarity, and it doesn't balance those against resource constraints, both financial and non-financial). And at the service level the issue is that the policy framework is incomplete (some areas have detailed policy, others less so, and in others it is still in development). Where there is service policy more needs to be done at Council level to adjudicate between competing claims for resources.

4.1.4 These challenges are of great magnitude, and are ongoing, but will soon come to a particular head in the context of setting a revised Capital Programme in early 2009. The Council has a multitude of spending aspirations, some identified in the Corporate Plan, some in Service Plans and policies, some in the current Capital Programme, and some lurking in the wings but not yet defined (e.g. Whalsay ferries/terminals, Social Housing, economic development), and the Council has approved a financial framework for capital funding which recognises the need to significantly reduce funding in the medium to long term. Aspirations and constraints are unreconciled at present, and the Council has dispensed with attempts by officers to provide objective advice (by way of a points scoring mechanism) as to the relative priority of different projects. The challenge is clear and of tremendous importance, but the means to meet the challenge are unspecific. So far Committees have been asked to prioritise their projects, and some progress has been made on that, but the most difficult stage will be at full Council, where relative priorities and resource allocations will have to be decided, and the process for successfully achieving that is as yet unclear.

4.1.5 Given the fact that no-one has all the answers to this challenge, but that answers are needed soon, the Council will need to determine at an early stage how it wishes to work out the best approaches to this problem.

4.1.6 Policy formulation is a continuing task, and events often require action before perfection is achieved on the framing of policy. Success will come from using the time available and the work already done to best effect, concentrating effort on the most important weaknesses and unknowns, and then making the best possible judgments as to the priorities on which resources should be concentrated (and at the same time deciding which are the lesser priorities to which resources should not at present be allocated). The way in which the Council tackles the challenge of reconciling capital spending aspirations with available resources will have important lessons for the future conduct of policy formulation.

4.2 **Project Definition, Planning, Implementation, Monitoring and Review**

4.2.1 Report F-028-F summarised my initial views on best practice for the management of projects. Other views were expressed by members, and also by other officials at both the regular and special meetings of the Committee. A good deal of work has also been done on this within the Council over the years. The Capital Projects Procurement Guidance (November 2003) covers key roles and responsibilities, leadership and teamwork, effective planning/monitoring/control, and other aspects of ensuring that best value is achieved in projects. Particular approaches to project management have been pioneered in particular service areas (most notably the use of PRINCE project management methodology in relation to ICT projects). Recent management development initiatives have also highlighted techniques which will have a valuable contribution to make (notably the LEAN methodology for analysing processes and minimising waste).

4.2.2 There is therefore a wealth of materials and ideas to draw upon, and a wide range of different perspectives with a contribution to make towards developing best practice on project management. The challenge is to extract the best out of all these sources, synthesise it into usable best practice guidance, and then ensure that it is appropriately and consistently applied across the Council.

4.2.3 I had initially hoped that it would be possible to be prescriptive in detail about the way ahead in this report, but my conclusion is that the subject is so large and important that it will need more time and fuller participation from a wide range of contributors in order to do it justice.

4.2.4 | would propose as a first step that the Council determines its approach to setting the capital programme for the next period as outlined in 4.1.4. and 4.1.5 and that the Audit & Scrutiny Committee should appoint me (Head of Finance) to chair a senior officer multi-disciplinary working group with the objective of reporting to Committee (with progress reports each meeting cycle) setting out recommendations for best practice on the future management of capital projects.

5. POLICY AND DELEGATED AUTHORITY

5.1 Responsibility for scrutiny of Council policy, implementation, practices and processes stands referred to the Audit and Scrutiny Committee. It is ultimately for this Committee to make recommendations for change to the Council and its Committees, who have ultimate responsibility for these matters.

6. CONCLUSIONS

6.1 The previous report and debates at Audit and Scrutiny Committee identified the potential benefits of establishing a more rigorously managed approach to capital projects in the Council.. This report focuses attention on two main issues, policy formulation and project management in the widest sense.

6.2 The conclusion with regard to policy formulation is that a good deal needs to be done to balance aspirations with available resources, and to determine relative priorities for projects at service level and across the Council as a whole. The immediate challenge is to successfully do this in order to set a revised Capital Programme early in 2009, and the proposal is that the Council should focus its attention on that challenge over the next few months, before taking any new initiatives on policy formulation.

6.3 The conclusion with regard to project management is that the Committee should appoint me to chair a senior officer-working group to report back on best practice.

7. RECOMMENDATIONS

7.1 I recommend that the Audit and Scrutiny Committee should appoint me (Head of Finance) to chair a multi-disciplinary officer-working group with the objective of reporting back to the Committee as soon as possible (with progress reports each cycle) on best practice project management for the future.

Date: 11 November 2008 Report No: F-035-F
Ref: GJ/DS/F/1/1

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**

From: **Performance Management Co-ordinator**

Report No: CE-50-F

Audit and Scrutiny Committee Investigation – Gender Balance May 2008 Report

1 Introduction

1.1 The Audit and Scrutiny Committee carried out an investigation in August 2006, into the Gender balance within the Shetland Islands Council. This followed on from evidence, as presented through the Statutory Performance Indicators (SPIs), that Shetland performed relatively poorly compared to other Councils on the following indicator:

"The number and percentage of the highest paid 2% and 5% of earners among Council employees, that are women"

In 2006, 10.4% of the top 2% of earners in the council were female and 10.8% of the 5% of earners were female.

1.2 These SPI figures have increased over the last 2 years so that they now stand at;

- Top 2% that are female = 12.3%
- Top 5% that are female = 20.9%

2 Background and Link to Corporate Priorities

2.1 The Shetland Islands Council has committed to fulfilling the duties laid out for it under the amended Sex Discrimination Act 1975 and working towards the Gender Equality Duty.

2.2 Shetland's community statement contains the following statements:

- We'll seek to create fulfilling, well paid jobs for all, whatever their talent
- Foster confident, thriving communities across Shetland
- Promote justice and equality, here and overseas
- Expand knowledge, extend opportunities and improve access

2.3 The Community Plan priorities and targets contains the following:

- We will be internationally renowned by ranking in the top 5% on a European stage. We'll ensure that equal opportunities exist for all, no matter an individual's age; race, gender, faith, sexual orientation or disability and we will decrease inequalities.

- However as the following report highlights, although we have made a commitment within the Shetland Resolution, we still have an obligation to work together to make sure that no discrimination exists in any of the Council's service areas and that a person is rewarded with the pay and the respect they deserve regardless of sex or gender.

3 Highlights from Gender Investigation

3.1 The previous investigation by the Audit & Scrutiny Committee was prompted by the performance of Shetland Islands Council against the two gender balance Statutory Performance Indicators. In the last couple of years there has been an increase of 6% of women being recruited to the top 5% of earners within the council however, 80% of the top 5% of earners are male and 88% of the top 2% of earners within the Council are male.

3.2 Training and Employee reviews

There were 3,790 training applications of which **70.08%** were female and 29.92% were male. Of the 3,737 successful training applications (approved by managers), **70.40%** were female and 29.60% were male. All employees should take part in an annual Employee Review & Development meeting with their line manager. Of the 89 meetings logged in 07/08, **71%** of them were from female staff and 29% from male.

3.3 Women and Men engaged in Decision and Policy Making Issues

Committee	**Male**	**Female**
Council Members	17	5
Employees Joint Consultative Committee	16	3
Local Negotiating Committee for Teaching Staff	12	4
Shetland College Lecturers Joint Consultative Committee	4	3
Shetland College Lecturers Local Negotiating Committee	4	3
Executive Management Team	3	1
Total	56	19

3.4 Reasons for Leaving the Council 07/08

- 2 dismissals – 100% of which were male.
- 56 employees retired, 64% of which were female and 36% were male.

- Of the 486 employees who resigned in 07/08, **81%** of them were female and 19% of them were male.

4 Financial Implications

4.1 There are no financial implications as a direct result of this report.

5 Policy and Delegated Authority

5.1 As described in Section 11 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

6 Conclusions

6.1 The Shetland Islands Council is taking positive steps to promote the Gender Equality Duty and to ensure that no discrimination exists in any of its services. The Gender Equality Duty is more than just fulfilling a statutory requirement. It is a way of thinking, whereby a person is viewed not by their sex or gender but by whom they are as a person and what their abilities are.

6.2 The key areas that the Shetland Islands Council may need to focus on in the forthcoming year;

- To monitor and seek to improve the imbalance of women in the Decision and Policy Making process
- To continue progress in developing and implementing arrangements to promote and encourage a level playing field for the recruitment and promotion of female staff to the most senior management positions.
- To ensure that Single Status is implemented and delivers its potential benefits to the development and rewards of female staff.

7 Recommendations

I recommend that the Audit and Scrutiny Committee should;

7.1 Consider the content of this report, confirm further information gathering or investigation required and develop recommendations to report to Council.

Date: 11/11/08
Our Ref: LS/PP Report No: CE-50-F

Appendix A

Councils Workforce
As at 1 April 2008 the Quarterly Joint Staffing Watch Survey for Shetland Islands Council shows the number of staff at **4,099** and the total number of FTE as **2,469**. This is broken down into **26.69%** male and **73.31%** female staff, of which **202** are part-time male and **2,006** part-time female. Posts such as Social Care Workers, Cooks and Cleaners are predominantly part-time female staff, which explains the high percentage of part-time female staff. The total number of staff records, including relief and supply staff, on the Council's payroll is **5,728**.

The various staff groups can be broken down as follows:

Table A

Staff Group	Male %	Female %
APT&C	35.18	64.82
Chief Officials	84.21	15.79
Manual Workers	22.24	77.76
Craft Operatives	97.87	2.13
Teachers	23.68	76.32
Lecturers	43.10	56.90
Instructors	18.82	81.18

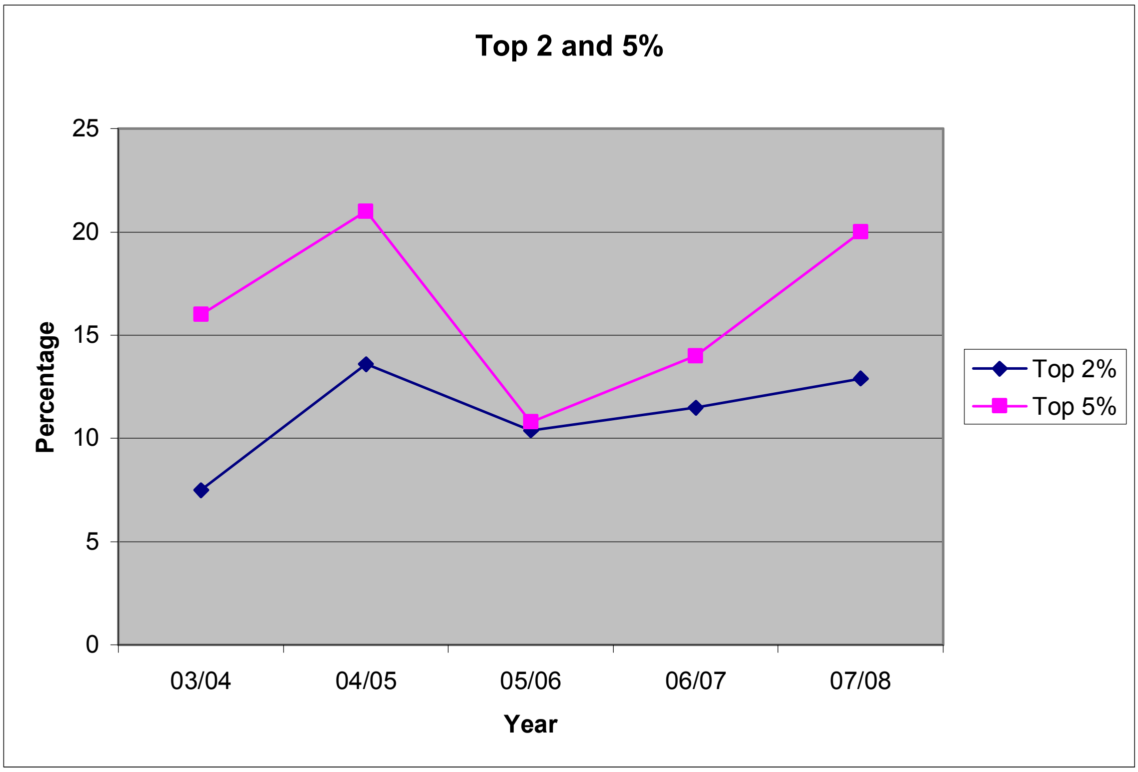
The Council has arrangements in place to support the caring responsibilities of employees through the provision of childcare vouchers and various policies including maternity provisions, flexible working, adoption leave and parental leave. There are currently **41** employees who take part in the childcare voucher scheme, of this, 11 were male and 29 were female. However, the data on employees could not be broken down into those with caring responsibilities, as there are currently no measurements in place to record such information.

Statistical Evidence Update

Two statutory performance indicators are collated by Audit Scotland in relation to Local Authority Staff gender balance. Percentage's of the top 2 and
5% of earners who are female. (*These indicators exclude teachers*)

Shetland Island Council continues to perform poorly against these Statutory Performance Indicators. In the year 06/07, Shetland came 32nd out of 32 councils for performance on both indicators (top 2% and top 5%).

Figure 1 Top 2% and 5% of the Council workforce: Female



As you can see from figure 1, the council has made improvement within the last year. With an increase of 6.9% of women in the top 5% from 05/06 to 07/08 and 1.4% in the top 2%.

In 2006/07 there were 18 females in the top 5% of earners. This has now progress to its current level of 29 in 2007/08. The increase has mostly been due to females recruitment and promotion, at this stage predominantly to service management positions

One of the reasons as to why Shetland's performance is poor is due to significant numbers of marine staff employed by the Council. There are few women among senior positions in this industry sector, and none in the Council.

Marine Staff

It may be possible in the long run to raise awareness of opportunities for women with the marine sector and to target women for recruitment, through a variety of methods, I.e. young women in schools, careers events with marketing aimed at women and young women and ensure that the marine service as a whole is more women friendly.

Figure 2 : 2007/08 top earners in the Council

2007 / 2008 Analysis - 2276 Female Staff - 966 Male (excludes reliefs)

Top Paid 325 - Numbers of Staff				Top Paid 325 - %s			
Area	F	M	Total	Area	F	M	Total
Marine	0	96	96	Marine	0%	100%	30%
Officer	40	50	90	Officer	44%	56%	28%
Teacher	80	58	138	Teacher	58%	42%	42%
Total	120	204	324	Total	37%	63%	100%

As figure 2 indicates, overall numbers of males and females at senior officer and senior teacher level are relatively equal. It continues to be the marine area where significant imbalance lies.

Due to the nature of the equal opportunities indicators, the teaching staff of the council are not included in the top 2% and 5% SPI's. They are measured by their own performance indicators. Overall teaching staff in Shetland are 77% female to 23% male. College Lecturers are 58% female to 42% male.

5. Summary of Council Performance

5.1 Analysis of Training Opportunities

Gender	Approved	Not Approved	Grand Total
Female	2629	27	2656
Male	1104	30	1134
Grand Total	3733	57	3790

There were 3,790 training applications of which **70.08%** were female and 29.92% were male. Of the 3,737 successful training applications (approved by managers), **70.40%** were female and 29.60% were male.

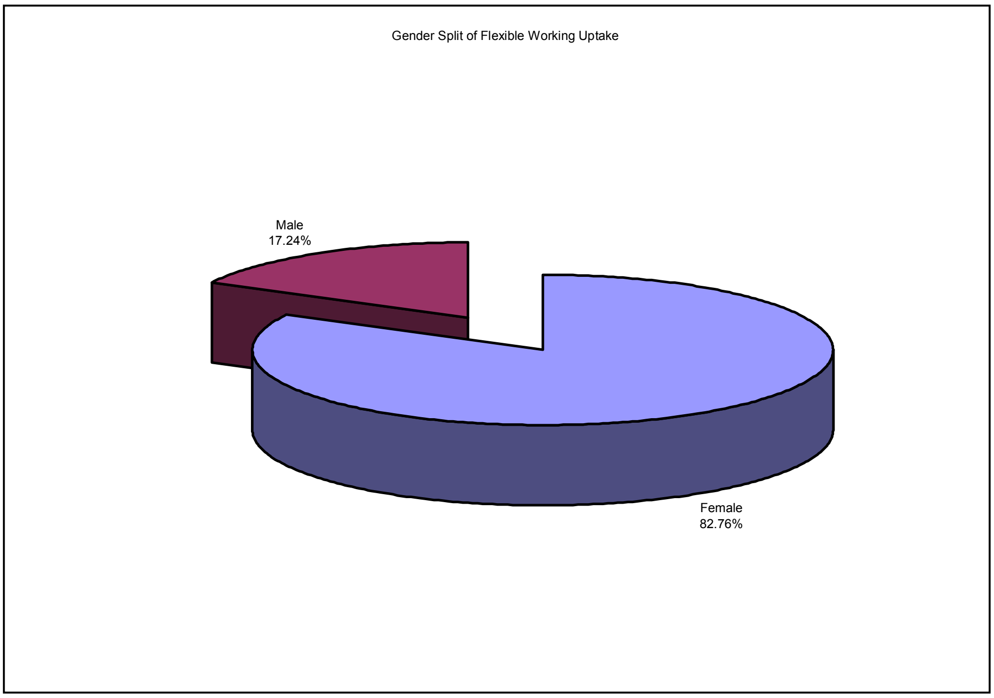
All employees should take part in an annual Employee Review & Development meeting with their line manager. Of the 89 meetings logged in 07/08, **71%** of them were from female staff and 29% from male.

5.2 Grievance and Disciplinary 07/08

From 1 April 2007 to 31 March 2008 there were **15** incidents reported through the Council's disciplinary procedure. A total of **53.33%** were male and **46.67%** were female.

Flexible Working and Job Share Take Up Rates

Figure 4: Gender Split of Flexible working Uptake



The above chart shows the overall gender split of the uptake of Flexible working.

Chart shows flexible uptake

- Female - 82.76%
- Male – 17.24%

Out of **5,728** records, **111** are job share and can be broken down by department as follows:

- Education and Social Care – **82%**
- Executive Services – **7%**
- Infrastructure – **7%**

Women and Men engaged in Decision and Policy Making Issues

A gender breakdown of those involved in decision and policy-making issues affecting Council employees can be seen in Table D below.

Table D

Committee	**Male**	**Female**
Council Members	17	5
Employees Joint Consultative Committee	16	3
Local Negotiating Committee for Teaching Staff	12	4
Shetland College Lecturers Joint Consultative Committee	4	3
Shetland College Lecturers Local Negotiating Committee	4	3
Executive Management Team	3	1
Total	56	19

Table D clearly shows the high number of males involved in Council decision and policy-making issues. This is not a reflection of the gender balance of Council employees, however these committees are a mixture of Council Members and Union Representative all of whom are elected by constituents and employees respectively. There continues to be a need to address the gender balance in those who actually put themselves forward for election as Council members and Union Representatives.

Reasons for Leaving the Council 07/08

- 2 dismissals – 100% of which were male.
- 56 employees retired, 64% of which were female and 36% were male.
- Of the 486 employees who resigned in 07/08, 81**%** of them were female and 19% of them were male.

This may in part be answered by the high percentage of resignations in job share - holders. The number of resignations for female job share - holders is nearly 60%. This would suggest that further investigation may be required into why female job share holders are resigning, as it would indicate that job shares are not working.

Equalities Monitoring

Actions currently in place / planned

1. Equality and Diversity Strategy
2. Disability Equality Scheme
   - Disability Annual Report
3. Gender Equality Scheme
   - Gender Annual Report
4. Race Equality Strategy
   - Race Equality Review 2008

- Ensuring Equalities Action Plan – Have an approved project plan for Equalities and Human Rights for 08/09

- Equality Impact Assessments – monitored through reports and service plans.

Continue to implement fair and equal set of policies and practices

- Recruitment and Selection policy
- Training and Development Policy
- Equality and Diversity Training
- Management Development and Succession Planning Programme

Support opportunities for flexible working

- Flexible working guidance
- Job Share Policy
- Maternity Support / Parental Leave

Monitor impact

- Performance Indicators
- Gender Equality Action Plan (Statutory Obligation)
- Gender Annual Report (Statutory Obligation)
- Organisational Development Service Plan

October 2008

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee** **19 November 2008**

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

CE-49-F

Study into the efficient use of Council buildings

1 Introduction

1.1 Members of the Audit and Scrutiny Committee decided at their meeting on 30th November 2007 that they wanted to carry out a more in-depth study into which buildings are owned by the Council and how efficiently these are being used (min ref. 19/07). Terms of Reference were agreed on the 11th June. The attached Appendix 1 sets out the report, for consideration by Members.

2 Link to Corporate Priorities

2.1 This study will contribute to the Council’s Corporate Plan 2008-11 aim of “being efficient in everything we do”, particularly in seeking to deliver 2% efficiency savings each year in General Fund revenue spending. It is also a Corporate Plan aim to “create a single Council Campus”. This study will seek to add to the discussion of how this might be achieved.

3 Financial Implications

3.1 There are no financial implications arising from this report.

4 Policy and Delegated Authority

4.1 As described in Section 11 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

5 Conclusions

5.1 This report has introduced the study into the efficient use of Council buildings.

6 Recommendations

6.1 I recommend that members of the Audit and Scrutiny Committee consider the information that has been gathered as part of this study and make any recommendations to Council as considered appropriate.

November 2008 CE-49-F

APPENDIX 1

Audit and Scrutiny Committee
Study into the efficient use of Council Buildings

1. Introduction

1.1 This study comes as a result of members of the Audit and Scrutiny Committee seeking information on a number of areas related to the efficiency with which the Council uses its buildings. The Terms of Reference for the Investigation are attached as Appendix 1.1.

1.2 In researching information for this study it was clear that the terms of reference overlap with ongoing projects/studies in this area. In order to avoid duplication of effort, this study seeks to cross-reference relevant pieces of work. Its hoped that by doing so, Members will be better informed of when and where particular pieces of information will become available.

1.3 The report is structured to coincide with the issues that were included in the Terms of Reference.

2. Acknowledgements

2.1 I would like to thank David Williamson, Building Services Manager, Alan Rolfe, Acting Asset and Properties Manager, John Simpson, Energy Manager and Anna Sutherland Policy and Development Assistant for their input into this report.

3. Response to issues outlined in Terms of Reference

3.1 A breakdown of where Council buildings are located, including details of the Council's Asset Register and where this is available.

The attached Appendix 1.2 provides a breakdown of where the Council's buildings are located. This information is taken from the Asset Register which is held by the Finance Service at Montfield. This does not include Council housing, the agricultural estates or Council infrastructure such as roads, ferries, tugs etc as the focus of this study is on Council buildings.

Members may wish to seek further information on how any of these buildings are being utilised – particularly those that currently appear to be underused (examples could include Papa Stour Primary School, Quarff Additional Support Base, St Clements Hall)

The Council also leases buildings. These are not included on the list, but for completeness, are set out in Table 1 overleaf:

Table 1

Store 4, Arlanda	Store, Knab Road	Gutter's Hut (ground floor)
Store, Alexandra Building	Office, SBS Building, Greenhead	6 North Ness Business Park
Waiting Room, Albert Building	Store 3, Arlanda yard	Store 3, Mill Lane
Store 14b, Gremista Industrial Estate	15 Stanegarth, Lerwick	Depot, Garthspool

3.2 Council accommodation usage figures, where possible.

At the meeting of the Accommodation Working Group in March, the Council's Capital Projects Service was asked to carry out a 'Space and Property audit' on Council-owned buildings in Lerwick. The objective of this study was to:

- Gather together information on Council buildings in Lerwick from various briefs and feasibility studies into one overall statement of service need and site space;
- Carry out an assessment of current "spare" space, underutilised properties or potential for redevelopment space / sites.

The Asset and Properties Service proposed that on completion of the audit, they, with input from the Planning Service, would carry out analysis of the most efficient and effective locations for various services. As a result of the study, the Asset and Properties Service will create a strategic plan for the use of existing buildings / sites around Lerwick for public sector development.

The Space and Property Audit is still ongoing, so it is not possible to provide data to show office accommodation usage across Council buildings. However, it is expected that this will be completed before the end of this financial year. The space and property audit has a particular focus on Social Care and Education requirements.

In addition, a "Condition Survey" has been commissioned from consultants Dearle and Henderson. The aim of this study is to assess the condition of the Council's occupied buildings. The outcome of this study will complement the Space and Property Audit, in that it will identify which buildings are in poor condition and what it will cost to repair / maintain these. This survey is ongoing at the moment, with 70 of the Council's 90 occupied buildings having been surveyed to date. It is expected that the survey will be complete and a report prepared for Infrastructure Committee with its results before the end of March 2009.

3.3 Information on the debate into a single Council campus and some discussion of options that have been considered / are being considered. Current issues relating to this and timeframe for potential progress.

The Council is committed through its Corporate Plan 2008-11 to "Create a single Council Campus for services in Lerwick, to improve efficiency in the use of Council office space, starting with new headquarters for the Social Work and Housing services".

The Council's Accommodation Working Group is responsible for providing guidance and advice to the Chief Executive on accommodation issues, including consideration of key estates issues. The group, which meets on an as required basis has the following membership:

Elected Members:
Sandy Cluness – Convener; Josie Simpson - Vice Convener; Leslie Angus – Chairperson of Services Committee; Betty Fullerton - Vice Chairperson of Services Committee; Allan Wishart - Chairperson of Infrastructure Committee; Iris Hawkins - Vice Chairperson of Infrastructure Committee; Bill Manson - Chairperson of Shetland Charitable Trust.

Membership reflected that of the previously constituted Executive Committee.

Officers:
Morgan Goodlad - Chief Executive, Mike Finnie – Capital Programme Service Manager, Alan Rolfe – Acting Asset and Properties Manager, Executive Director – Infrastructure Services.

The last meeting of the group took place on 11th March 2008. All Members are provided copies of the minutes of meetings, for information..

The group has been taking forward the Corporate Plan target to create a single campus for the Council offices that are situated in Lerwick. Essentially, this seeks to consolidate Council services into office accommodation that enhances service delivery wherever possible.

This has been progressing, with latest developments including:

1. The acquisition of the Bio Solarhus at the North Ness by SLAP will allow the Council's Economic Development Unit, Development Trust and HIE Shetland to move from their current premises at 6 North Ness into this building to create the 'Shetland Business Gateway'. The building was designed in collaboration with HIE who were initially planning to take up the lease on their own. This was prior to decisions by the new government to restructure HIE and a recommendation that where possible HIE and Councils co-locate their development offices to promote greater integration of services. As a result, the Housing Service will then move from their inadequate premises at Fort Road into 6 North Ness.

2. The demolition of the former fire station site at Grantfield (which was bought by the Council in 2006). This was in preparation for the building of new office accommodation for the Transport Service, which currently occupies 11 Hill Lane and 20 Commercial Road. The new building has yet to be allocated a place on the Council's Capital Programme.

3. The acquisition of the former WAG site at the North Ness by SLAP, opening up the potential to build headquarters for the long overdue Council's Social Care Service. Currently SLAP are examining a design, build and lease option for this purpose.

4. The Council bought Quendale House under the Scottish Government's "Spend to Save" scheme, generating efficiency savings of £25,000 a year in rental payments. Once staff relocates to the new Social Care building at the North Ness site, 434.1 m² of office space will be available for other use, potentially housing.

The Audit and Scrutiny Committee recommended at its meeting on 11th June, that this study into the efficient use of Council buildings include a "detailed examination of the costs and benefits of building a single Council headquarters" (min ref. 24/08). As discussed with the Committee in August, this matter was raised with the Head of Finance, Head of Housing and Capital Programme, Head of Environment & Building Services and Acting Asset and Property Services Manager at a meeting in July. In light of the fact that the Council's current policy is to develop a single campus and that progress is being made on this, it was felt that to commission a study into a different model at this stage would run contrary to policy and would perhaps not be best use of resources.

It was also felt that the information, which will come from the Condition Survey and Space and Property Audit, will be vital to any consideration of the future direction for the Council's asset and properties strategy. Once the data becomes available, it was felt that Members might wish to debate the options further, which could include considering whether the single campus is the most efficient and effective accommodation model for this Council.

In terms of future progress for the campus, a number of office buildings do not seem to be featured in the single campus model. (Executive Services - Montfield, Charlotte House, 32 Hillhead (2 offices), 4 Market Street, 13 Hill Lane, Garthspool – total area of 3206.7 m² and Education and Social Care - Hayfield House - 1618.1 m²). When the aforementioned studies are completed, Members may wish to consider the merits of commissioning a study into the costs / benefits of co-locating these services (or some of them) as part of completing the campus model. This is also something which the Committee may wish to discuss further with the Accommodation Working Group.

3.4 Identification of opportunities for efficiencies
Maintenance
As mentioned in the 'Strategic Overview of Building Maintenance' that was reported to Infrastructure Committee on 10th June 2008, one of the main areas where efficiency gains could be made is by improving the percentage of planned maintenance that is being undertaken by the workforce. The point was made that with a reducing overall budget / property area ratio, less of the lower priority repairs are being carried out.

The result is that more of the jobs coming up arise a result of something having broken. This is not the most efficient way of deploying the workforce.

Work is ongoing to fully implement the Computer Aided Facilities Management Package. This system will improve the data that is available to tradesmen when responding to responsive repairs, thereby reducing the time spent on these jobs. The specialist software has been purchased and CAD drawings of Council buildings are being uploaded. The aim is to go 'live' with the system at the end of March next year.

Analysis is also being carried out on the way that maintenance jobs are processed. It's hoped that by mapping out the processes and analysing each one individually, those which do not add value to getting the job done, can be removed. This analysis technique (LEAN methodology, also sometimes called Kaizen Blitz) is a key component of the Council's current efficiency agenda and is being trialled in a number of service areas.

Energy efficiency

In terms of improving energy efficiency across the Council's property portfolio, the Council's Energy Manager provided a report to Infrastructure Committee on 8th October 2008 which set out the progress that is being made in that area. The following section provides some of the areas of that report which directly relate to this Study:

District Heating Connections

The Council has a number of buildings (both gas oil and electric heated) that could potentially be connected to the scheme. This project could change depending on the long-term future of some of the buildings but if they are moved to more efficient premises (Housing to North Ness) or new premises (proposed North Ness office) then savings are still likely to be achieved.

Tender documents have been issued to convert Islesburgh House and the Old Library Centre to district heating. A list of the Council buildings currently connected to the District Heating Scheme is set out in Table 2 below.

Table 2

COUNCIL BUILDINGS CONNECTED TO THE DISTRICT HEATING SCHEME			
Schools	**Care Homes**	**Offices**	**Other**
Anderson High	Edward Thomason House	Grantfield	Islesburgh Community Centre
Bells Brae Primary	Taing House	6 North Ness (Economic Development Unit)	Office & Store, Archives, King Harald St
Sound Primary	New Craigielea	Montfield	St Ringans Library
	Seaview, Kantersted	SBS Block 3 & Lab	
	Laburnum	SBS Block 2	
		Train Shetland	

Heat Pumps
Conversions to date include the top floors of both buildings at the Shetland College, the Building Services/Roads offices at Gremista, the ASN unit at Brae. Installations currently ongoing are Cunningsburgh Primary (tenders returned) and the Seafield Pavilion (order issued).

School Turbines
It's hoped that the 3 existing school turbines can be re-commissioned within the current financial year and if so this technology could potentially be used on other Council sites. The current wind to heat projects have been very successful in both displacing consumption from standard forms of heating and doing so as efficiently as possible through the storage of heat and hence again there is good local experience available to inform projects from feasibility through to installation.

There is now also a second local installer of wind turbines which will also improve competition in this area.

3.5 Information on the Council's Community Planning partners' asset and property management arrangements and whether there are any possibilities of joining up service delivery to make mutual efficiency savings/improvements to service levels.

Discussions have taken place with the Building Services Manager and Acting Asset and Properties Manager on the potential to promote more effective joint asset management with our Community Planning partners. Although this has been limited in the past, it is felt that it is an area that could be developed further. Particular examples include using some of the Amenity Trust's specialist tradesmen (such as Stonemasons) to work on redevelopment projects for the Council and exploring the potential for some of the Council's workers to carry out works on Community Planning partners' buildings during slack periods, such as non-school holiday periods in the winter. These are very tentative suggestions though and would require further discussion with community planning partners and employees.

A building maintenance discussion group meets regularly to facilitate the exchange of information between public service providers in Shetland. Membership includes representatives from the Charitable Trust, Amenity Trust, Recreational Trust, Shetland Arts Agency, NHS Shetland and the Council. As this discussion group is already established, it could be a vehicle through which future consideration of joint working in this area could be channelled.

Joint procurement of building consumables with NHS Shetland was considered as part of the ongoing review of the Council's procurement arrangements. Unfortunately this did not prove possible owing to national procurement arrangements. As reported to the Council in September, the Council has recently joined Scotland Excel, the national procurement organisation for local authorities in Scotland. This has the potential to deliver significant efficiencies for the Council.

4. Other issues arising from the study

4.1 A member of the Audit and Scrutiny Committee asked about the costs of the Council hiring scaffolding for large maintenance jobs and whether there could be any efficiency savings made by the Council purchasing its own scaffolding.

4.2 This was discussed with the Building Services Manager and he said that the Council owns some scaffolding towers which allow workmen to reach first floor windows. However, the Council doesn't own the kind of scaffolding that's required for bigger jobs. In order for this to be erected, the Council would be required to employ a specialist as Building Services doesn't have anyone with the required qualifications. The reason this hasn’t been done before is that there isn't enough of that type of larger scale work to keep a specialist employed all year. It's therefore considered to be cheaper and safer to contract this type of service in as and when it is required.

5. Potential opportunities

5.1 Space and Property Audit and Condition Survey

5.1.1 The information that comes out of these studies will help inform the debate on the current policy of creating a campus for Council offices that are in Lerwick. The Audit and Scrutiny Committee could endorse these studies and ask the relevant managers responsible for progressing these to come to a future meeting of the Committee to discuss the outcomes.

5.1.2 The Audit and Scrutiny Committee could seek further information on plans for the services that do not appear to be in the single campus model. As shown, there are 8 buildings within the Executive Services and Education and Social Care Departments that occupy 4824.8 m² that could potentially be put to other use if other options were considered for relocating / co-locating these services

5.2 Completion of the CAFM software installation

5.2.1 The Audit and Scrutiny Committee could encourage the Building Maintenance Service to continue with this project and bring a report to Infrastructure Committee on the benefits being derived from the system once it has been installed. The LEAN analysis could also be supported, and a report sought on the effect it has had on the efficiency of the service.

5.3 Energy usage in Council buildings

5.3.1 The Committee could endorse the work that is ongoing to improve energy efficiency in Council buildings and seek an update report to Infrastructure Committee on this in a year’s time.

5.4 More effective joint working with Community Planning partners

5.4.1 The Audit and Scrutiny Committee could ask the Building Service to actively engage with Community Planning partners to seek out opportunities for more effective joint working in terms of asset management and building maintenance

6. Potential for further discussion

The Committee may wish to discuss this subject with any of the following, as deemed appropriate:

- Accommodation Working Group;
- Building Services Manager;
- Head of Planning;
- Head of Housing & Capital Programme;
- Head of Environment & Building Services;
- Head of Finance;

APPENDIX 1.1

Efficient use of Council Buildings - Terms of Reference

1. Background and rationale to investigation

It was decided at the Audit and Scrutiny Committee meeting on 30th November 2007 that a more detailed study should be carried out to provide Members with information on the buildings that the Council owns and how these are being utilised.

With the Council's Corporate Plan 2008-11 setting out a vision to create a "single campus" for services in Lerwick, it was felt that work carried out by this Committee to gather data could contribute to the debate of that vision.

2. Scope

What is going to be included?

A breakdown of where Council buildings are located, including details of the Council's Assets Register and where this is available.

Council accommodation usage figures, where possible.

Details of vacant properties and where they are located.

Information on the debate into a single Council campus and some discussion of options that have been considered/are being considered. Current issues relating to this and timeframe for potential progress.

Identification of opportunities for efficiencies (e.g. energy/maintenance budgets).

Also, information on the Council's Community Planning partners' asset and property management arrangements and whether there are any possibilities of joining up service delivery to make mutual efficiency savings/improvements to service levels.

What is not going to be included?

The management of other Council assets such as plant, machinery, ferries, tugs etc. The focus of the investigation is not particularly on Council housing or schools, although these will be mentioned wherever relevant.

3. Overarching questions

- Where are the Council's buildings located?
- How efficient is the Council in its operation and management of these buildings?
- How does the Council's Community Planning partners manage their assets and is there any way that the Council can join up with them to do things better?
- What are the current Council plans with regard to the single Council campus and how is this going to be taken forward?

4. Expected outcomes
What do we want to happen as a result of the investigation? This study will seek to improve Members' understanding of the way the Council's buildings are managed and identify whether there are any improvements/efficiencies that can be made.

5. Who will be involved in the investigation?
We will be inviting: Accommodation Working Group, as considered appropriate Assets and Properties Service Manager Building Services Manager Capital Programme Service Manager Energy Manager Head of Environment and Building Services Head of Planning Technical Support Manager

6. Methods that will be used to investigate the topic:
We will use the following approaches to investigate the issues: Analysis of relevant strategic documents. Face to face interviews with Council officers. Comparative data from APSE, Scottish Government, Improvement Service or Improvement and Development Agency, as appropriate.

7. Evidence required:
Relevant strategic documents and when they were agreed by Council. Data on Council building usage. Council's Assets Register Relevant Council reports on asset management

8. Resources required:
Officer time: Data will be gathered over a period of 6 weeks. However, the officer gathering the information will not be working on this full-time, so it is estimated it will take approximately 6 days'.
Member time: ½ day Audit and Scrutiny Committee meeting to consider final report. ½ day to consider issues arising with the officers invited to attend Committee meeting.

9. Timescales
Duration: It is expected that the findings from this investigation will be reported to the Audit and Scrutiny Committee in November.
Key milestones: 19 November– Report prepared for the Audit and Scrutiny Committee

APPENDIX 1.2

Shetland Islands Council Property List

Non-operational Assets	
Bigton Shop	Fetlar Former Generator Shed
Shop King Harald Street	Cotters Hse, Hardwell, Brae
Shop King Harald Street	Office 1A Water Lane
Shop/sub post office Bressay	Store Sandwick Old School
Industrial Estate Bressay	Workshop Sandwick Old School
Industrial Estate Burra	Flat, Mail, Bressay
Industrial Estate Cunningsburgh	Staney Hill Land
Industrial Estate Dunrossness	Urafirth Old School
Industrial Estate Fetlar	Old School Gruting
Industrial Estate North Gremista	Aith Social Club
Industrial Estate Ollaberry	Old King Harald St School
Industrial Estate Sellaness	Former Children's Panel Office
Industrial Estate Scalloway	Former School Mid Yell
Industrial Estate Skeld	Former School Hamnavoe
Industrial Estate Walls	Garage Knab Road
Industrial Estate Wethersta	Kantersted Store
Shop Oversound Road	Setter Mid Yell
Shop Mounthooly Street	Sandwater Pit, Sandwater
Voxter Centre, Voxter	Hostel Bridge-End, Burra
Castle Seafood Centre, Scalloway	Kirk Business Centre, Scalloway
Viking Café (Great Wall)	Scatsta Airstrip
31 King Harald Street, Lerwick	Hangar at Tingwall Airstrip
Site 2 Sellaness Ind EState	Clubhouse 8 Commercial Street.
Grazing – Pund of Loot	St Clements Hall
Grazing- Scatsta	Brae Youth Centre
Bothy Min, Bridge End	Brae Hall and Galley Shed
Voxter Farm	Mossbank Family Centre
Unit 5, Aith, Bixter	Former South Nesting School
Unit 4, Aith, Bixter	Hayfield Cottage
Unit 2, Aith, Bixter	6 Hillhead, Lerwick
Unit 3, Aith, Bixter	Ness of Sound
Unit 1, Aith, Bixter	Sea Scout HQ Gillies Pier

Offices	
4 Market Street, Lerwick	Anderson Place
Grantfield, Lerwick	15 Hill Lane, Lerwick
Hayfield, Lerwick	Port Admin Building, Lerwick
91/93 St Olaf St, Lerwick	Fort Road
County Buildings	Montfield, Lerwick
92 St Olaf St, Lerwick	64 St Olaf St, Lerwick
ITC Garthspool, Lerwick	11 Hill Lane, Lerwick
Lystina, Lerwick	20 Commercial Road, Lerwick
Offices, 2/4 Bank Lane, Lerwick	Quendale House

Public Conveniences			
Sandveien Westside Linkshouse Hillswick Voc Brae Toft	Walls Pier Foula Bixter Wester Skeld Symbister Bruary	Burn Beach Mail Meal Hamnavoe Virkie Grutness	Bigton Sandsayre Cunningsburgh Esplanade Knab Road North Lochside North Road

Schools		
Bells Primary Bressay Primary Burravoe Primary Cullivoe Primary Cunningsburgh Primary Dunrossness Primary Fair Isle Primary Fetlar Primary Foula Primary Tingwall Primary Hamnavoe Primary Happyhansel Primary	Lunnasting Primary Mossbank Primary North Roe Primary Ollaberry Primary Olnafirth Primary Papa Stour Primary Sandness Primary Skeld Primary Sound Primary Urafirth Primary Uyeasound Primary Whiteness Primary	Skerries Primary Nesting Primary Aith Junior High Baltasound Junior High Brae High Mid Yell Junior High Sandwick Junior High Scalloway Junior High Whalsay Primary Whalsay Junior High Anderson High

Social Care Service Homes	
Laburnum Care Home Eric Gray Centre Viewforth, Care Home Edward Thomason	Leog House, Care Home Taing House, Care Home Sea View Newcraigielea

Other Land & Buildings	
Quarff Additional Support Base Former Gym, Lerwick Site of YT Works Rova Head Refuse Waste to Energy St Sunniva Street Hanger, Sellaness Loch of Voe Depot Mavis Grind Depot Town Hall Public Rooms Storage Area Bordal Unst Airstrip Bus Station Burgh Road Car Park Burns Lane Car Park Church Road Car Park Fort Road Car Park	Land & Buildings , Gremista DLO Wkshop, Wethersta Red Pit Depot Workshop, Mid Yell Garage, Reafirth Scord Quarry Archive Store, Lerwick Whalsay Bus Garage New Stores Sellaness New Workshop Sellaness Special Needs Unit Gremista Landfill Town Hall Jubilee Pavilion St Ringans Library Former Museum Croft House Museum Bod of Gremista

APPENDIX 1.3

Disposal of Surplus Property Policy (taken from report LA-08-F which was agreed by the Shetland Islands Council on 10th February 2005)

1. Once the Head of Service agrees with the Asset & Properties Manager that an operational property is surplus to the requirements of their service, the property shall be treated as surplus and pass to the Asset & Properties Unit.

2. The Asset & Properties Manager shall prepare brief details of any surplus property, which will then be circulated to the services likely to have an interest for alternative use.

3. The Asset & Properties Manager shall consider all options for Council use and report the outcome to the Chief Executive. The Chief Executive shall consult with the Accommodation Working Group and thereafter determine which service should use the premises or alternatively determine whether the premises should be disposed of.

4. Should the Chief Executive determine that the property should be disposed of, the Asset & Properties Manager shall advertise the property seeking expressions of interest from parties interested in buying or leasing the premises.

5. The Asset & Properties Manager shall report the outcome to the Council together with any recommendations and the Council shall decide the disposal strategy to be adopted for the property. In deciding the strategy, the Council shall consider social, community and commercial issues relating to the disposal of the property.

6. Any disposals strategy shall comply with S.74(2) of the Local government (Scotland) Act 1973 and any regulations that the Scottish Executive may introduce in pursuance of S.11 of the Local Government in Scotland Act 2003. Any sale or lease to a commercial organisation shall be at market value in order not to run the risk of contravening illegal state aids legislation.

7. In order to minimise the cost to the Council of any disposals strategy, any party offered a lease of the premises, whether at a nominal sum or at a market rent shall be responsible for:-
    - Any alteration works necessary in connection with their lease, including the obtaining of statutory consents, any subdivision works and if appropriate, the provision of separate services (electricity, phone, water etc).
    - Internal and external maintenance and day-to-day running costs such as rates and electricity etc.
    - The costs of any legal advice sought by the tenant in connection with the lease documentation.

8. Where appropriate, the lease would have an exit clause, enabling the tenant to terminate the lease early in the event that it is unable to or no longer wishes to meet its lease obligations.

9. Any property retained after the implementation of a disposals strategy pursuant to this policy shall be treated as non-operational.

10. This proposed policy change would ensure that the Council considers social and community issues as well as commercial issues when deciding the disposal strategy for a surplus property**.**