



REPORT

**To: Audit and Scrutiny
Shetland Islands Council**

**15 November 2010
8 December 2010**

From: Chief Executive and Head of Finance

Report No: F-063-F

Report to Members and Controller of Audit by the Auditor

1 Introduction

- 1.1 Enclosed, as Appendix A, is the Report to Members and the Controller of Audit by the Council's external auditor Audit Scotland, regarding the audit of the Council's affairs for the year ended 31 March 2010.
- 1.2 Enclosed, as Appendix B, is the audited Abstract of Accounts for 2009/10.
- 1.3 The Assistant Director of Audit (Local Government) Fiona Mitchell-Knight from Audit Scotland will be at the Council meeting on 8 December 2010 to present the 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 2009/10 and to provide any officer comment on Audit Scotland's report.

2 2009/10 Abstract of Accounts

- 2.1 This document is the final formal statement of the Council's financial affairs for the year ended 31 March 2010. It is this document which is subject to scrutiny by the external auditor and upon which there is comment in the audit certificate and the report to members.
- 2.2 The enclosed Abstract represents the Council's attempt to comply with the continually changing requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The Abstract was submitted to the Scottish Government and the external auditor in accordance with the statutory deadline.
- 2.3 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 its subsidiaries.

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 Some of the detailed issues relating to the Abstract itself, included in their report to members, were also in the ISA 260 letter that was presented to the Audit and Scrutiny Committee at its meeting on 27 September (report no F-057F).
- 3.3 The auditor's view on the issue of group accounts and the audit qualification can be found in pages 9 to 11 of their report.

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 2009/10, 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 Conclusion

- 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 Committee recommend to the Council that they should note the contents of this report, Appendix A and the Abstract of Accounts for 2009/10 and undertake to keep under review the issues raised in the report to members by the external auditor and in particular the action plan contained therein.

Our Ref: MCF/GJ/AB/A/9/31
Date: 8 November 2010

Report No: F-063-F

Shetland Islands Council

Report to Members and the Controller of Audit on the 2009/10 Audit

October 2010



Shetland Islands Council

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Key Messages

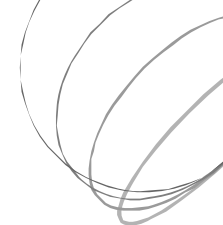
For the fourth consecutive year we have given a qualified opinion on the financial statements of Shetland Islands Council. The qualification relates to the fact that the council has not included the results of the Shetland Charitable Trust (SCT) in its group accounts for 2009/10. The Accounts Commission findings following the public hearing in June 2010 stated that no reason had been heard which would lead them to disagree with the appointed auditor on this matter.

The 2009/10 audit identified a significant number of late adjustments to the financial statements and areas of non-compliance with accounting requirements. We also have concerns over the council's preparedness for the introduction of International Financial Reporting Standards in 2010/11 and we note that the council did not submit Whole of Government (WGA) draft accounts for audit to comply with government deadlines. The council has also not yet resolved ongoing financial governance issues including those relating to the transfer of Shetland Towage pensions. These issues lead us to a conclusion that there are concerns over financial stewardship and reporting within the council.

The council continues to provide a range of high quality services, however the cost of providing these services is leading to the council using substantial amounts of its reserves each year. This cannot be sustained over the longer term. It remains our view that throughout 2009/10 councillors have yet to demonstrate they are able to collectively take the difficult decisions required to reduce the draw on reserves in line with the agreed financial strategy. The council now needs to set clear strategic priorities which support its overall aim of maintaining a balance of £250 million of reserves. All scrutiny agencies also agree that the council needs to start demonstrating that it delivers services in a way which demonstrates best value.

The council's net operating expenditure in 2009/10 was £139.7 million which is an increase of £36.9 million (36%) over the previous year. This meant that there was a deficit of £37.7 million, 27% of net expenditure for the year. Increases in expenditure were noted in all service areas and the effect of this is that the draw on reserves was £36.9 million which was £3.9 million in excess of budget. Notwithstanding this, the council achieved its financial strategy of maintaining a £250 million reserves threshold and, at 31 March 2010 the council had total funds of £273.75 million, which is a decrease of £21 million from the previous year. The council's long term aim is to reduce demand on reserves so that the draw on reserves will be zero in 2012/13, however the current economic climate and the evidence of increasing levels of expenditure in all service areas are risks that the council may not achieve its aims.

In 2010/11 the council's net revenue budget included savings of £9.943 million. There is a serious risk that this will not be achieved due to the fact that as at 15 September 2010, £8.5 million of these savings had yet to be identified by the council.



Following our report on the 2008/09 audit, the Controller of Audit presented reports to the Accounts Commission under section 102(1) of the Local Government (Scotland) Act 1973. These led to the Accounts Commission holding a public hearing in Lerwick in June 2010 and a number of wide ranging areas for improvement were identified in the council's governance arrangements. Following the appointment of a new Chief Executive in August 2010, an Improvement Plan is now being prepared for submission to the Accounts Commission in November.

In September 2010 the Chief Executive presented a report to the council which stated that the council is currently working on "the development and implementation of a corporate improvement process" and that this "should be the primary focus of the council for the next 12 months". In relation to this, council members approved the proposal from the Chief executive to "commission specific pieces of work with input from Local Government colleagues who have offered their support in developing and embedding best practice". We will continue to monitor this area as the Accounts Commission has asked for a further report in 2011 on the progress made by the council.

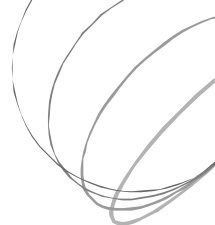
Outlook

There have been recent changes in the council's management following the appointment of a new Chief Executive in August 2010, and an Improvement Plan is now being prepared for submission to the Accounts Commission in November. In September 2010 the Chief Executive prepared a report which addressed initial actions towards corporate improvement and this was approved by members. We will monitor progress of the improvement plan.

The most significant challenge the council faces is a reduction in funding in the years 2011 to 2014. Although the exact size of the reduction will not be known until late October 2010, the council can and must take action now to anticipate significant cuts in its budget. The council's corporate management team is reviewing services to identify savings. The Chief Executive has recognised the need for a review of budget strategy and this will be progressed into 2011. It will be important for members to consider and agree a clear budget strategy even, though this may involve difficult decisions, to provide clear direction over the medium term.

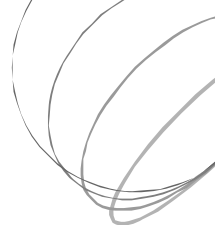
The Accounts Commission has asked for a further report in 2011 from the Controller of Audit on the progress made by the council against its recommendations made following the public hearing.

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



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Shetland Islands Council (the council) and other relevant work carried out by the Audit Scotland (see Appendix A).
2. Last October we submitted our Report to Members and the Controller of Audit on the 2008/09 Audit which raised significant concerns about the council's governance arrangements. Following this, in December 2009 the Controller of Audit presented a report to the Accounts Commission under section 102(1) of the Local Government (Scotland) Act 1973. The Accounts Commission requested that additional audit work was carried out and a further report was presented to them by the Controller of Audit in May 2010. Following consideration of this report, the Accounts Commission held a public hearing in June 2010. The Accounts Commission's findings, published in August, include a number of wide ranging recommendations to the council. In response to these recommendations, following the appointment of a new Chief Executive in August 2010, an Improvement Plan is now being prepared for submission to the Accounts Commission in November.
3. The council's response to these findings will be monitored throughout our audit appointment. However we do not repeat all of the recommendations in this report. Instead we focus on the financial statements and any significant findings that have arisen from our 2009/10 audit.
4. This report is structured around the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent local area network (LAN) shared risk assessment and assurance and improvement plan (AIP) (www.audit-scotland.gov.uk/work/scrutiny/docs/Shetland.pdf). Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
5. Audit Scotland also carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Making an impact – overview of best value audits 2004 -09.
 - Protecting and improving Scotland's environment.
 - Overview of local government in Scotland 2009.
 - Getting it right for children in residential care.
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
 - Scotland's public finances – preparing for the future.
 - The national fraud initiative in Scotland 2008/09.
 - Improving public sector efficiency.
 - National scrutiny plan for local government 2010/11.



6. All of these reports have been sent to the council for consideration and we do not discuss them in this report. They are available on our website www.audit-scotland.gov.uk.
7. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a system in place to be duly assured that the proposed action has been implemented.
8. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

9. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

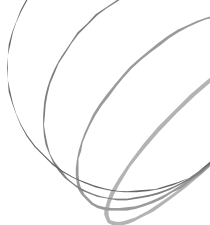
10. For the fourth year we have given a qualified opinion on the 2009/10 financial statements of Shetland Islands Council. The *Code of Practice on Local Authority Accounting in the United Kingdom- a Statement of Recommended Practice (the SORP)* requires group accounts to be prepared by local authorities (where they have interests in subsidiaries, associates and joint ventures). Group financial statements are required to present a true and fair view of the authority's activity and financial position. The council has not included the results of the Shetland Charitable Trust (SCT) in its group financial statements for 2009/10. In our opinion, the substance of the council's relationship with this body represents a significant interest and this omission results in a material mis-statement of the group accounts. Based on prior year financial statements, we estimate that the Shetland Charitable Trust and its subsidiaries would add £2 million to the group surplus and £176 million to the group balance sheet. Further details are discussed at paragraph 22.

Action plan 1

11. In 2009/10, we did not consider it necessary to repeat the previous year's qualification covering financial asset accounting, due to additional work undertaken by the finance department and the additional disclosures made in the financial statements this year.

Compliance with proper accounting practice

12. The council's Section 95 officer, the Head of Finance, has a duty to prepare financial statements which comply with proper accounting practice and submit them to the Controller of Audit by 30 June of each year. The Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP) constitutes proper accounting practice under Section 12 of the Local Government in Scotland Act 2003. The auditors are then required to conclude the audit of these financial statements and finalise our audit opinion by 30 September.
13. At the time that the financial statements are submitted for audit it is also expected that the council can provide to the local auditors, on request, working papers and accounting records to support all

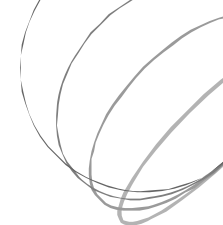


figures that have been reported in these financial statements. We found that, as in previous years, the financial statements required a large number of changes to meet SORP requirements. The council also submitted a number of versions of the financial statements before presenting one that reflected all agreed audit adjustments.

14. In advance of the audit, we had agreed with the finance department that audit queries would be emailed to the financial accountant each Friday during the audit. The financial accountant agreed to respond to the queries by the following Thursday and we would update our list of matters on the following day. This system was not maintained during the entire audit process and several weeks passed without any responses being received from the council. The result of this is that there were unnecessary pressures on the completion of the audit process and a large number of audit queries remained outstanding in late September, after the completion of the audit fieldwork.
15. Of particular concern was that at 27 September, as reported in our ISA260 letter, the council was unable to provide us with any working papers or accounting records to support an unreconciled balancing figure of £19.983 million in the Statement of Total Recognised Gains and Losses (STRGL) despite our request for details on 22 July. It is not acceptable for the financial statements to include a balancing figure that cannot be supported by accounting records. If this issue had not been resolved it could have led to a further qualification on the financial statements. However, on 28 September, the council identified the reasons for £19.452 million of this balance, leaving £531,000 unreconciled. As the unreconciled amount remaining is not considered material to the financial statements as a whole, this is noted as an unadjusted error in the financial statements that the council must resolve for 2010/11. After identifying reasons for most of the balance, the council then corrected the errors in the audited financial statements.

Action plan 2

16. Despite early and ongoing requests between July and September for information, a number of other outstanding issues were reported in our ISA260 report. The council has now resolved these issues and adjusted the audited financial statements. A large number of changes were made that include:
 - a prior year adjustment of £2.3 million to reduce investment income. This was in respect of the requirement in the SORP to account for the effective interest rate on bonds
 - fixed asset accounting errors
 - correction of an error in recording an intra-group transaction of £683,000 between the SDT and the council
 - an adjustment to correct the mis-posting of a loan for £72,000 as a grant.



17. The fact that the council could not provide to us on request working papers and accounting records to support all figures that had been reported in the submitted financial statements was not acceptable. The time then taken to provide explanations was also unacceptable and there was a high risk of a further qualification on the audit opinion, which has to be concluded by 30 September. The number of information requests and changes to the accounts has also meant that a significant amount of extra audit resources have been required to complete the audit over and above that expected in councils. This will be a factor which we will take into account in our future audit planning and the level of audit fee charged to the council.
18. We have reported in previous years that a great deal of reliance is placed on one officer for the production of the accounts and in dealing with audit queries and there was evidence this year that this led to delays in the responses being received by the audit team. Future discussions will be held between the audit team and the finance department on the improvements required in the annual financial statements process. This will include providing explanations of unexplained variance between figures from year to year.

Action plan 3

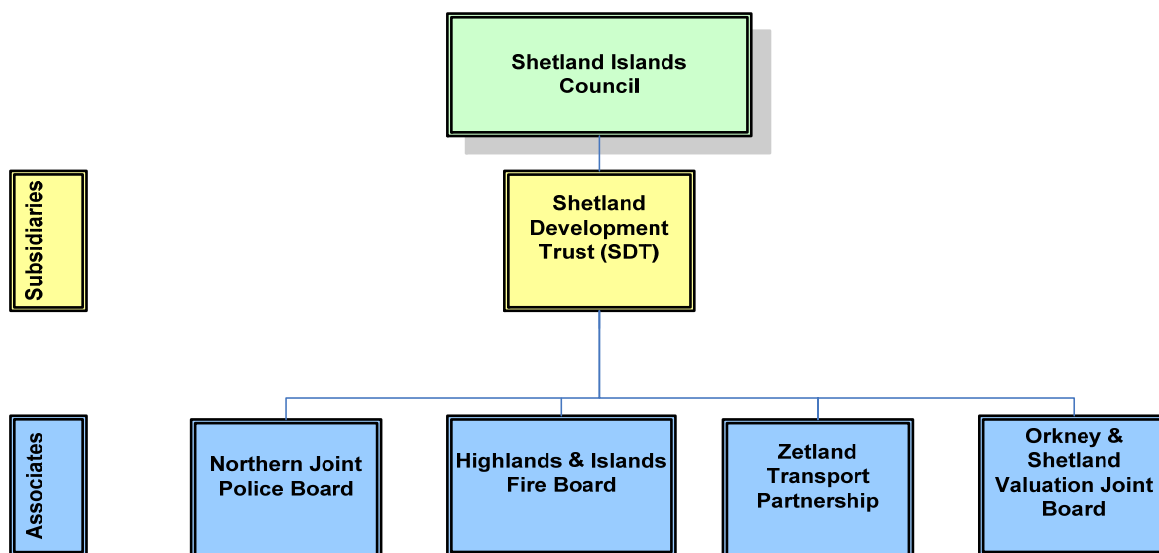
Accounting Issues

Group accounts

19. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure. The council has disclosed an interest in one subsidiary and four associates and has included them in its group accounts in accordance with the SORP (refer to Exhibit 1 below). All four associates are audited by Audit Scotland and audit assurance has been taken from this work. The auditor of the subsidiary body (SDT) is KPMG who provided us with appropriate audit assurances.

Exhibit 1

Shetland Islands Council reported group structure



20. We would like to highlight the following issues:

- In accordance with recommended accounting practice, key policies for component bodies have been aligned with the council with the exception of the SDT. The SORP requires a charge to be made to the income and expenditure account for pension costs in accordance with FRS17. The auditors of the SDT have informed us that the trust did not adopt FRS 17 in the preparation of the accounts despite being an admitted employer in the Shetland Islands council local government pension scheme. The notes to the group financial statements disclose this difference in accounting treatment.
- Following the transfer of staff to Shetland Islands Council in December 2009, the Trust ceased to be an admitted employer to the Shetland Islands Council pension scheme. As a result, the scheme actuaries are in the process of calculating the cessation valuation arising from the withdrawal of the Trust. An indicative liability of £150,000 has been provided and this has been recorded as an adjustment to the council's draft accounts received for audit.
- The SDT reports its investments at amortised cost less provision for impairment where evidence of impairment exists. This differs from the accounting treatment used by the council where all investments are shown at fair value which is based on the quoted market bid price provided by the council's external fund managers. The notes to the group financial statements disclose this difference in accounting treatment.

- All bodies within the group received unqualified audit opinions from their external auditors.
- If the structure of a group company changes the Head of Finance should review the audit arrangements for that body to consider any implications for the council's group accounts. During the financial year, we were told that the transactions of the SDT had been amalgamated with those of the council. As a result of this, the audit team planned to include a review of the transactions of the SDT with the audit of the council. In May 2010 we were informed by the previous auditors of the SDT that, although the trust deed had been amended, the transactions of the body were still separate from those of the council. At that time we requested a copy of the trust deed and a confirmation from the Head of Finance on the audit arrangements for the trust. In August the trust deed was provided and it was confirmed that KPMG would be reappointed as auditors of the revised trust. This late appointment meant that there was a risk that the audit of the trust would not be concluded on time for us to take assurances on this subsidiary's figures. In the event we received assurances from KPMG at the end of September. If any future restructuring of group companies is carried out, the audit arrangements should be considered at an earlier stage.

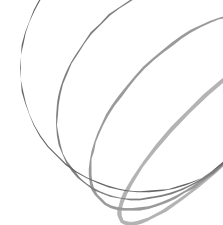
Action plan 4

Group accounts audit qualification

21. The accounting treatment of the Shetland Charitable Trust (SCT) has resulted in the qualification of the council's group financial statements for the fifth consecutive year. Group financial statements are required to present a complete picture of the council's activities and financial position. We have not received any further evidence from the council to support its contention that the financial statements of the SCT should not be included within the group. It remains our view, therefore, that the omission of the SCT and its subsidiaries from the council's group accounts is not in accordance with the SORP and represents a material mis-statement of the group accounts.

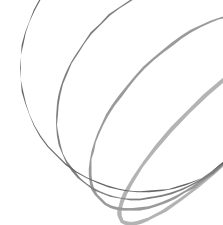
Action plan 1

22. In a report to council on the matter dated 28 October 2009 the council's Head of Finance described this situation as 'a total impasse' and noted 'the plain fact is that the council can do no more to make the grouping of accounts happen. The council had asked once again for Charitable Trust cooperation, and had once again been refused, it is now powerless to act further.' At this meeting in October 2009, the council confirmed its view that it had now done all it could do on this matter.
23. The qualification of the council's financial statements contributed to two Section 102 reports being made by the Controller of Audit to the Accounts Commission. Following this, a public hearing was held by the Accounts Commission in June 2010 when the reasons for the qualification were discussed. The Accounts Commission findings following the public hearing in June 2010 stated that



no reason had been heard which would lead them to disagree with the appointed auditor on this matter.

24. Our concerns about the SCT relate to the group accounting issue only and the need for the council's Head of Finance, as the Section 95 officer, to prepare the financial statements in accordance with the SORP. We acknowledge the view that the trust is a separate legal entity, but because of the nature of the council's relationship with the SCT we remain of the opinion that, to comply with accounting requirements, the financial results of the SCT should be consolidated into the council's group accounts. As auditors, we have a statutory responsibility to report our opinion as to whether or not the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the SORP.
25. On 5 May 2010 we wrote to the Head of Finance to again clarify the factors which influence our audit qualification. This letter was presented by us to the Audit and Scrutiny Committee on 7 June 2010. The following factors support our view that the SCT results should be included in the council's group accounts.
26. **Structure:** SCT currently has 23 trustees – 21 councillors, the Lord Lieutenant of Shetland and the head teacher of Anderson High School. All Shetland councillors are appointed ex officio as trustees but one councillor has decided to stand down as a trustee due to a declared conflict of interest. Following the public hearing in June 2010, the Accounts Commission issued findings stated that, in relation to the SCT, "councillors refused to acknowledge the possibility of conflicts of interest in relation to council business". In July, the Office of the Scottish Charity Regulator (OSCR) identified a "real risk of systemic and specific conflict" and imposed a system of "tailored monitoring" on the trust. OSCR's letter of 9 July 2010 encouraged the trust to "move forward to adopt different, less high risk and more appropriate governance arrangements". The SCT is reviewing options to change its composition, reducing the proportion of councillors who have been appointed as trustees. However, at a meeting on 8 September 2010, the trustees voted to reject the latest proposal. Trustees do accept that change is necessary and are now seeking further legal advice on how the trust should be governed.
27. **Purpose of SCT:** the purpose of the trust is to make grants or loans for any charitable purpose which benefits the Shetland Islands or its inhabitants. The SCT 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. It is our opinion that if the trust no longer provided these services, the council would incur additional costs in providing these services:
 - On 3 December 2008, a report was agreed by the council which discussed the impact of the world financial crisis on the council and the SCT. The report acknowledged the charitable trust relies heavily on investment income to fund its current service provision. The report stated "if the circumstances in the markets jeopardise the trust's ability to fund the various activities



covered at present, the council will need to consider whether it will need to provide alternative funding.”

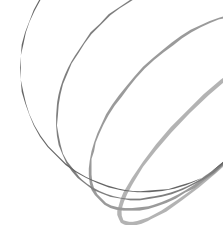
- In relation to the Rural Care Model, the SCT provides care homes and the council is responsible for the management and services within the homes. The result of this is that the residents of Shetland obtain a high level of service in excess of that due to be provided by the council as part of its statutory responsibilities. Without consolidation, there is a lack of transparency in the total cost of providing this level of service to the Shetland community. If the SCT were to remove its level of input to the Rural Care Model the council would require to review its strategy and any decisions taken will impact on the council’s resources and the level of service provided to the community.

28. **Financial relationships:** The SCT was created by the council to receive the oil disturbance payments (until the agreement was terminated at 1 September 2000) which otherwise may have been received by the council. Total disturbance payments to SCT totalled £81 million. The trust’s current sources of income are investment income and rental income with no ongoing financial support from/to the council. However, the following inter-related transactions that have taken place between the council and the SCT also support the inclusion of the trust in the council’s group accounts:

- The Shetland Development Trust (SDT), a subsidiary of the council, agreed in September 2010 to donate its current and future undistributed surpluses to the SCT. It is anticipated that future donations will be approximately £0.8 million inclusive of tax credits.
- There is evidence that the council has not paid for school use of the leisure centres owned by the Shetland Recreational Trust (SRT), a subsidiary of the SCT. It was identified during the year that the true cost of school use of the SRT’s facilities was approximately £400,000 per annum. The council originally agreed to pay this amount to the SRT, but later decided that this would not be done due to budget restrictions.

Group balances and going concern

29. Excluding SCT, the overall effect of inclusion of all of the council’s group entities on the group balance sheet is to reduce net assets by £32.3 million, mainly because of pension liabilities. However, all group 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. If SCT were included within the group entity, this would contribute net assets of £176 million to the group balance sheet, based on prior year audited financial statements.
30. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Northern Police, Highlands and Islands Fire and Orkney and Shetland Valuation) had an excess of liabilities over assets at 31 March 2010 due to the accrual



of pension liabilities. In total, these deficits amounted to £533.48 million (2008/09 £327.5 million), with the council's share being £48.86 million (2008/09 £34.5 million).

Treasury management

31. Year end reports from the council's external fund managers are required for the preparation of the financial statements. There is currently scope for the detail in these reports to be improved and to reduce the risk of non-compliance with the SORP, the Head of Finance should liaise with the fund managers to ensure that year end reports contain adequate detail. Two of the matters arising included in our ISA 260 report relate to areas of non-compliance with the SORP due to lack of information given to the finance department by the fund managers:
- The available for sale financial assets reserve should be maintained at individual asset level. Currently, the information received from fund managers is not detailed enough. When a financial asset is sold, any realised gain or loss needs to be written out of the available for sale reserve and taken to the income and expenditure account. Although realised gains and losses are taken to the income and expenditure account, there is a risk that the reserve figure does not accurately reflect individual gains and losses on financial assets.
 - The SORP requires an assessment to be made as to whether there is any evidence that the value of any financial asset or group of financial assets may have fallen i.e. its value has been impaired. Despite assurances from the Head of Finance following the audit of the 2007/08 and 2008/09 accounts that an impairment assessment would be carried out this was not done in 2009/10. The information currently received from the fund managers does not include the appropriate level of detail.

Action plan 5

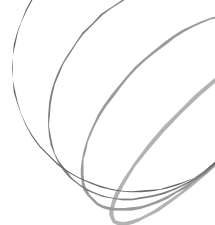
Whole of Government Accounts (WGA)

32. The council was required to submit draft whole of government accounts to the Scottish Government by 30 July but the return was not submitted by the council until 6 October. These accounts required to be audited by 30 September and this deadline could not be met due to the draft return not being submitted by the council.

Action plan 6

International Financial Reporting Standards (IFRS)

33. With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). There are no formal deadlines in relation to IFRS in advance of 30 June 2011 when the unaudited financial statements are due to be submitted for audit. It is accepted good practice, however, for councils to produce a restated opening



balance sheet and shadow accounts. Shetland Islands Council contracted with CIPFA and PwC for support through the processes required to comply with IFRSs. We reported in our annual report last year that the council did not sign up until July 2009, thereby missing the initial training sessions provided in April 2009. Further to that, at a meeting of the CIPFA/PwC IFRS project team in March 2010, Shetland Islands Council was identified as one of two councils in Scotland which were the worst performing as far as preparation for IFRS is concerned.

34. Although there is no specific requirement for audit involvement, in line with good practice, external auditors at most councils have been commissioned to review the restated balance sheet in advance of the 2010/11 audit, when full compliance with IFRS will be required. Auditors at other councils have, therefore, been able to report whether suitable progress is being achieved towards the full introduction in 2010/11. At Shetland Islands Council, we have been unable to obtain agreement from the council to undertake this early assurance work and we are therefore unable to comment further on the details of the council's preparation for IFRS. There is a risk that the council may fail to achieve the statutory deadlines in 2011.

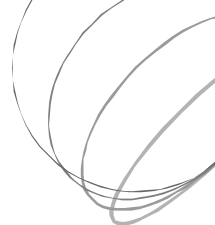
Action plan 7

Trust funds

35. Local authorities with registered charitable bodies 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. However, OSCR has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosure for trust funds in the council's financial statements, supplemented by appropriate working papers. The council needs to consider the impact of these requirements for future years.

Legality

36. Through our planned audit work we consider the legality of the council's financial transactions. There are no additional legality issues arising from our audit which require to be brought to members' attention. In addition the Head of Finance 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 relevant legislation and regulations.



Financial reporting outlook

37. A number of changes to financial reporting are expected to apply from 2010/11:

- Full compliance with IFRS. This is not simply a technical accounting matter: the Scottish Government is in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.
- Pension funds. Separate statements for pension funds will be required. The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the audit which is done as part of the administering council's annual audit.
- Carbon trading. From April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. 2010/11 is the registration year and the council has informed us that costs are not likely to be material for Shetland.
- Charity accounts. As previously mentioned, full compliance with OSCR's reporting requirements is likely to be required. This will have an impact on the Zetland Educational Trust, the Gilbertson Trust, the William Strong Bequest and the Samuel Mullaigh Bequest, all of which are registered with OSCR.

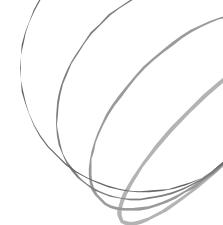


Use of resources

Financial results

38. In 2009/10, Shetland Islands Council spent £196.62 million on the provision of public services. The council's net operating expenditure in 2009/10 was £139.7 million. This was met by central government and local taxation of £102.01 million, resulting in a deficit of £37.69 million, 27% of the net expenditure for the year (5.1% in 2008/09).
39. The budget set for 2009/10 was based on a Band D council tax level of £1,053 with planned contributions of £30.7 million from reserves: £3 million to cover the general fund deficit, £7.7 million to cover reserve fund expenditure and £20 million general fund capital programme support. Council decisions during the year revised the budgeted draw on reserves to £40.77 million: £4.57 million to cover the general fund deficit, £16.2 million to cover reserve fund expenditure and £20 million general fund capital programme support.
40. After taking account of statutory adjustments, £17.68 million was required from reserves to meet the general fund deficit. This was offset against a smaller than anticipated draw on reserves for reserve fund expenditure of £12.9 million and capital expenditure of £6.31 million. The overall draw on reserves was, therefore £36.89 million, which is £6.19 million more than the original budget set in February 2009, but £3.88 million less than the revised budget at the year end.
41. The overspend on the general fund was attributable to a recharge of £11.83 million to services of amounts which had been charged to capital for which no asset had been supplied, including £3.07 million for Anderson High School and £2 million for the Bressay Bridge. In addition, there were overspends on winter gritting of £0.7 million and an additional amount of £0.45 million on the winter fuel payment. As in previous years, there are some large underspends in the education and social care staffing budgets where activities had not progressed as planned, and in the economic development unit where several projects have been delayed until 2010/11.

Action plan 8



42. The following table provides some information about the council's financial position compared to other Scottish councils:

| Ratio | Description | Value for Shetland 2008/09 | Value for Shetland 2009/10 | Range for all Scottish Councils 2009/10 |
|--|--|-------------------------------|-------------------------------|--|
| Working capital (Current assets as a ratio of current liabilities) | This is an indicator of the council's ability to pay its current liabilities in the short term | 2.53 | 2.48 | 0.33 to 2.48 |
| Useable reserves as a percentage of general revenue expenditure | This shows the proportion of revenue expenditure that could be met from reserves | 285% | 196% | 3.7% to 230.4% |
| Long term borrowing compared to tax revenue | This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt | 0 | 0 | 0 to 6.79 |
| Long term assets as a percentage of long term borrowing | This gives an indication of the ability to borrow to replace or repair assets | N/A | N/A | 1.77 to 38.12 |

43. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. As the council has no long term borrowing in 2008/09 or 2009/10, this has a significant impact on the last two ratios but they have been included here to allow full comparisons to be made.
44. We have compiled this information for the first time this year and it establishes a starting point to allow the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Reserves and balances

45. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets, a reserve fund which can be used to defray certain expenditure on the harbour undertaking and for any other purpose which is solely in the interests of the inhabitants of Shetland

and an insurance fund. At 31 March 2010, the council had total funds of £273.75 million, a decrease of £20.94 million on the previous year.

46. The council aims to reduce demands on reserves over the medium term so that the draw on reserves to fund general fund expenditure will be zero by 2012/13. The long-term aim is to maintain the general fund reserve at a minimum threshold of £250 million. The current levels of use of reserves increases the risk that the council's strategy of maintaining reserves above the £250 million will not be achieved.

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Exhibit 3

Reserves

| Description | 31 March 2010 £ Million | 31 March 2009 £ Million |
|-------------------------|------------------------------------|------------------------------------|
| General Fund | 0.16 | 0.07 |
| Capital Fund | 118.56 | 114.29 |
| Repair and Renewal Fund | 85.05 | 92.72 |
| Reserve Fund | 69.73 | 87.39 |
| Insurance Fund | 0.25 | 0.22 |
| | 273.75 | 294.69 |

Budgetary control

47. As reported in paragraph 42, despite the overall financial pressures, a pattern of under-spending of a number of approved budgets continues. Budgetary control reports for 2010/11 show that this pattern is continuing in the current year.
48. For the council to maintain its reserves at £250 million, while 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 available resources 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. 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.

49. To enable the council to make difficult decisions about how its resources are to be used in the future. The management information presented to members should also be reviewed to ensure it is comprehensive, covers all options and is costed to enable strategic choices to be made on where finite resources are to be used by the council.

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50. It is encouraging to note that the newly appointed Chief Executive, in a report to members on 15 September 2010, proposed a review of the budget process and its links with wider aspects of corporate strategy.

Capital performance 2009/10

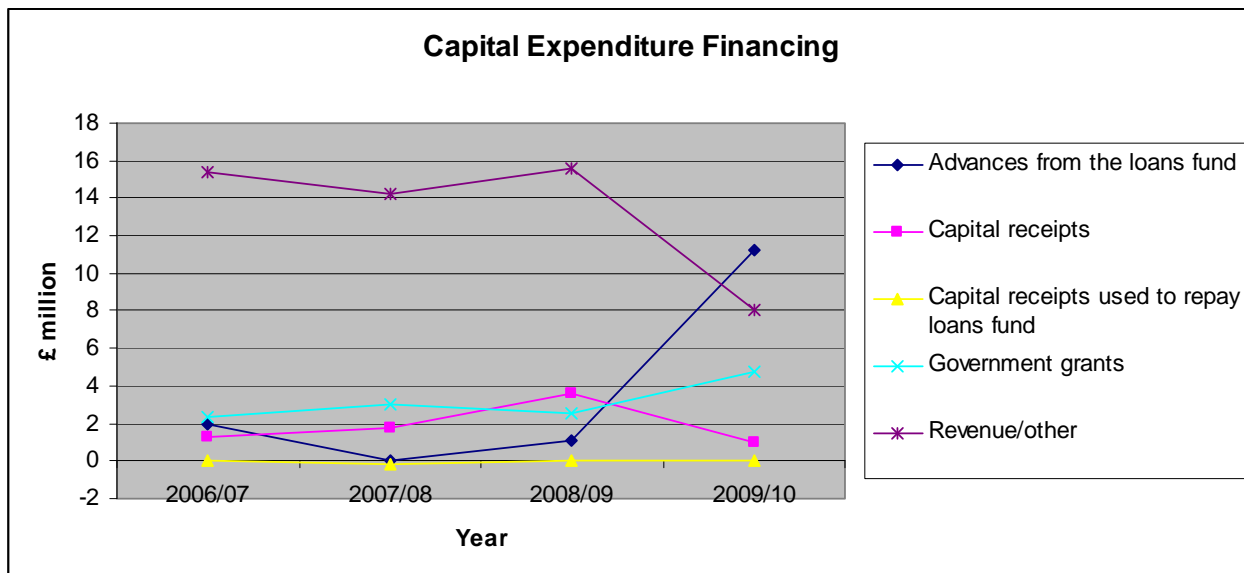
51. The council's prudential indicators for 2009/10 were set in February 2009. Capital expenditure increased by £2.2 million during the year to £25 million - £18.41 million of the total related to the general fund capital programme. The trend in capital investment and sources of funds is reflected in exhibits 4 and 5. Overall, an underspend of £6.29 million against budget was reported on the council's capital programme for 2009/10, representing a £1.99 million underspend on the general fund capital programme and a total underspend of £4.3 million on the reserve fund, HRA and harbour account. Total project slippage of £4.2 million has been carried forward to 2010/11 for completion of other programmes.

Exhibit 4

Sources of finance for capital expenditure 2006/10

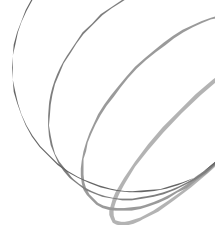
| | 2006/07 Actual £M | 2007/08 Actual £M | 2008/09 Actual £M | 2009/10 Actual £M | 2009/10 Budget £M |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Advances from the loans fund | 1.98 | 0 | 1.07 | 11.23 | 13.15 |
| Capital receipts | 1.26 | 1.77 | 3.61 | 0.95 | 0.89 |
| Capital receipts used to repay loans fund | 0 | (0.21) | 0 | 0 | 0 |
| Government grants | 2.36 | 2.99 | 2.56 | 4.72 | 4.15 |
| Revenue/other | 15.41 | 14.23 | 15.55 | 8.07 | 36.0 |
| Total | 21.01 | 18.78 | 22.79 | 24.97 | 54.19 |

Exhibit 5



Capital project management

52. Last year we highlighted that improvements were required in capital programme management. In October 2009, members approved the first year of a proposed 5 year capital programme. To further progress the capital plan, in February 2010, the council appointed a head of capital programming. In March, the council approved the Gateway Process for use in the development of a 5 year capital programme. The Gateway Process is a system of review and challenge designed to ensure the robustness of proposed projects. These are positive developments by the council and will help to control the risk that additional expenditure and delays on capital projects and delays will be incurred.
53. The council currently has a number of high profile projects. These include Anderson High School and Mid Yell Junior High School. Progress on each of these projects is discussed below.
54. **Anderson High School:** A statutory consultation period began on 30th August 2010 on the proposed relocation of Anderson High School from the Knab in Lerwick to a site at Lower Staney Hill. The consultation period closes on 10th October 2010 and decisions will then be taken by the council on how to progress the project.
55. This project has been ongoing for several years and costs have been incurred and capitalised although no asset has yet been constructed. Last year we highlighted that over £3 million was included on the council's fixed asset register for costs relating to Anderson High School and the previous decision to build the school at the Knab. In 2010/11, these costs were correctly removed from the fixed asset register and charged to the income and expenditure account. It is of concern that



the council has incurred these costs without an asset being constructed and it is essential that the council closely monitors ongoing expenditure in this area to avoid unplanned charges against the revenue budget.

Action plan 8

56. **Mid Yell Junior High School:** The estimated cost has increased from £8.5 million to £8.75 million following a decision by the council on 1 July 2009 to expand the design to offer greater storage capacity and to enlarge accommodation for music and additional support for learning. A report to the Services Committee on 2 September 2010 stated that the project has an expected completion date of October 2010.

Treasury management

57. The current economic climate means interest rates on borrowing and investments are low. The council does not have any borrowings but, with large reserves, the main impact has been the continuing reduction of investment income from £10.76 million in 2008/09 to £9 million in 2009/10 (£13 million and £15 million in 2007/08 and 2006/07 respectively). At 31 March 2010 the council held cash and temporary investments totalling £20.91 million.

Pension funds

58. The council is responsible for the management and administration of Shetland Islands Council Pension Fund (the 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 covering 3,067 members, including 330 who are members of other admitted bodies and 11 who are members of a scheduled body. These figures do not include teachers who are covered by the Scottish Public Pensions Agency.
59. The council purchased Shetland Towage Limited in February 2006 from SCT with the aim of streamlining operations and generating efficiencies. Approximately 50 staff transferred into the pension fund at a cost of around £4 million. No contribution has yet been made by the council to the pension fund but an actuarial valuation in June 2009 indicated a funding shortfall of £8.346 million and this has been disclosed as a contingent liability. We have recommended in previous years that the council reviews this but the matter is still outstanding. This is a material figure and it is now urgent that the council ascertains the likely timing of the liability and should ensure that budgets are amended to reflect this.

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60. The investment assets for the fund are managed by external fund managers. Over the year, net assets of the fund increased on a market value basis by £69.33 million to £227.43 million at 31 March 2010, mainly due to the relative improvement in market conditions since 31 March 2009.

61. The trend over the last few years is indicated by the following table:

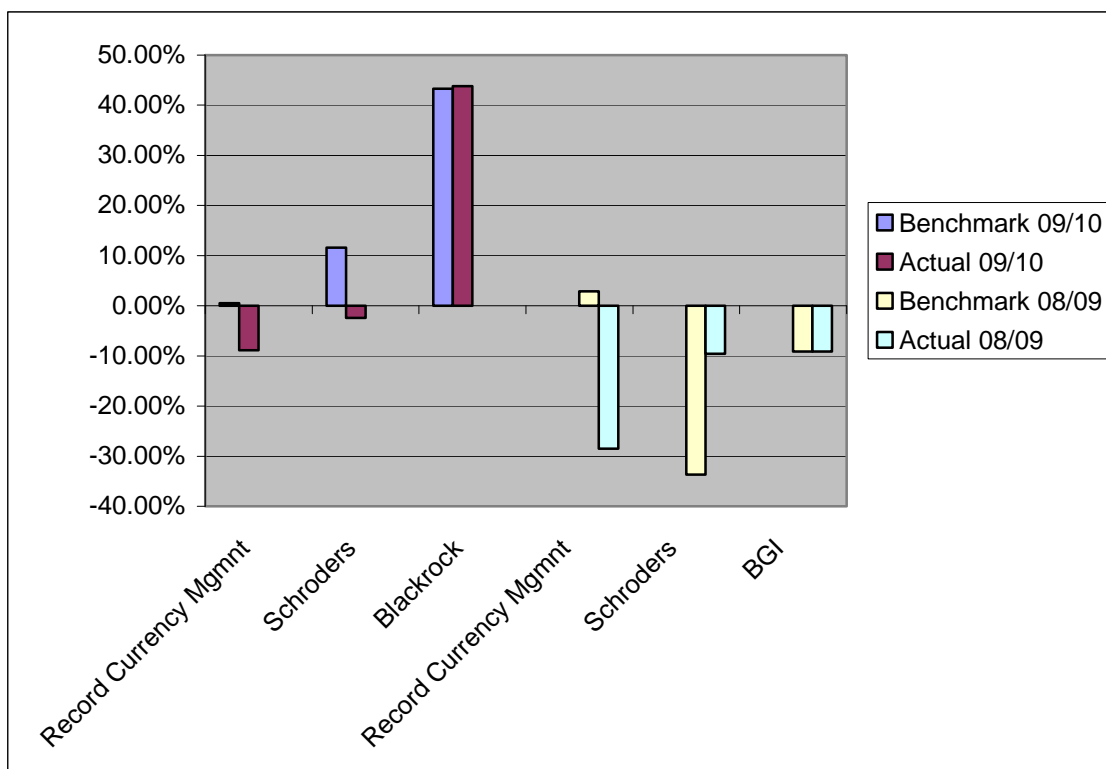
Pension Fund Net Assets

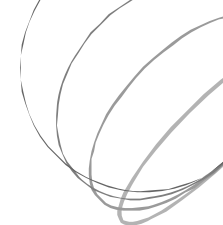
| | 31/03/07 | 31/03/08 | 31/03/09 | 31/03/10 |
|-------------------------------|----------|----------|----------|----------|
| | £m | £m | £m | £m |
| Shetland Islands Pension Fund | 211.72 | 199.76 | 158.10 | 227.43 |

62. In 2009/10, the benchmark return was only achieved by one fund manager. In the other two cases negative returns were achieved by the fund managers against positive benchmarks. Exhibit 6 shows the performance of the fund over 2009/10 with performance in 2008/09. It is disappointing to note that only one fund manager achieved their 2009/10 benchmark. The council has a system of monitoring in place to identify the reasons for the levels of performance and is making proposals on corrective action where required.

Exhibit 6

Shetland Islands Pension Fund – fund and benchmark return 2008/09 and 2009/10

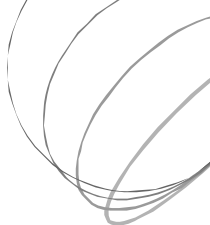




63. The long term impacts of these fluctuations are monitored on an ongoing basis by the council. The effect on the asset values of the pension fund and the future outlook for employers' contributions was assessed at the triennial valuation of the pension fund.
64. The last actuarial valuation of the fund was at 31 March 2008. Factors such as the volatile stock markets and increasing life expectancy resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 99% at 31 March 2005 to 88% at 31 March 2008. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2009 to maintain the solvency of the fund. The common rate payable by each employing authority for the period 1 April 2009 to 31 March 2012 is 18.9% of pensionable pay, before allowing for any individual adjustments. The expected employer's contribution for the year to 31 March 2011 is £8.61 million.

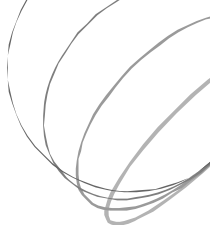
Asset Management

65. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most local authorities. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. It was highlighted in the report that Shetland Islands Council was one of five councils who did not know the suitability ratings for more than 20% of their buildings.
66. The report was noted by the audit and scrutiny committee on 17 June 2009 where members requested additional information on the areas where the council was reported as performing poorly. Since the report was issued, a new head of capital programmes has been appointed.
67. The assets and properties service has experienced ongoing staffing issues which have resulted in delays in a number of projects over the last two years. The council had plans to complete a review of the non-housing estate by the end of March 2008. Due to the staffing shortages, this has still not been completed.
68. The school estate management plan has been in place since December 2006 and this has been used to inform the council's Blueprint for Education. The council is committed to producing a model for education which considers the educational and financial viability for schools and communities and it is anticipated that significant capital investment will be required to bring some schools and facilities up to a modern standard.
69. A number of schools have been identified for closure as a means of rationalising the school estate. Both Mid Yell and Anderson High School have been designed above the current school role to accommodate any future transfers. This is likely to be progressed on a five to ten year timescale, on the assumption that the new Anderson High School is built within the same timeframe.

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70. Several of the issues above were detailed in the Assurance and Improvement Plan (AIP) leading to asset management being classified as an area with significant concerns and risks. As a result of this, Audit Scotland has planned to continue to review developments through the annual audit process and to maintain links with the Scottish Housing Regulator (SHR).

Procurement

71. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
72. All councils have been assessed by Scotland Excel and many scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:
- The role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
 - Getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
 - Adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
 - Embedding new systems and processes.
 - Conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.
73. Shetland Islands Council scored 16% which is a low score in absolute terms as well as in comparison to the local government average of 22%. Improvements are required across all assessment criteria. Improving the performance and score of the organisation will require significant investment by the procurement team in procurement practices across the organisation with the active support of senior management to achieve the greater visibility and control required.
74. It is acknowledged that all of the island councils are challenged by geographical remoteness from the marketplace. However there is an opportunity for the island councils to be creative in response to these issues.

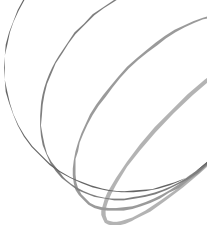
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75. Substantial investment and commitment is required to improve procurement performance across the organisation and the council's score at the next round of PCAs. We will monitor the situation and the ongoing commitment by the organisation to improving the situation.

Managing People

76. People management was assessed as an area with significant concerns and risks in the AIP. One of the reasons given for this is that the council does not have an agreed workforce strategy in place for the council as a whole, although a workforce development strategy for the Education and Social Care Department was agreed in May 2009. The council faces serious workforce challenges and it is important that these are addressed in the short term so that services in the future can continue to be delivered while achieving Best Value. The workforce plan should take account of the low population levels in Shetland, which means that there is a smaller pool of people for recruitment purposes and training plans should be formulated to ensure that the workforce is adequately skilled. Without an agreed workforce plan, there is a considerable risk that council services may be adversely affected.
77. There continues to be several unfilled vacancies for council posts, notably for head teachers and positions within infrastructure services. In addition, the public hearing by the Accounts Commission heard evidence relating to the well publicised personnel issues within the council.
78. The AIP also highlighted that the workforce's single status agreement is not yet fully implemented and an unquantified contingent liability has been disclosed in the 2009/10 financial accounts. The main reason for this is that three staff groups were not included in the single status offer prepared by the council due to specific terms and conditions relating to these staff members. These were:
- Port operations and associated posts which have proven difficult to fully assimilate due to working practices developed to suit the nature of the industry. Investigation of the options and implications arising from new vessels and potential changes to service requirements continue to be under discussion.
 - Early years workers posts which have proven difficult to assimilate to the new system due to a locally negotiated arrangement. Various options will be a particular focus of the detailed consultation with staff as part of the Blueprint for Education.
 - Progress with evaluation of economic development staff was delayed due to uncertainty over restructuring and staff transfers which have only recently been completed.

Until the single status agreement is implemented for all groups of staff there remains a higher risk of legal claims.

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79. Despite the issues detailed above a staff survey was carried out in May 2009 in which the council received a favourable response. The next staff survey is due to take place in 2011.

Shared Services

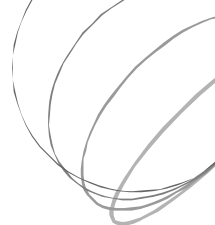
80. In 2008, the Controller of Audit commented in her overview report on the lack of progress in developing shared services across Scotland. The report recommended that councils should give this a higher priority than previously in the light of financial pressures and the drive for efficiency.
81. The council's ICT Unit is progressing shared services with other public sector organisations within Shetland (e.g. Trusts and NHS Shetland).

Outlook

82. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a severe reduction in resources. The council needs to plan for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way.

Financial planning

83. In 2010/11, the council again froze the council tax in accordance with the concordat with Scottish Government. The net revenue budget includes savings of £9.943 million. The latest budgetary control report covering the period 1 April to 31 July 2010 shows an underspend of £1.662 million, excluding the above-mentioned savings. At 15 September the Head of Finance reported that the council still had to identify £8.5 million of savings if the council's financial strategy is to be maintained. At this stage of the financial year there is a considerable risk that the budgeted savings will not be achieved.
84. In common with other councils, Shetland Islands Council is forecasting a reduction in revenue funding of 3% per annum in real terms over the next 6 years. This would result in a reduction of funding of £3 million for the council in 2011/12, rising to £18 million in 2016/17. The position on Scottish local authority spending will become clearer when the outcome of the spending review is apparent. The council recognises the need to take immediate action to reduce costs for future years and key decisions are imminent. Savings take time to accrue and the council needs to take action now to be sure of achieving savings in the future. As a basis for this process it is essential that budgets are reviewed, are calculated realistically and reflect the corporate priorities of the council.

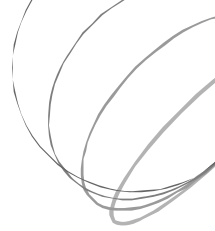


85. Elected members continue to face a number of difficult decisions to ensure the council achieves its financial strategy. Officers play vital parts in ensuring members are supplied with data in a format which enables them to make informed decisions. There is scope for more clarity in the financial information presented to members which would help focus attention on any major problem areas.

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86. The council's strategy is to maintain a minimum level of £250 million of reserves. This strategy has been in place for several years and the council has achieved it on an annual basis. However, significant changes have taken place since this strategy was developed and, in the light of the economic climate and the cuts in financial allocations, the council should review the rationale behind its strategy to ensure that the setting of a threshold level and that the £250 million limit itself remains appropriate.

Action plan 9



Governance and accountability

Introduction

87. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. In October 2009 we submitted our Report to Members and the Controller of Audit on the 2008/09 Audit which raised significant concerns about the council's governance arrangements. The 2010 AIP concluded there are significant risks with the council's governance arrangements, vision and strategic direction and in the use of resources. In these circumstances the council is not well placed to demonstrate that it is achieving best value in delivering its services.

Controller of Audit reports

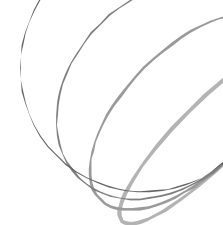
88. Following our report on the 2008/09 audit, in December 2009 the Controller of Audit presented a report to the Accounts Commission under section 102(1) of the Local Government (Scotland) Act 1973. The Accounts Commission requested additional audit work to be carried out and a further report was presented by the Controller of Audit in May 2010. This was a wide ranging report and covered issues including:

- the recruitment, performance appraisal and negotiated settlement of the previous Chief Executive
- the position of the assistant Chief Executive
- working relationships within the council
- strategic leadership in the council
- the 2010/11 budget and financial situation
- aspects of governance and accountability.

In the Controller of Audit's report in May 2010 it was concluded that the council needs to improve its governance and accountability arrangements.

Accounts Commission findings

89. After consideration of the Controller of Audit's reports, in June 2010 the Accounts Commission held a public hearing. The Commission reported that it found the approach to governance haphazard and recommended that the council put in place an improvement plan to ensure that:
- the council can develop the leadership, governance and strategic direction it requires



- there is a basis for effective working relationships among councillors and between councillors and officers
- all procedures for decision-making are robust and transparent, and can command public confidence
- the council has the capacity to deliver its financial strategy.

90. In response, the Chief Executive presented a report to the council in September 2010 which stated that the council is currently working on “the development and implementation of a corporate improvement process” and that this “should be the primary focus of the council for the next 12 months”. In relation to this, council members approved the proposal from the Chief Executive to “commission specific pieces of work with input from Local Government colleagues who have offered their support in developing and embedding best practice.” We will continue to monitor this area as the Accounts Commission has asked for a further report in 2011 on the progress made by the council.

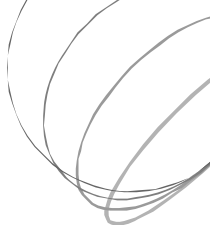
Scrutiny arrangements

91. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Audit & Scrutiny Committee’s remit includes risk management, IT security and anti-fraud reporting. The committee also has a wider role in terms of promoting, monitoring and developing continuous improvement. The committee is well attended and in overall terms its remit and working practices are in accordance with good practice principles. For example, the committee:

- is a formally constituted committee with clear terms of reference which reports directly to council and usually meets in public
- there is regular attendance by appropriate senior officers of the council
- considers internal and external audit plans and respective annual reports
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.

92. However there is scope for further learning and development opportunities so that members are appropriately supported and equipped to challenge officers and increase the effectiveness of the committee’s work. In particular, we would highlight the following matters as areas of work where the committee need to focus more attention:

- internal and external audit plans are prepared on the basis of risks identified. The committee needs to be assured that audit plans have been completed and where slippage has been experienced that significant risks have been addressed
- the committee currently receives a selection of internal audit reports and is advised of significant issues by the external auditor. The area for improvement is in relation to the implementation of



action plans. A more formal process needs to be put in place which will provide the committee with assurance that recommendations are being implemented and making a difference

- over the last year, council services such as social work and child protection services were inspected by relevant inspection agencies. Clearly the detail of these reports will be addressed by the relevant services and executive committees but good practice suggests audit committees have a role in monitoring implementation to ensure that key risks faced by the council are being addressed. It is not clear whether the committee has discussed its role with regard to inspection reports
- The Accounts Commission issues a range of national study reports and an overview of local government each year. Recommendations are generally directed at all councils so it is appropriate for the committee to consider findings and ensure that significant matters are being addressed by the council. We note that more national reports are being presented to the committee than previously and we welcome this improvement.

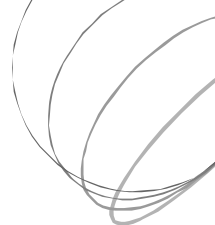
Action plan 13

Leadership

93. The council appointed a new Chief Executive in May 2009, but in February 2010 it reached a negotiated settlement which led to his departure. As noted above these events have been reported in the Controller of Audit's report. The Controller of Audit reported that "the total cost to the council of the agreement is approximately £285,000. The council will also incur additional costs relating to legal fees and other costs up to a capped level of £21,000."
94. In our ISA260 letter we reported that to promote transparency regarding this agreement, we asked that the council to disclose some details regarding the negotiated settlement in note 8 to the financial statements, covering officers' emoluments. The council's monitoring officer did not feel it was appropriate to do so.
95. In June 2010 the council appointed a new Chief Executive on a fixed term contract for two years and three months with an option to extend for a further six months. The new chief executive took up post on 9 August 2010.

Roles and relationships

96. The Accounts Commission reported an absence of clear, decisive and consistent leadership at councillor level. It recommended that "the council should establish a comprehensive programme of training and development by all councillors and senior officers to enable them to understand how to perform effectively in their roles and how to demonstrate the value of good governance through their conduct".



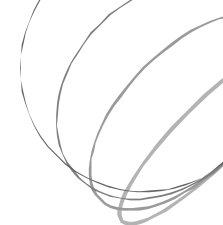
97. The council has developed role profiles for all council members. Training has been offered to all members in areas including risk management. There is, however, scope for improving the number of members who attend the training courses that are offered by the council. There are currently no personal development plans in place for members, nor are there formal mechanisms to assess the impact of training.
98. Elected members represent the council on a number of arms length organisations, with potential for conflicts of interest. An example of a possible conflict of interest is members acting in their roles as trustees of the SCT. As we reported last year, in February 2009, the council's elected members approved a recommendation from the Chief Executive to request the financial results from the trust for inclusion in the group accounts. In March 2009, the same councillors, acting in their capacity as trustees of the SCT, voted against providing the information required by the council after considering legal advice. The result of this action was that the council's financial statements received another audit qualification.
99. The Accounts Commission reported that "councillors refused to acknowledge the possibility of conflicts of interest in relation to council business" and that "councillors do not appear to have considered their position on the Charitable Trust with regard to the Code of Conduct and how this might affect the way council business on certain matters is conducted." The Accounts Commission recommended that "the council should review the way in which it advises councillors on the issue of their interests, and ensure that it is able to explain coherently and publicly the way in which councillors are expected to approach recurring issues such as the role of councillors as trustees of Shetland Charitable Trust."
100. A recent Audit Scotland report *Role and working relationships: are you getting it right?* (www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf) includes a tool for councillors and officers to use in assessing their relationships.

Partnership Working

101. Shetland Islands Council shows evidence of good partnership working and this was reflected in the AIP which did not identify any significant risks in this area. The community plan was endorsed by the council and formally adopted by all partners. It contains clear priorities and explicit targets which are to be achieved by the council and its partners. There is strong evidence of joint working with NHS Shetland, including the joint preparation of Community Care Plans.

Community engagement

102. There continues to be evidence of community engagement taking place by the council. A community planning delivery group has been established with partners to provide leadership and facilitation to community planning in Shetland through the adoption and overall monitoring of arrangements. The

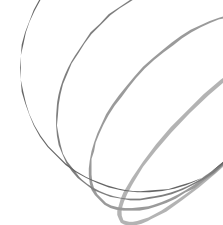


group has assigned “champions” to take forward each of the national outcome areas of the SOA. The planned work includes preparing a co-ordinated joined up and comprehensive response to the economic and financial downturn across all community partners.

103. “Your Voice” is Shetland’s twice yearly citizens’ panel which was established in 2004 and consists of 600 people representative of the Shetland population. The survey results provide statistical and qualitative data which feed into the process of planning and delivering services.
104. The council’s service plans have a section which outlines any recent or future consultation and engagement with customers. This enables services to build up an understanding of customers’ needs and expectations and how services could be improved. Specific examples of engagement include satisfaction surveys, informal meetings, public meetings, suggestion boxes, regular contact with community councils and feedback via websites.
105. Notwithstanding the above, the Accounts Commission findings made some recommendations for the council in the area of community engagement:
- Effective procedures should be agreed by the council for engaging with the local community and understanding its needs and expectations and put these procedures on a systematic basis.
 - The council should improve the way it develops clear, coherent messages to communicate with the local community.
 - The council should develop a systematic approach to engaging with the wider local government community. Ensuring regular attendance at meetings of professional and representative bodies.
106. We will continue to review the council’s progress in this area and are due to report on this to the Accounts Commission in 2011.

Data handling and security

107. Data handling and security continues to receive public and media attention 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.



108. The work being carried out to progress the council's information management plans, includes:

- The Insurance and Risk Management System Project that will consider the inclusion of information and data sharing risks as part of the standard risk register.
- The System Catalogue being created as part of the ITIL compliance project includes a section to ensure this data sharing information is captured and maintained when changes are made to applications processing personal data.
- Train Shetland offers regular security training courses. ICT Security is included on staff induction training.
- An Information Officers group is to be set up to improve awareness and understanding of information management and security.

Public performance reporting

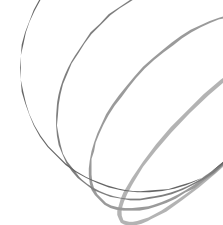
109. The council produces an annual performance report in the form of a calendar which is distributed to council offices and public buildings where members of the public can obtain copies. Information is easily obtainable, indicates both good performance and areas where improvement is required and shows recognisable outcomes and targets. It is also forward-looking, detailing developments the council is planning in the future. The calendar is structured round the five national outcomes and shows the council's commitment to achieving the SOA.

Internal controls

110. A Statement on the System of Internal Financial Control (SSIFC) for the council and its group was included in the financial statements. The conclusion of internal audit, reporting to the audit and scrutiny committee 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.

111. 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.

112. CIPFA guidance 'Delivering Good Governance in Local Government' recommends that the review of effectiveness of internal control should be reported in an Annual Governance Statement. The council stated last year that it intended to comply with best practice and include an Annual Governance Statement but this was not done for the 2009/10 financial statements.



Audit testing

113. As part of our work, we took assurance from 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:

- | | | |
|--------------------------------------|------------------------------|-------------------------|
| ▪ Budgetary control | ▪ Main accounting | ▪ Payroll |
| ▪ Accounts receivable | ▪ Cash & banking | ▪ Housing rents |
| ▪ Council tax billing and collection | ▪ NDR billing and collection | ▪ Pension contributions |
| ▪ Pensions payroll | ▪ Pension fund investments | |

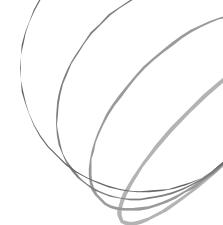
We also relied on the work of internal audit in the areas of budgetary control, main accounting, payroll and pension contributions to support our work. Our key findings are reported below.

114. **Capital accounting - fixed assets:** As in previous years we planned to perform some audit work in advance of the year end audit on fixed assets. This was not possible, however, due to ongoing problems being experienced with the Logotech fixed assets system. Additional testing was performed by the audit team prior to September to obtain the necessary levels of assurance and a material balancing figure in the accounts was highlighted. This led to a substantial amount of additional work having to be done by the finance department to resolve this and there was a risk of an additional audit qualification having to be made. Although the difference was resolved there remains a risk of significant errors in the fixed asset figures in the future. The problems with the capital accounting system have been reported in our review of internal controls and in the council's Statement on the System of Internal Control. The council is liaising with other local authorities, who are experiencing similar problems, to try and find a solution.

Action plan 14

115. **Pension fund:** Our work on pension investments highlighted that the council's Statement of Investment principles (SIP) does not include any comment on consideration of the Myner's principles as required by the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Amendment Regulations 2003. The council intends to review its current SIP in 2010/11 and a revised SIP will be produced which will ensure that all legislative requirements are addressed.

116. The regulations mentioned in the paragraph places limits on the type and percentage of permitted investments. These regulations are considered when an agreement is prepared between the council and a fund manager. However, there is currently no further monitoring of fund managers' investment decisions to ensure compliance with the legislation after the agreement is signed. To address this, for



2010/11 a procedure has been devised to check investment compliance of each manager and the overall pension fund on a quarterly basis.

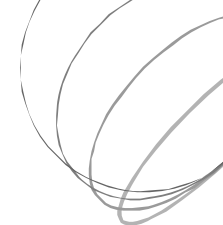
117. **Debt repayments – Judane:** In December 2009 we attended a council meeting at which there was a request from the Monitoring Officer to accept a proposal in relation to a debt due from Judane Ltd. Council members voted to accept the proposal from Judane Ltd which would have the effect of delaying the repayment time of a debt, the amount of which had previously been reviewed by the council, by one year. Following this, we met with officers to discuss the process that had been followed by the council since 2002 including decisions taken to reduce the level of debt. We also reviewed a large amount of evidence including minutes of meetings and letters from the Scottish Executive. Our review did not highlight any areas where the council had acted inappropriately.

Prevention and detection of fraud and irregularities

118. At the corporate level, the council has arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees. We identified in our 2008/09 annual report that the council was intending to update its anti-fraud documents by October 2009. As at September 2010 these documents have not been updated and there remains a risk that the council's anti-fraud procedures may not be adequate.
119. During the year, two councillors were referred to the Standards Commission which found that both members had contravened the Code of Conduct by not declaring a financial interest or withdrawing from discussion of an agenda item at a meeting of the council's Development Committee. The Standards Commission applied a sanction of censure to both councillors.
120. A further two councillors were referred to the Standards Commission during the year and they were cleared of all complaints against them.

NFI in Scotland

121. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, 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 NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to the end of March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.



122. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. This report identified Shetland Islands Council as one of seven Scottish councils where improvement was required.
123. Our discussions with the finance department led us to conclude that the NFI work had not been given a high level of priority at the council. There was no planned structured approach and progress on the exercise had not been reported to members. Although there was evidence that benefit matches had been reviewed in detail and that some priority had been given to the identification of duplicate invoices, only 14 out of the 69 recommended matches had been investigated by the required deadline. The reasons given for this included a lack of capacity within the council and the additional workload as a result of the introduction of Single Status. In addition, the view expressed to the audit team by members of the finance department was that the issues arising from NFI are seen as a low risk area due to the lack of issues and savings identified from the previous NFI exercise.

Action plan 15

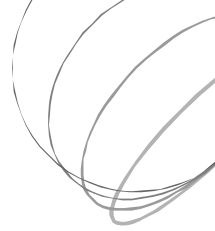
124. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The Head of Finance gave assurances to the council's Audit and Scrutiny Committee in August that the 2010/11 NFI exercise would be given a higher level of priority than in previous years.

Housing Benefit

125. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2010. Our specialist team is carrying out a programme of risk assessments of benefits services in all councils over a two year period.
126. The risks to Shetland's benefits service were last assessed in 2008 and a detailed report was issued. The council responded to the risks identified with an action plan. All of the actions were completed with the exception of the updating of the council's anti-fraud procedures mentioned above. We believe the actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle.

Outlook

127. Governance and accountability issues will continue to be prominent as the council develops and moves to deliver its improvement programme against the background of a difficult economic climate and the need for efficiencies. The Accounts Commission has requested a follow up report in 2011 addressing the recommendations in their August 2010 report which included a number of significant governance issues. We will continue to review the progress made by the council towards achieving the aims of the improvement plan.



Performance management and improvement

Introduction

128. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The AIP concluded that there was some uncertainty for the council in this area. This section provides a high level overview of performance management in Shetland Islands Council.

Vision and Strategic Direction

129. The council's corporate plan was agreed in 2008 and it was refreshed in 2010 for several reasons including the need to include the impact of the economic downturn and also the development of the SOA. The plan is divided into two main parts: Maintaining a Sustainable Economy, Society and Environment, and Organising Ourselves Better which sets out the key actions by the council to ensure the plan is delivered effectively and efficiently. The revision of the corporate plan is a positive step by the council and will help ensure that decisions are based on a comprehensive level of data. Progress on the corporate plan is reported to the full council at 6 monthly intervals.

Performance management

130. The council continues to develop its performance management system. Performance management was categorised in the AIP as an area of uncertainty. Part of the evidence for this is that performance management currently varies across community planning partners and there is scope for performance reporting to be more joined-up between partners. In addition, the 2005 Best Value report recorded that the council provides good services but at a high cost and that more value for money work is required to evidence that the council is achieving best value. We will continue to monitor developments in performance management.

131. 8 targets and priorities were developed by the Community Planning Board (CPB), now the Community Planning Partnership (CPP) 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 in the council's corporate plan. The targets and priorities are aligned with the national outcomes set out in the Scottish Government's Concordat.

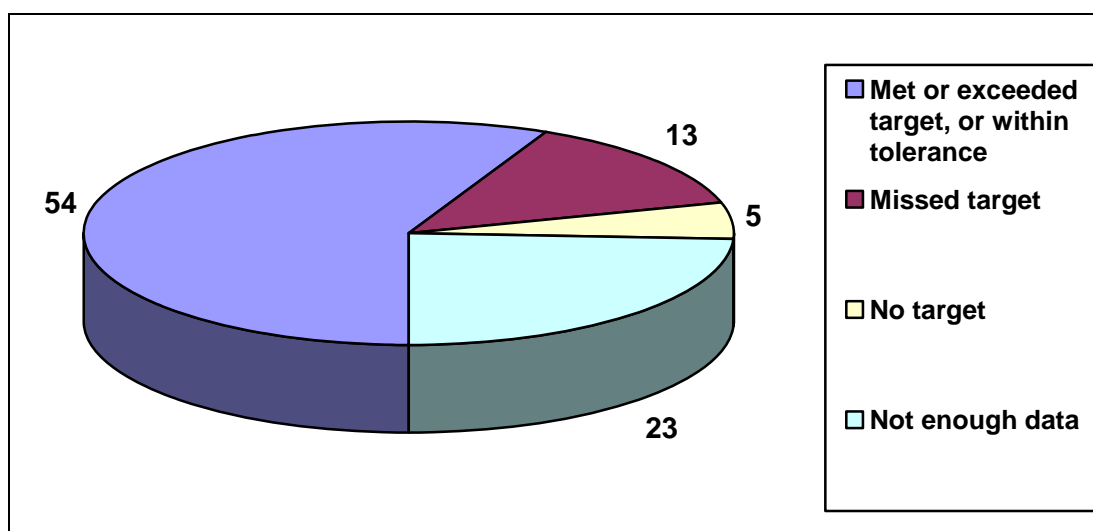
Overview of performance in 2009/10

132. In the AIP it was reported that the council continues to provide a wide range of high quality services. However the cost in providing these services is leading to the council using substantial amounts of its reserves on an annual basis. All scrutiny agencies agreed that the council also needs to start demonstrating that it delivers services in a way which demonstrates best value.

133. Exhibit 7 summarises progress in 2009/10 against **95 targets** measured in the progress report on the SOA.

Exhibit 7

Achievement of Shetland Island Council's targets 2009/10



134. Some of the measures of performance **achieved** in 2009/10 include:

- Level of support and employment opportunities available for vulnerable adults.
- School pupil attainment levels.
- The percentage of over 65s with a high level of care being looked after at home.
- Number of Single Shared Assessments performed.
- The number of people using buses.
- Levels of waste sent to landfill.

135. Some of the measures **not achieved** in 2009/10 include:

- The number of employment opportunities for graduates and trainees.
- The number of business start-ups.

- Reduction in the level of personal and housing debt.
- The number of new houses built.

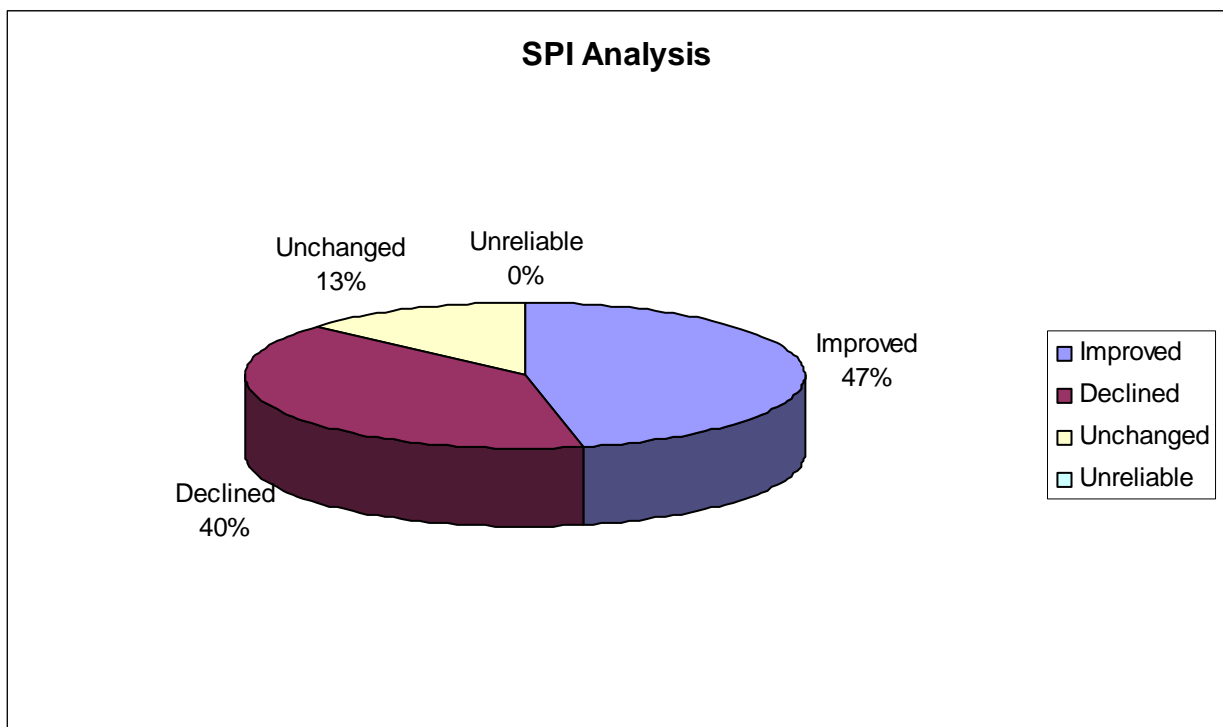
Statutory performance indicators

136. The Accounts Commission has significantly reduced the range of statutory performance information (SPI) that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The council publishes SPI data on its website and its annual performance report in the form of a calendar

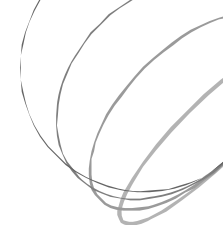
137. In 2009/10, a total of 25 SPIs were required. These were submitted to the council's audit and scrutiny committee on 27 September 2010. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms, Exhibit 8 confirms that the council has made improvement in a number of areas, whilst declining in others.

Exhibit 8

Improvements demonstrated by SPIs (25 indicators with 60 PI measures)



138. Each year we review the reliability of the council's arrangements to prepare SPIs. SPI returns were received within the required timescales. However, the timeliness of working papers provided to



support the figures continued to vary. We will continue to work with the council to improve the overall arrangements.

139. SPIs have improved in the following areas:

- the average number of working days lost per employee through sickness absence for local government employees (excluding teachers) – down 1.1 days
- the percentage of planning applications dealt with within 2 months – up 8.2%
- average time to re-let housing not in low demand (improved by 14 days).

140. The following indicators are examples of where the council's performance has declined:

- the average number of working days lost per teacher through sickness absence – up 1.6 days
- average time to re-let housing in low demand (up by 42 days)
- the number of attendances at swimming pools (down 7.4%)
- the cost per property of refuse disposal (up 13.7%).

Risk management

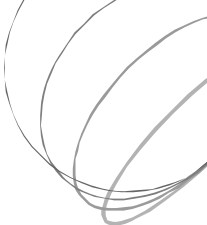
141. In our 2008/09 report we highlighted that the council was in the progress of reviewing and updating the strategic and departmental risk registers to reflect the council's priorities. Work was due to be completed in this area by December 2009. However, in the course of following up the previous year action plan we identified that this work is still not complete and that several departments within the council have failed to provide the required data. Without a comprehensive, up to date risk register there may be risks facing the council of which it is unaware and which are uncontrolled.

Action plan 16

Progress against audit risks in the AIP

142. As noted in the introduction, this report includes any significant findings that have arisen from our review of the management of strategic risks contained within the AIP. The AIP contains audit and scrutiny assessments prepared by a local area network with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of Shetland Islands Council.

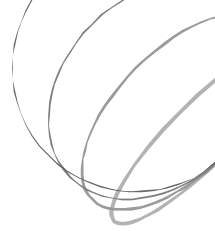
143. This assessment included areas of uncertainty and areas where significant concerns and risks had been identified and in these cases we included a note of the planned scrutiny activity. The following paragraphs note the position against each of the risk areas where the need for additional scrutiny was identified. In many cases we used the information taken from the Community Planning Partnership's



(CPP's) Single Outcome Agreement Progress Report for 2009/10 which was due to be submitted to the Scottish Government at the end of September 2010. The council, together with its CPP partners, is responsible for evidencing performance and each partner will have varying degrees of influence over each area.

Housing Service

144. Areas of uncertainty were identified within the Housing service. Despite the fact that the most recent inspection performed by the Scottish Housing Regulator (SHR) assessed the Shetland Islands Council housing service overall as “fair”, there was a number of areas identified for improvement. It was recognised by the SHR that the council collects, analyses and publishes a range of tenant satisfaction information. General satisfaction rates were noted as being high, although results were poorer for the homeless service. The level of rent arrears at 3.7% is considerably better than the national average of 6% and there continues to be good performance in the average number of weeks rent owed by tenants leaving in arrears. However, the AIP highlighted evidence of a shortage of available housing, with people spending too long in temporary accommodation and without financial support from the Scottish Government, there is currently no approved strategy for increasing the supply of temporary accommodation.
145. SHR highlighted that there are gaps in the council's stock condition which creates risks for the council's investment programme and its ability to achieve the Housing Quality Standard by 2015. The council has plans in place to address this and it is currently reporting that it is more than 80% compliant with the standard. Following its most recent inspection in 2007, the SHR identified areas for improvement. The council agreed an improvement plan to address these areas and to measure progress and the SHR will review this later this year.
146. Since the completion of the AIP, the council has completed a Housing Need and Demand Assessment (HNDA) which has been assessed by the Scottish Government as robust and credible. The HNDA will be used to inform the council's Local Housing Strategy which is due to be finalised by early 2011.
147. In September 2010 the council announced that a contractor had been appointed to carry out work in preparation for the construction of 76 new homes in Lerwick. This is one of the largest housing developments currently being undertaken by any local authority in Scotland and will address many of the issues highlighted in the AIP. The council's commitment to the provision of affordable homes is further reinforced by the fact that work at other proposed sites outwith Lerwick is being progressed.



Other areas of risk

148. The AIP also highlighted the following areas as having significant concerns and risks:

- Vision and strategic direction
- Governance and accountability
- Use of resources.

In addition, performance management and improvement was classified as containing areas of uncertainty. These areas have been discussed earlier in this report and, where appropriate, risks have been included in the action plan. We will be updating the AIP for progress made by the council in 2011.

Outlook

149. The long term and complex nature of many of the outcome targets poses challenges for performance management. We recognise the challenges and continue to review the systems that Shetland Islands Council has in place to monitor progress and take remedial action.

150. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk/work/scrutiny/index.php. The timing of any Shetland Islands Council best value audit work will be determined by the AIP risk assessment. There are currently no plans for any best value work in Shetland over the next three years due to the ongoing reports to the Accounts Commission. However this position will be kept under review by the LAN depending on the progress made by the council in implementing its improvement plan.

151. While no best value audit is scheduled the AIP includes the following scrutiny activity by other bodies over the next three years :

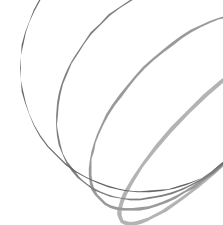
- SWIA – Initial Scrutiny Level Assessment (ISLA) review (2010-2012)
- SHR – review of council's progress against housing improvement plan (2010/11)
- SHR – progress update on 2012 homelessness targets and 2015 SHQS (2010/11)
- Follow up of council's Improvement Plan (2011/12)
- HMIE – joint inspection of services to protect children and young people (2011/12).



Appendix A

External audit reports and audit opinions issued for 2009/10

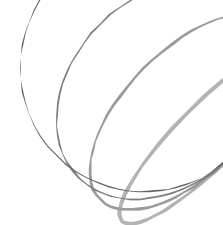
| Title of report or opinion | Date of issue | Date presented to Audit Committee |
|---|-------------------|-------------------------------------|
| Annual audit plan | 10 February 2010 | 1 March 2010 |
| Strategic Risk Assessment /Assurance and Improvement Plan | 10 June 2010 | 23 August 2010 |
| Key internal controls report | 10 July 2010 | 23 August 2010 |
| Report on financial statements to those charged with governance (ISA 260) | 20 September 2010 | 27 September 2010 |
| Audit opinion on 2009/10 financial statements | 30 September 2010 | Provided to the council separately. |



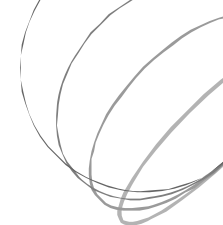
Appendix B: Action Plan

Key Risk Areas and Planned Management Action

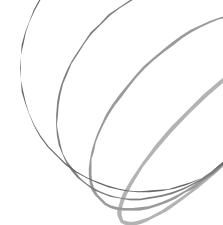
| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|------------------------------------|
| 1 | 10 21 | Group Accounts The council did not include the results of the charitable trust in the group accounts and an audit qualification was reported. Risk: the council's 2010/11 accounts financial statements are not SORP compliant. | The Council's Improvement Plan which will be submitted to the Accounts Commission will provide that the Council will liaise with Shetland Charitable Trust to conduct a full options appraisal in order that the qualification will be resolved. | Head of Finance | September 2011 |
| 2 | 15 | Financial statements adjustment The finance department was unable to fully reconcile a balance on the 2009/10 financial statements within the Statement of Total recognised Gains and Losses. Risk: further errors may arise in future years thereby increasing the risk that the accounts do not comply with the SORP. | The finance department will perform a review of the financial records to identify and correct the cause of the error for 2010/11. | Financial Accountant | March 2011 |
| 3 | 18 | Financial statements A great deal of reliance is placed on one officer for the production of the financial statements and in responding to queries. Risks: <ul style="list-style-type: none"> the council's accounts are not SORP compliant and supported by underlying accounting records additional audit input may be required to complete the audit by the required sign-off date leading to higher audit fees. | The council will review its procedures for preparing the 2010/11 financial statements. A protocol will be agreed with the auditors relating to responding promptly to audit queries. | Head of Finance / Chief Executive Financial Accountant | December 2011 February 2011 |



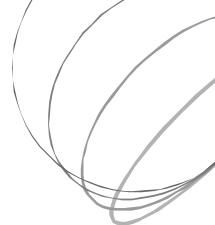
| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|----------------------------------|
| 4 | 20 | SDT There was a delay in finalising the arrangements for the external audit of the SDT. Risk: the sign-off deadline for the statutory accounts may be missed. | The accounting and audit arrangements will be reviewed if any changes in group bodies are proposed | Head of Finance | Feb 2011 and annually thereafter |
| 5 | 31 | Treasury management The reports received from the fund managers did not contain adequate details for the financial statements process. Risk: there may be delays and inefficiencies in the financial statements preparation process. | The council will liaise with the fund managers to ensure that information in the correct format is received in 2010/11. | Financial Accountant / Treasury Manager | February 2011 |
| 6 | 32 | WGA The council did not submit its WGA return to the Scottish Government until October 2010 thereby missing the required deadline of 30 July. The return was required to be audited by 30 September and this was also missed due to the late submission by the council. Risk: there is a reputational risk to the council of procedures are not improved significantly in the finance department. | The council will review its procedures for preparation of the WGA return to ensure that all deadlines are achieved. | Head of Finance | December 2010 |
| 7 | 34 | IFRS The council has made little progress in preparing for the implementation of IFRSs by 2010/11. Risk: the council may not achieve the required 2010/11 deadlines for preparing IFRS compliant financial statements. | The council will identify a lead officer within finance for IFRS implementation. Key deadlines will be agreed to enable the implementation of IFRS by 2010/11. Finance and other involved staff will be provided with appropriate training | Head of Finance / Chief Executive | December 2010 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---|---------------------------------|
| 8 | 41 55 | Anderson High School £3.07 million of expenditure on the new AHS required to be charged to revenue as the proposed site changed. Risk: without adequate levels of control, additional charges may have to be made to service expenditure. | The Council will review its systems for both internal and wider community engagement in order to ensure that the fullest possible consultation is conducted prior to taking major decisions. The Council's Improvement Plan provides for the development of a robust and achievable 5-year Capital Programme with effective investment appraisal through a gateway process, which shall ensure that the potential for significant changes to projects at late stages is minimised. | Chief Executive Head of Capital Programmes | July 2011 March 2011 |
| 9 | 46 86 | Reserves The council's draw on reserves was £38.89 million. Risk: the council's financial strategy of reducing the draw on reserves to zero by 2012/13 may not be achieved and its minimum reserves threshold may be breached. | The council will review its budget strategy and processes including the appropriateness of the minimum level of reserves | Head of Finance / Chief Executive | March 2011 |
| 10 | 49 85 | Financial planning There is scope for more clarity in the financial information that is presented to members. Risk: inappropriate decisions may be made due to the fact that members have insufficient information. | The council will review the format of the financial information presented to members. | Head of Finance | March 2011 |
| 11 | 59 | Pension fund There is a contingent liability in the accounts in respect of a funding shortfall of £8.346 million. Risk: the actual amount may be in excess of the contingent liability. | The council will perform a review to ascertain the likely timing of the liability and will ensure that budgets are amended to reflect this. | Head of Finance | September 2011 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---|---------------------|
| 12 | 78 | Single Status The council has still to include a number of staff groups within the single status agreement. Risk: there is a risk that the council is not addressing inequalities in pay scales for all council employees and could be at risk of legal claims. | The council will progress single status for all council employees. | Head of Organisational Development | September 2011 |
| 13 | 92 | Scrutiny arrangements There is scope for the Audit And Scrutiny Committee to review the types of reports that it considers. Risk: that the committee's work plan does not give appropriate attention to areas of high risk. | The Council reviews the work plan of the Audit and Scrutiny Committee, annually in August. However, the matters highlighted will be addressed in an early update to the approved plan, which will reflect the Council's Improvement Plan. | Head of Organisational Development – Policy Section | March 2011 |
| 14 | 114 | Capital accounting Additional work by the finance department and the audit team was required due to problems with the Logotech fixed asset system. Risk: council decisions may be based on inaccurate information from the Logotech fixed assets system. | The council will continue to liaise with Logotech and other customers to resolve the problems. | Head of Finance | February 2011 |
| 15 | 123 | NFI The NFI exercise was not given a high level of priority at the council Risk: possible benefits of the NFI process are not achieved. | The council will review its processes in advance of the 2010/11 NFI exercise. The council will complete the self-appraisal checklist included in the national report published in May 2010. | Revenues Service Manager | Completed June 2010 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|--|---------------|
| 16 | 141 | Risk management The council's risk register is incomplete due to the lack of data provided by individual departments. Risk: risks to the council may exist and be uncontrolled due to the lack of a comprehensive up to date risk register. | To date, with significant Risk management staff input, 87% of business units within the council have completed their departmental Risk Register so progress is being made. Regular updates will continue to be given to the Risk Management Board and Corporate Management Team on overall progress The council will ensure that all departments provide the required data to allow the risk register to be completed. | Head of Legal and Administration/ Chief Executive | 31 March 2011 |

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2009/10

SHETLAND ISLANDS COUNCIL - 2009/10 ABSTRACT OF ACCOUNTS

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2009/10 Abstract of Accounts

EXPLANATORY FOREWORD

1. Introduction

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

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

The following statements are contained in this Abstract of Accounts:

Statement of Accounting Policies

This statement explains the basis of the figures in the accounts, with particular reference to the treatment applied where more than one approach is possible.

Responsibilities for the Statement of Accounts

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

Income and Expenditure Account

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

Statement of Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses

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

Balance Sheet

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

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

Cash Flow Statement

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

Harbour Account

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

Housing Revenue Account

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

Council Tax Income Account

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

Non-Domestic Rate Income Account

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

Pension Fund Account

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

Group Financial Statements

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

Statement on the System of Internal Financial Control

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

3. Financial Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Council is committed to work towards its long term financial policies of achieving:

- a self-sustaining Capital Fund;
- a self-sustaining Repairs and Renewals Fund;
- a self-sustaining Reserve Fund;
- investment in infrastructure by utilising reserves down to a minimum of £250m.

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

The Council continued its Treasury Management policy in 2009/10, which consists of:

- continuing to have external management arrangements for all major funds;
- operating to a stringent set of borrowing and lending guidelines.

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

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

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

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

The Council has prudently built up extensive reserves of £273.6m to meet future financial requirements. As can be seen in the note on Movements in Reserves, the main individual reserves are the Capital Fund, Repairs and Renewals Fund and the Reserve Fund, which have a combined value at 31 March 2010 of £258.7m (£279.7m at 31 March 2009). The Council intends to preserve the value of these funds so far as is possible, so only the earnings on their investment are available to meet annual outgoings.

The Council received from the Scottish Government £93.55m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £1.5m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.7m to fund the payment of rent rebates and allowances.

The remaining sources of Council funding are levied locally, the most significant being the Council Tax which raised £8.48m, £5.3m from rents and charges to Council house and hostel tenants and £11.9m in charges to the users of Council harbours, principally Sullom Voe.

8. **Pension Liability**

In order to comply with Financial Reporting Standard No. 17 (Retirement Benefits), a valuation of the Council's Pension Fund was made by the Fund Actuary as at 31 March 2010. This indicated a net pension liability of £147.17m compared to a net liability of £58.98m as at 31 March 2009.

It is important to recognise that FRS 17 is an accounting standard that details the pension information to be included in these accounts. It prescribes a method of calculation and some of the assumptions used and reflects the position of the Fund only on one particular day, 31 March 2010. The pension fund is a long term commitment and the triennial actuarial valuation uses an approach that reflects that. The last valuation at 31 March 2008 recorded a funding level of 88% and the contributions the Council makes to the pension fund are in line with the actuary's valuation and recommendations.

9. **Statutory Trading Accounts**

The Local Government in Scotland Act 2003 repealed legislation relating to DSOs/DLOs and introduced new requirements to maintain trading accounts for significant trading operations which are required to break even over a rolling three year period. Further information is shown in note 5 to the Core Financial Statements.

10. **Trusts**

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

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

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

STATEMENT OF ACCOUNTING POLICIES

1. **Introduction**

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

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

2. **Debtors and creditors**

All known debtors and creditors have been provided for, on an actual or estimated basis, in the accounts as at 31 March 2010.

3. **Allocation of Central Support Costs**

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

4. **Capital Charges**

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

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

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

5. **Fixed Assets and Depreciation**

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

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

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

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

6. **Valuation Disclosure**

Except where noted below, most of the Council's properties which were due to be revalued this year were valued over a four month period to April 2010, and the effective date for the valuation was 1 April 2009 unless the property became operational after that date. However for properties with a value of £1,000 or less, the effective date of valuation remains at 1 April 1996 and these will be updated during 2010/11.

Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. Council dwellings were all revalued as at 1 April 2007 based on 'beacon properties' in ward/geographical areas, adjusted for different numbers of apartments. These valuations have also been adjusted to reflect all disposals made between 2007/08 and 2009/10. In addition all beacon valuations in the Shetland North area have been revised during 2009/10. Non-operational properties were valued by reference to their market value which has regard to both the existing use and any alternative use which may be sanctioned by planning

permissions. Outstanding life and residual values have also been reviewed for all assets that have been revalued this year.

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

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

7. **Stocks and Work in Progress**

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

8. **Financial Assets**

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

The interest credited to the Income and Expenditure account for bonds is determined using the effective interest rate method, with the exception of index linked bonds. Interest received on these bonds was £0.12m (2008/09 £0.12m) and any adjustment under the EIR method would be immaterial.

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

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

9. **Interest in Companies**

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

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

10. **Provisions**

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

11. **Reserves**

The Council has set aside specific amounts as reserves for future policy purposes. These reserves are listed in and further information is provided in note 18 in the Notes to the Core Financial Statements.

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

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

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

12. **Capital receipts**

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

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

13. **Grants**

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

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

14. **Interest on balances**

Interest on revenue balances is charged or credited at fund level at the average seven day money market interest rate for each month, calculated from daily quotes obtained from several brokers.

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

The interest charged or credited to Funds is calculated on the basis of monthly surpluses or deficits on those Funds, with interest on internally held reserves capitalised half yearly.

15. **Leases**

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

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

16. **Provisions for pensions**

Pension assets and liabilities have been included in the accounts on the basis of Financial Reporting Standard No. 17. Assets of the Pension scheme have been included at fair value, generally bid-market value, and liabilities have been measured on an actuarial basis using appropriate estimates and assumptions. In particular, scheme liabilities have been discounted at a rate linked to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Details are in note 25.

17. **Contingent Assets and Liabilities**

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

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

18. **Change in Accounting Policy**

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. The Council's Responsibility

The Council is required:

to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance.

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

2. The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the local authority SORP.

The Head of Finance has also:

kept proper accounting records which were up to date;

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

The statement of accounts presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2010

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

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

SHETLAND ISLANDS COUNCIL**2009/10 Abstract of Accounts****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

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

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2010

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2010

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

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

CASHFLOW STATEMENT

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

CASHFLOW STATEMENT (continued)

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 2008/09 | | 2009/10 Expenditure £000 | 2009/10 Income £000 |
|-----------------|---|--------------------------------|---------------------------|
| £000 | | | |
| | Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | |
| (12,246) | Depreciation and impairment of fixed assets | (18,901) | |
| 583 | Government Grants deferred amortisation | 586 | |
| (727) | Net gain/(loss) on sale of fixed assets | 44 | |
| (7,681) | Net charge made for retirement benefits in accordance with FRS17 | (12,335) | |
| <u>(20,071)</u> | | | (30,606) |
| | Amount not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year | | |
| 2,021 | Principal Repayments | 2,067 | |
| 2,461 | Capital Expenditure financed from revenue | 1,939 | |
| 7,986 | Employer's contribution payable to the Pension Fund | 9,500 | |
| <u>(7,603)</u> | | | 13,506 |
| | Transfers to and from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | |
| 4,708 | Transfer to Capital Fund | | 4,657 |
| 52 | Transfer to Pilot Boat Renewal Fund | | 24 |
| (3,656) | Transfer from Repair & Renewals Fund | | (7,655) |
| (1,351) | Transfer from Housing Repair & Renewal Fund | | (41) |
| 8 | Transfer to Quarry Repair & Renewal Fund | | 4 |
| 2,684 | Transfer to/from Reserve Fund | | (17,555) |
| (40) | Transfer from Marine Fund | | (53) |
| (49) | Transfer from/to Insurance Fund | | 34 |
| (70) | Transfer to earmarked balance | | (90) |
| <u>(5,317)</u> | Net additional amount required to be credited to the General Fund Balance for the year | | <u>(37,775)</u> |

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

2. Service Expenditure Analysis of Services

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

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

3. Finance and Operating leases

Council as Lessee:

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

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

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

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

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

Council as Lessor:

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

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

4. Agency expenditure

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

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

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

5. **Significant Trading Operations**

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

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

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

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

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

6. **Audit Costs**

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

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

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

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

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

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

8. **Officers' Emoluments**

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

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

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

9. **Related Parties**

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

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

During the year, the Council made payments of £4.46m (£4.32m in 2008/09) to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £7.53m (£10.14m in 2008/09) to bodies on which Council members are represented or for which they have declared an interest.

The Council is Trustee for its Pension Fund. During the year, it paid £8.28m (£6.77m in 2008/09) in employers contributions and strain costs and charged the Fund £0.17m (£0.15m in 2008/09) in administration costs.

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

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

Movements in fixed assets in 2009/10 were:

| | Intangible Assets | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure | Community Assets | Investment Assets | Assets Under Construction | Surplus Assets | Total All Assets |
|--|----------------------|----------------------|--------------------------------|---|----------------|---------------------|----------------------|---------------------------------|-------------------|------------------------|
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| Certified valuation at 31 March 2009 | 1,924 | 61,268 | 116,975 | 48,684 | 138,331 | 5,893 | 4,560 | 23,323 | 250 | 401,208 |
| Accumulated Depreciation & Impairment | (908) | (1,337) | (12,742) | (11,266) | (22,548) | (8) | (232) | 0 | (9) | (49,050) |
| Net book Value of assets at 31 March 2009 | 1,016 | 59,931 | 104,233 | 37,418 | 115,783 | 5,885 | 4,328 | 23,323 | 241 | 352,158 |

Movement in 2009/10

| | | | | | | | | | | |
|--|-------|--------|---------|---------|---------|-------|---------|---------|-----|----------|
| Additions | 74 | 1,674 | 228 | 2,711 | 3,073 | 42 | 71 | 17,116 | 0 | 24,989 |
| Disposals | 0 | (693) | (61) | (801) | (8) | 0 | (59) | (7,762) | 0 | (9,384) |
| Revaluations | 0 | (291) | 8,328 | (54) | 0 | 0 | (2,684) | 226 | 0 | 5,525 |
| Depreciation in year | (489) | (757) | (5,372) | (3,908) | (3,676) | (1) | (74) | 0 | (4) | (14,281) |
| Depreciation written back | 0 | 232 | 9,195 | 809 | 1 | 0 | 157 | 0 | 0 | 10,394 |
| Transfers/Appropriations | 88 | 1,039 | 1,011 | 58 | 4,441 | 597 | 2,764 | (9,998) | 0 | 0 |
| Net Book Value of Assets at 31 March 2009 | 689 | 61,135 | 117,562 | 36,233 | 119,614 | 6,523 | 4,503 | 22,905 | 237 | 369,401 |

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

The Council has no assets subject to a finance lease or the Private Finance Initiative (PFI).

The intangible assets consist of purchased software and software licences.

The table below analyses the sources of finance utilised in 2009/10 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2009/10:

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

11. Significant commitments under capital contracts beyond 31 March 2010

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

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

12. **Progress of Valuation Rolling Programme**

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

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

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

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

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

13. Information on Assets Held

The Table below gives information on the numbers of some of the Fixed Assets held by the Council as at 31 March 2010.

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

14. **Depreciation Methodologies**

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

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

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

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

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

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

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

15. **Analysis of Debtors and Creditors**

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

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

16. **Movements in Provisions**

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

The tables below show the movement in the provision.

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

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2010 for possible bonus payments. During the year, a considerable number of staff accepted equal pay offers which meant that a large part of the provision was no longer required.

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

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

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

Analysis of net assets employed: -

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

18. **Movements in Reserves**

| | Balance as at 1/04/09 | Gains or losses transferred from revenue or credited/ debited direct to reserve | Transactions with other reserves | Balance as at 31/03/10 |
|--|-----------------------------|--|--|------------------------------|
| | £000 | £000 | £000 | £000 |
| Capital Adjustment Account | (258,075) | 15,405 | (362) | (243,032) |
| Revaluation Reserve | (33,946) | (18,101) | (1,457) | (53,504) |
| Available-for-sale Financial Instruments Reserve | 22,145 | (43,786) | (1,507) | (23,148) |
| Pension Reserve | 58,979 | 88,190 | 0 | 147,169 |
| Capital Receipts Reserve | | | | |
| Capital Receipts Reserve | 0 | (943) | 943 | 0 |
| Deferred Capital Receipts | (18) | 0 | 5 | (13) |
| Capital Fund | | | | |
| Capital Fund | (113,370) | (4,657) | 402 | (117,625) |
| Pilot Boat Renewal Fund | (920) | (24) | 0 | (944) |
| Repairs & Renewals Fund | | | | |
| Repairs & Renewals Fund | (81,957) | (2,049) | 9,688 | (74,318) |
| Housing Repairs & Renewals Fund | (10,616) | (269) | 308 | (10,577) |
| Quarry Repairs & Renewals Fund | (146) | (4) | 0 | (150) |
| Reserve Fund | | | | |
| Reserve Fund | (84,364) | (1,196) | 18,808 | (66,752) |
| Marine Superannuation Fund | (3,027) | (32) | 85 | (2,974) |
| Insurance Fund | (219) | (7) | (28) | (254) |
| General Fund | | | | |
| General Fund | 0 | 27,070 | (27,070) | 0 |
| Central Energy Efficiency Fund | (70) | (7) | 0 | (77) |
| Hansel Funds | 0 | (83) | 0 | (83) |
| Housing Revenue Account | 0 | (185) | 185 | 0 |
| | (505,604) | 59,322 | 0 | (446,282) |

The balances on the Revaluation Reserve and Capital Adjustment Account vary with the accounting entries for capital expenditure and revaluation of assets. Neither account is available for use by the Council for its purposes.

The Available-for-sale Financial Instruments Reserve shows the difference between the purchase cost of an investment, adjusted by the effective interest rate method, and its market value at the balance sheet date.

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

The Capital Receipts Reserve was established for the purpose of financing capital expenditure and its capital can be applied for that purpose. Returns in the year are credited to the General Fund. The source of funding for the reserve is capital receipts not applied during the year. All receipts received in the year were applied to fund £0.71m of Housing Revenue Account and £0.236m of General Fund capital expenditure.

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

The Capital Fund was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of the principal of loans. £6.06m of capital expenditure was funded during the year.

The Pilot Boat Renewal Fund was established by the Council, as Pilotage Authority in 1983 to defray expenditure on the building of vessels for boarding and landing duties. It has been funded by contributions from the Harbour Account. There was no expenditure during the year.

The Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council. £9.7m of revenue expenditure was funded during the year.

The Housing Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council's Housing Revenue Account. During the year, a net contribution of £0.31m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.49m to the Capital adjustment account to fund capital expenditure and produced a surplus of £0.18m on the overall account.

The Quarry Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act, 1975 to fund environmental works at Council quarries. There was no expenditure during the year.

The Reserve Fund was established under Section 67(i) of the Zetland County Council Act 1974. This Act empowers the Council to transfer to the fund surpluses arising on the Harbour Account. The fund may be used to defray certain expenditure on the harbour undertaking and for any other purpose which is solely in the interest of the County and its inhabitants. During the year, a Harbour Account surplus of £2.05m was transferred to the fund and a transfer of £0.07m was made to the Capital Adjustment Account to fund capital expenditure. A transfer of £12.9m was made to the General Fund to cover planned expenditure programmes and £7.98m was also transferred to help cover the General Fund deficit.

The Marine Superannuation Fund was established by contributions from the Harbour Account for the purpose of covering the unfunded element of pensions of Harbour staff. It made a contribution of £0.085m to the Harbour Account during the year.

The Insurance Fund may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk. A contribution from the General Fund in the year of £0.027m was made.

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

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund. A net contribution of £0.31m was received for that purpose.

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

The Council administers, as sole trustee, 9 trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over a great many years. Funds are in the main held in deposit accounts with local banks. Details of the Shetland Development Trust can be found in note 1 to the Group Accounts. The funds do not represent assets of the Council and are not included in the Balance Sheet.

Trust funds:

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

The Shetland Development Trust, with an income of £1.35m, provides assistance to local industry. The Zetland Educational Trust, with an income of £20,932 and expenditure of £11,220, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £974, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £100 whilst the William Strong Bequest makes an annual payment to the ten oldest persons in Fair Isle when sufficient funds are available. These and the Samuel Mullay Bequest are registered with the Office of the Scottish Charity Regulator. The other trusts are, due to their low annual income, dormant.

20. **Statement of Authorisation of Issue**

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

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

The Council operates an insurance fund to offset any uninsured losses and excesses on claims. The authority assesses its likely funding needs and this is reflected in the internal recharges, which take account of insurance premia, and all other permitted insurance costs incurred.

The Council carries some uninsured risks. These are: -

theft cover (with the exception of computers and some specialised equipment);

gradually occurring pollution;

terrorism damage in excess of £100,000 per building.

22. **Contingent Assets and Liabilities**

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

The Council has provided security cover, in the form of a irrevocable letter of credit for £1,831,640, to National Grid Electricity Transmission plc in respect of its agreement with Viking Energy in relation to an inter connector cable to Shetland. The sum would only be payable if Viking Energy withdrew from the wind farm project and therefore would not need a grid connection.

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

shortfall will depend upon when the Council chooses to fund it but an actuarial valuation as at 16 June 2009 indicated a funding shortfall of £8.346m.

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

23. **Pension Costs (Teachers)**

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

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

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

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

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

25. **Pension Assets and Liabilities**

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

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

The Local Government Superannuation (Scotland) Scheme is a funded scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets. In 2009/10, pension costs have been charged to the Income and Expenditure Account on the basis of the contributions payable for the year to the Pension Fund, based on the formal actuarial valuation as at 31 March 2008.

Although the net pension liability of £147.17m exceeds the General Fund balance which, by Council policy, is balanced to zero each year, the Council has other funds available including a Reserve Fund of £66.8m. The actuarial valuation sets the appropriate employer's contribution rates and this, together with returns on investments, will be utilised to meet the fund's commitments.

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

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

The actual return on scheme assets is 40.3%.

Net Pension Liability

The Council's assets and liabilities amounted to: -

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

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

Reconciliation of Fair Value of Scheme Assets:

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

Reconciliation of Present Value of Scheme Liabilities

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

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

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

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

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

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

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

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

Mortality

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

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

26. Analysis of government grants in the Cash Flow Statement

Government grants received in 2009/10: -

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

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

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

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

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

Definition of Liquid Resources

Liquid resources are defined as short term investments.

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

Reconciliation to Net Debt

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

Analysis of Net Debt

| | Balance at 01/04/09 £000 | Cash Flow £000 | Other Non Cash £000 | Balance at 31/03/10 £000 |
|------------------------|--------------------------------|-------------------|---------------------------|--------------------------------|
| Cash and bank | (9,953) | 2,531 | 0 | (7,422) |
| Overdraft | 0 | 0 | 0 | 0 |
| | <u>(9,953)</u> | <u>2,531</u> | <u>0</u> | <u>(7,422)</u> |
| Debt due after 1 year | 0 | 0 | 0 | 0 |
| Debt due within 1 year | 0 | 0 | 0 | 0 |
| | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Current Investments | (16,506) | 2,943 | 79 | (13,484) |
| Total | <u>(26,459)</u> | <u>5,474</u> | <u>79</u> | <u>(20,906)</u> |

30. **Risks arising from Financial Instruments**

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

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

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

Credit Risk

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

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

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

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

At the 31 March 2010 the Council only had deposits with the Council's own bank, amounting to £9.3m. The Council's exposure to credit risk on these current deposits is very low based on the last five financial years experience, where no default or loss has occurred. No credit limits were exceeded during the reporting period and the authority does not expect any losses or default in relation to these current deposits.

Liquidity Risk

The authority has external investments with fund managers amounting to £231m at the 31 March 2010. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

There are no current capital borrowings and there is no requirement for capital borrowings during 2010/11. All trade and other payables are due to be paid in less than one year.

Market Risk

The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31 March 2010 is diversified between the following markets:

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

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

The authority's external investments are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised by the Statement of Total Recognised Gains and Losses (STRGL). The largest investment is in UK Equities and any movement of the UK market will have the greatest impact on any gains or losses. A general shift of 5% in the UK Stock Market (positive or negative) would result in a gain or loss being recognised in the STRGL in the region of £4.7m for 2010/11.

Foreign Exchange Risk

The authority has £63m invested in overseas equities and bonds which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates are greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

31. Financial Investments

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

| | Long-term | | Current | |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 31 March 2009 £000 | 31 March 2010 £000 | 31 March 2009 £000 | 31 March 2010 £000 |
| Available-for-sale financial assets | 199,744 | 217,952 | 16,115 | 13,205 |
| Loans and receivables | 0 | 1,007 | 391 | 279 |
| | 199,744 | 218,959 | 16,506 | 13,484 |

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

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

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

HARBOUR ACCOUNT

The Zetland County Council Act 1974 permits the Council to operate harbours and to maintain a separate harbour account. Any surplus on the harbour account can be carried to the credit of a reserve fund which can be used for any purpose which in the opinion of the Council is solely in the interests of the county and its inhabitants. The Council balances the Harbour account to zero each financial year by such transfers. In 2009/10 the transfer to the Reserve Fund was £2.05m. Details of the Reserve Fund can be found in note 18 to the core financial statements.

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

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

Income and Expenditure Account

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

STATEMENT OF MOVEMENT ON HARBOUR ACCOUNT BALANCE

| 2008/09 | | 2009/10 |
|----------|---|----------|
| £'000 | | £'000 |
| (3,617) | (Surplus)/Deficit on Harbour Income and Expenditure Account | (1,819) |
| 3,617 | Net additional amount required by statute to be debited or credited to the Harbour balance for the year | 1,819 |
| <u>0</u> | (Increase)/decrease in the Harbour balance | <u>0</u> |
| 0 | Harbour Account balance brought forward | 0 |
| <u>0</u> | Harbour Account balance carried forward | <u>0</u> |

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Note to the Statement of Movement on the Harbour Account Balance

| 2008/09 | | 2009/10 | 2009/10 |
|---------------|---|-----------|--------------|
| £'000 | | £'000 | £'000 |
| | Items included in the Harbour Account Income and Expenditure Account but excluded from the revenue on the Harbour Account balance for the year | | |
| (1,343) | Depreciation and impairment of Harbour fixed assets | (1,469) | |
| 2 | Government grants deferred amortisation | 2 | |
| 1 | (Gain)/Loss on sale of assets | 1 | |
| (621) | Net charge for external benefits under FRS17 | (728) | |
| <hr/> (1,961) | | <hr/> | (2,194) |
| | Items not included in the Harbour Income and Expenditure Account but included in the revenue on Harbour Account balance for the year | | |
| 78 | Loans Fund Principal | 120 | |
| 1,618 | Capital expenditure financed from revenue | 1,272 | |
| <hr/> 742 | Employer's contribution to Pension Fund | <hr/> 652 | |
| 2,438 | | | 2,044 |
| | Transfers to and from the Harbour Account balance that are required to be taken into account when determining the Movement on the Harbour Account balance for the year. | | |
| (87) | Transfer from Marine Fund | | (85) |
| 3,227 | Transfer to Reserve Fund | | 2,054 |
| <hr/> | | <hr/> | |
| <u>3,617</u> | Net additional amount required by statute to be debited to the Harbour Account balance for the year | | <u>1,819</u> |

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

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STATEMENT OF MOVEMENT ON THE HRA BALANCE

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

NOTES TO THE HOUSING REVENUE ACCOUNT CORE FINANCIAL STATEMENTS

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

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

2. **Number and types of dwelling**

Housing stock:

| 31 March 2009 | | 31 March 2010 |
|------------------|-------------|------------------|
| No. | | No. |
| 84 | 1 Apartment | 88 |
| 409 | 2 Apartment | 406 |
| 548 | 3 Apartment | 550 |
| 705 | 4 Apartment | 696 |
| 39 | 5 Apartment | 39 |
| 0 | 6 Apartment | 0 |
| 2 | 8 Apartment | 2 |
| <u>1,787</u> | Total | <u>1,781</u> |

3. **Amount of rent arrears**

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

The trend shown below is of a small increase in the number of properties in arrears but the amount of arrears has dropped.

Rent arrears: -

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

4. **Provision for bad debts**

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

Bad debt provision: -

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

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COUNCIL TAX INCOME ACCOUNT

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

1. Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2009/10 charges. The analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

2. Charge setting

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

3. Deductions

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

Exemptions

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

Discounts

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

Reliefs

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

COUNCIL TAX VALUATION BANDS 2009/10

| | BAND A Subject to Disabled Relief | BAND A (£0 to £26,999.99) | BAND B (£27,000.00 to £34,999.99) | BAND C (£35,000.00 to £44,999.99) | BAND D (£45,000.00 to £57,999.99) | BAND E (£58,000.00 to £79,999.99) | BAND F (£80,000.00 to £105,999.99) | BAND G (£106,000.00 to £211,999.99) | BAND H (£212,000.00 to infinity) | TOTAL |
|--|--|--|--|--|--|--|---|--|---|------------------|
| Council Tax Weighting per Band | 5 | 6 | 7 | 8 | 9 | 11 | 13 | 15 | 18 | |
| Total Properties per Register (No.) | | 3,087 | 1,780 | 2,552 | 1,614 | 1,113 | 209 | 47 | 1 | 10,403 |
| Gross Tax Base (Properties x Weighting) | | 18,522 | 12,460 | 20,416 | 14,526 | 12,243 | 2,717 | 705 | 18 | 81,607 |
| Adjusted Properties (Band D Equivalents) | | 2058.00 | 1384.44 | 2268.44 | 1614.00 | 1360.33 | 301.89 | 78.33 | 2.00 | 9,067 |
| Vacant Properties (No.): | | | | | | | | | | |
| Mandatory Standard Exemptions | | (172) | (70) | (58) | (50) | (11) | (3) | (2) | (1) | (367) |
| Chargeable Dwellings subject to Disabled Reduction (No.) | | (13) | (6) | (15) | (11) | (6) | (1) | (1) | 0 | (53) |
| Dwellings Effectively Subject to Tax by Virtue of Disabled Relief (No.) | 13 | 6 | 15 | 11 | 6 | 1 | 1 | 0 | 0 | 53 |
| Class 18 (MoD) Dwellings (No.) | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| Revised Total Properties (No.) | 13 | 2,908 | 1,719 | 2,490 | 1,559 | 1,098 | 206 | 44 | 0 | 10,037 |
| Types of Property (No.): | | | | | | | | | | |
| Single Discount (25%) | 5 | 1,253 | 702 | 907 | 340 | 163 | 17 | 9 | 0 | 3,396 |
| Double Discount (50%) | 0 | 308 | 111 | 65 | 36 | 22 | 3 | 3 | 0 | 548 |
| No Discount (0%) | 8 | 1,347 | 906 | 1,518 | 1,183 | 913 | 186 | 32 | 0 | 6,093 |
| | 13 | 2,908 | 1,719 | 2,490 | 1,559 | 1,098 | 206 | 44 | 0 | 10,037 |
| Properties Subject to Council Tax (No.) | 11.75 | 2,440.75 | 1,488.00 | 2,230.75 | 1,456.00 | 1,046.25 | 200.25 | 40.25 | 0.00 | 8,914.00 |
| Net Tax Base (Properties x Weighting) | 59 | 14,645 | 10,416 | 17,846 | 13,104 | 11,509 | 2,603 | 604 | 0 | 70,784 |
| Adjusted Properties (Band D Equivalents) | 6.53 | 1,627.17 | 1,157.33 | 1,982.89 | 1,456.00 | 1,278.75 | 289.25 | 67.08 | 0.00 | 7,865.00 |
| COUNCIL TAX 2009/10: | | | | | | | | | | |
| General Fund Charge | | | | | | | | | | |
| Tax Yield (£) | 8,249 | 1,713,407 | 1,218,672 | 2,087,982 | 1,533,168 | 1,346,524 | 304,580 | 70,639 | 0 | 8,283,220 |
| Charge per Property (£) | 702.00 | 702.00 | 819.00 | 936.00 | 1,053.00 | 1,287.00 | 1,521.00 | 1,755.00 | 2,106.00 | |

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NON-DOMESTIC RATE INCOME ACCOUNT

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

1. Analysis of rateable values

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

The amount paid for Non-Domestic Rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Government. The national Non-Domestic Rate poundage set for 2009/10 was £0.481 (2008/09 £0.458).

The Small Business Bonus Scheme was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme. The new scheme applies to properties with a rateable value of £15,000 or less. The Small Business Bonus Scheme is similar to the former Small Business Rate Relief Scheme in that larger businesses will continue to contribute to the cost of the scheme by paying a supplement on the rate poundage for all subjects with a rateable value above £29,000. In 2009/10 this supplement will be 0.4p (0.4p in 2008/09) on the rate poundage of all properties with a rateable value above £29,000, therefore the rate will be 48.5p in the pound.

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

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PENSION FUND ACCOUNT 2009/10

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

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

SHETLAND ISLANDS COUNCIL

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PENSION FUND ACCOUNT 2009/10

NET ASSETS STATEMENT AS AT 31 MARCH 2010

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

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PENSION FUND ACCOUNT 2009/10

NET ASSETS STATEMENT AS AT 31 MARCH 2010

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

These financial statements summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pension and other benefits in the future.

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

SHETLAND ISLANDS COUNCIL

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NOTES TO PENSION FUND ACCOUNT

1. Introduction

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

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

The scheduled body is: -

Orkney and Shetland Valuation Joint Board

The admitted bodies are: -

Lerwick Port Authority
Shetland Amenity Trust
Shetland Arts Development Agency
Shetland Recreational Trust
Shetland Fisheries Training Centre Trust
Shetland Islands Tourism
Shetland Enterprise Company
Shetland Alcohol Trust
ABA Services
Shetland Youth Information Service
Shetland Seafood Quality Control Ltd
Advocacy Shetland
Shetland Voluntary Care Forum
Disability Shetland
Shetland Development Trust (until 20 December 2009)
Shetland Charitable Trust
Atlantic Ferries (closed Agreement)

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty by appointing a Pension Fund Management Consultative Committee comprising three councillors, one representative of the Admitted Bodies' employers, three employee representatives (one representing the Admitted Bodies' employees) and a retired beneficiary. The Management Committee is advised by relevant officers of the Council as appropriate and meets approximately twice a year.

2. Accounting Policies

The transactions of the Fund are accounted for on an accruals basis, thereby taking into account all known and determinable amounts due by and due to the Fund in 2010.

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

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

3. Accounting treatment

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

4. Administration, operation, management of the Fund

The Pension Fund is funded by contributions from employees and employers, as well as investment income, and pays pensions and lump sum benefits to members. From 1 April 2009 tiered employee contribution rates have been introduced in respect of all scheme members. The tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay. Shetland Islands Council as an employer contributed, during 2009/10, an

additional 15.5% of pensionable pay with admitted bodies paying between 15.1% and 20.8% of pensionable pay. The last actuarial valuation of the Fund carried out as at 31st March 2008 indicated a funding level of 88%. As a result, the rate of employer's contribution for Shetland Islands Council is 15.5%, 16.6% and 17.7% for years 2009/10, 2010/11 and 2011/12 and the rate of employer's contribution for admitted bodies will vary according to certain circumstances peculiar to the individual employers (in line with the Funding Strategy Statement.) The method of calculating the employer's rate of contribution is known as the "Projected Unit" method.

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

These assumptions were:

| | |
|--------------------|-----------|
| Investment returns | 4.5% p.a. |
| Salary increases | 5.1% p.a. |
| Pension increases | 3.6% p.a. |
| Price Inflation | 3.6% p.a. |

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

5. Investments

The Pension Fund's investments are managed by BlackRock Investment Management (UK) Limited (formerly Barclays Global Investors (BGI) who combined with BlackRock, 1/12/09, to create the previously mentioned new independent company), Record Currency Management and Schroder Property Investment Management Limited. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis.

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

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

Investments held:

| Market Value at 31.3.09 £000 | Investment Sector | Market Value at 31.3.10 £000 |
|------------------------------------|---|------------------------------------|
| | Equities | |
| (6) | Quoted - Overseas | 0 |
| | Pooled Investment Vehicles (Unit Trusts) | |
| (71,776) | Unquoted - UK | (103,079) |
| (58,817) | Unquoted - Overseas | (90,587) |
| | Pooled Investment Vehicles (Property Unit Trusts) | |
| (2,970) | Unquoted - UK | (10,839) |
| (4,731) | Unquoted - Overseas | (4,137) |
| | Cash Deposits | |
| (5,850) | UK | (7,383) |
| | Other Investments | |
| (2,353) | UK | (2,143) |
| <u>(146,503)</u> | | <u>(218,168)</u> |

6. **Contributions receivable and benefits payable**

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

| | Administering Authority £000 | | Scheduled Body £000 | | Admitted Bodies £000 | |
|--------------------------|---------------------------------|---------|------------------------|---------|-------------------------|---------|
| | 2008/09 | 2009/10 | 2008/09 | 2009/10 | 2008/09 | 2009/10 |
| Contributions receivable | | | | | | |
| employers | (6,733) | (8,284) | (64) | (63) | (1,075) | (1,340) |
| members | (2,842) | (3,447) | (21) | (20) | (454) | (517) |
| Benefits payable | | | | | | |
| pensions | 4,427 | 4802 | 17 | 52 | 319 | 355 |
| lump sums | 1,839 | 891 | 101 | - | 154 | 55 |
| lump sum death benefits | 114 | 7 | - | - | - | 36 |

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

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

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

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

8. **Fund administration costs**

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

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

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

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2009/10 amounted to £17,113 (2008/09 £94,906). This is calculated on the basis of the number of transactions undertaken during the period and also a charge levied on the basis of the assets held per country.

9. **Investment return**

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

10. **Debtors**

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

11. **Creditors**

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

12. **Statement of Investment Principles**

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

13. **Funding Strategy Statement**

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

14. **Additional Voluntary Contributions**

Prudential and Equitable Life manage the Additional Voluntary Contributions investments. The market value of these investments at 31 March 2010 was £4,059,289 (2008/09 £3,286,847) and total purchases for 2009/10 were £693,895 (2008/09 £682,818). The amounts are not included in the Pension Fund Accounts in accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) regulations 1998 (SI 1998 No. 1831).

15. **Contingent Asset**

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

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

SHETLAND ISLANDS COUNCIL

Abstract of Accounts 2009/10

STATEMENT OF GROUP ACCOUNTING POLICIES

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP) requires Councils to consider their interests in external organisations including limited companies and other statutory bodies. Where such interests are considered material, the Council is required to prepare group financial statements in addition to those of Shetland Islands Council.

2. Combining Entities

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

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

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

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

- Shetland Towage
- Shetland Development Trust

The Shetland Development Trust has been consolidated into the Group Statements as a 'subsidiary'. Shetland Towage has been excluded as it is not currently operational nor does it hold significant assets.

The Trusts that the Council manages have not been included in the Group Statements on the grounds of materiality. Information on these can be found in Note 19 on page 31

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

3. Basis of Consolidation

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

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

4. Financial Assets

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

5. Provision for Pensions

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

6. **Employee Statutory Adjustment Account**

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

GROUP INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2010

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

RECONCILIATION OF COUNCIL SURPLUS TO GROUP SURPLUS

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

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

GROUP BALANCE SHEET

AS AT 31 MARCH 2010

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

GROUP BALANCE SHEET

AS AT 31 MARCH 2010

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

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

GROUP CASHFLOW STATEMENT

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

GROUP CASHFLOW STATEMENT

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

NOTES TO THE GROUP ACCOUNTS

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

1. Details of other Group Entities

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

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

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government reorganisation. The Board provides the valuation service for Orkney and Shetland and is funded by the two Councils who share running costs and any surpluses or deficits. In 2009/10, Shetland contributed 51.8% (2008/09 51%) of the Board's costs and its share of the year-end net liability of £1.015m (2008/09 £0.441m) is included in the Group Balance Sheet.

Northern Joint Police Board was established at local government reorganisation in 1975 and provides a range of policing services to the four local authorities in the Highlands and Islands. In 2009/10, Shetland contributed 6.42% (2008/09 6.61%) of the Board's costs and its share of the year-end net liability of £453.68m (2008/09 £280.14m) is included in the Group Balance Sheet.

Highlands and Islands Fire Board was established at local government reorganisation in 1975 and provides fire services on behalf of the four local authorities in the Highlands and Islands. In 2008/09, Shetland contributed 9.16% (2008/09 8.97%) of the Board's costs and its share of the year-end net liability of £78.79m (2008/09 £46.9m) is included in the Group Balance Sheet.

Zetland Transport Partnership (ZetTrans) was established in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005. In 2008/09 Shetland contributed 89.55% (2008/09 90.78%) and net year-end liability was zero.

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

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

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

| | | |
|---------|--|----------|
| 2008/09 | | 2009/10 |
| £000 | Highlands and Islands Fire Board | £000 |
| 2,098 | Turnover | 2,238 |
| (20) | Profit before Tax | 60 |
| 0 | Taxation | 0 |
| (20) | Profit after Tax | 60 |
| 3,587 | Fixed assets | 4,248 |
| 293 | Current assets | 377 |
| (255) | Liabilities due within one year | (382) |
| (7,846) | Liabilities due after one year or more | (11,483) |
| 2008/09 | | 2009/10 |
| £000 | Orkney and Shetland Valuation Joint Board | £000 |
| 310 | Turnover | 290 |
| 14 | Profit before Tax | 1 |
| 0 | Taxation | 0 |
| 14 | Profit after Tax | 1 |
| 0 | Fixed assets | 0 |
| 5 | Current assets | 11 |
| (5) | Liabilities due within one year | (11) |
| (225) | Liabilities due after one year or more | (526) |
| 2008/09 | | 2009/10 |
| £000 | Shetland Transport Partnership (ZetTrans) | £000 |
| 1,624 | Turnover | 1,414 |
| 5 | Profit before Tax | 0 |
| 0 | Taxation | 0 |
| 5 | Profit after Tax | 0 |
| 0 | Fixed assets | 0 |
| 1,523 | Current assets | 1,353 |
| (1,523) | Liabilities due within one year | (1,353) |
| 0 | Liabilities due after one year or more | 0 |

2. **Financial Impact of Consolidation**

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £32.25m, representing the Council's share of the entities net liabilities. The liability mainly arises due to the pension liabilities of the associates calculated under FRS17, partly offset by the surplus in the Shetland Development Trust.

3. **Financial Investments**

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

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

4. **Provisions**

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

The tables below show the movement in the provision.

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

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2010 for possible bonus payments. During the year, a considerable number of staff accepted equal pay offers which meant that a large part of the provision was no longer required.

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

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

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

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

5. **Intangible Assets**

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

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

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

Definition of Liquid Resources

Liquid resources are defined as short term investments.

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

Reconciliation of Net Debt

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

Analysis of Net Debt

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

SHETLAND ISLANDS COUNCIL

2009/10 Abstract of Accounts

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. Key aspects include: -

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

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

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

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2009/10 was that the Council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed are or have been addressed.

My review of the effectiveness of internal financial control is also informed by:

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

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

There was also further work done on the revision of risk registers by the Safety and Risk service. These identify areas where the Council runs significant risks and will inform the allocation of resources towards the management of these risks and audit of the system of control.

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

in its Group Accounts as a 'subsidiary' as its trustees are all councillors. The activities of the Trust are now effectively run through the Council via its Development Committee and Economic Development Unit. However, the Trust is still currently accounted for as a separate entity using systems outside the scope of the Council's internal audit process.

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

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

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

Independent Auditor's Report

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

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Harbour Account Income and Expenditure Account, Statement of Movement on Harbour Account Balances, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Pension Fund Account and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the head of finance and auditor

The head of finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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

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

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent mis-statements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

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

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

The 2009 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group accounts are required to give a true and fair view and a full picture of the authority's activity and financial position.

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

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

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

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

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

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

30 September 2010



REPORT

To: Audit and Scrutiny Committee

15 November 2010

From: Policy Manager

Report No: CE-36-F

Single Outcome Agreement – 2009-10 Outturn Report

1 Introduction

- 1.1 This short report introduces the second annual monitoring report on the Shetland Single Outcome Agreement (SOA).

2 Link to Corporate Priorities and Risk Management

- 2.1 The Corporate Plan 2008-11 and refresh for 2010-12 contains a commitment to work with partners to deliver Shetland's Single Outcome Agreement. This report, which provides an update on progress, aligns very clearly with that commitment.
- 2.2 Failing to take on board the messages in the report could prove a risk, bearing in mind the fact that Audit Scotland are soon to begin Best Value 2 audits.

3 Background

- 3.1 The second Single Outcome Agreement for Shetland was signed in August 2009.
- 3.2 As part of the Scottish Government's SOA governance arrangements, Councils are required to provide an annual report setting out the progress they have made with their Community Planning partners towards achieving the national and local outcomes contained in their SOA. This was sent to the Scottish Government to meet their deadline of the end of September.

4 Outturn report

- 4.1 The outturn report for 2009-10 is attached as Appendix 1. The Policy Unit has collated this from a variety of data sources, and has relied heavily on the goodwill and timeous responses from partner agencies and Council services.

- 4.2 Although it is a fairly lengthy document, it is nonetheless, a very useful tool to measure progress.
- 4.3 The Council is in the process of preparing its annual public performance calendar. This year, as it did last year, it will be structured around the national outcomes and draw on some of the data in this outturn report.
- 4.4 Unfortunately there are a few indicators that have not been reported. This is for a number of reasons, including the lack of a baseline being set; staff shortages; and that some data collection occurs less frequently than annually.
- 4.5 The SOA for 2010/11 has been revised, to provide a more strategic and streamlined Agreement. This document provides less, but more relevant, indicators, and processes are in place to ensure all data is being collected, ready for next year's Outturn Report.

5 Financial Implications

- 5.1 There are no financial implications arising from this report.

6 Policy and Delegated Authority

- 6.1 As outlined in Section 10 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing performance information.

7 Conclusion

- 7.1 This short report provides the Audit and Scrutiny with an opportunity to discuss Shetland's Single Outcome Agreement Annual Report for 2009/10.

8 Recommendations

- 8.1 I recommend that the Audit and Scrutiny Committee discuss the information in the outturn report, noting any achievements or areas that require further explanation.

Date: 26 October 2010
Ref: EP/JRS

Report No: CE-36-F

**SHETLAND ISLANDS COMMUNITY PLANNING PARTNERSHIP
SINGLE OUTCOME AGREEMENT
ANNUAL PROGRESS REPORT 2009-10**

Introduction

This is the Shetland Community Planning Partnership's second annual report. It shows the progress that has been made across all partners during the financial year 2009-10 in seeking to achieve the national and local outcomes set out in the [Single Outcome Agreement 2009](#).

The format for the report follows the template set nationally. This means that it is divided into the 7 National Priority Areas, called "Wealthier", "Fairer", "Smarter", "Healthier", "Safer", "Stronger" and "Greener". Each of these sections show the relevant national outcome which the Scottish Government is seeking to achieve, and the related Shetland outcome that we have set ourselves here in Shetland to try to achieve. There is a bit of text which describes the work that's been done and then a table which shows i) the measures, ii) the starting position and iii) the performance achieved. Some of these measures have been set by the Scottish Government, some are local and some are related to individual partner organisations (e.g. Police, NHS, Highlands & Islands Enterprise's national targets). For ease of reference, the table below shows the abbreviations that we've used for each indicator.

| Abbreviation | What this stands for | Where it came from |
|---------------------|-----------------------------|--------------------------------|
| NI | National Indicator | Scottish Govt |
| H | HEAT | NHS |
| II | Improvement Indicator | Improvement Service |
| LI | Local Indicator | By community planning partners |

We hope that this format is easy to understand, although acknowledge that the language used to describe the measures isn't always very clear. However, we will be using the highlights from this report in the Council's Public Performance Calendar which will be available from Council services in December 2010. This will seek to simplify the language used and make the performance information a bit more engaging.

The specific 2 areas that we have been asked to report against are set out below:

Early Years

The GIRFEC (Getting it Right for Every Child) methodology is now used on all Child Protection Cases and for all Looked After Children in Shetland. It is being rolled out throughout all statutory and voluntary sector organisations to ensure a person-centred approach is taken to the children and their families.

A Parenting Strategy is also being developed, led by the Council and NHS Shetland. We are currently at the stage of undertaking a detailed consultation exercise with all parents, to find out the needs of parents, for both universal and targeted services.

Economic Recovery

The bullet points set out below are the ones provided by the Scottish Govt – with the update on Shetland's position then outlined

- Planning system supports economic development: nothing direct, but consultation is currently ongoing into the Main Issues Report and the Local Development Plan is being refreshed;
- Developing infrastructure to make Shetland a more attractive place to invest in: the Council has set up Shetland Telecomms to progress the project to link Shetland to the Faeroese sub-sea fibre optic cable. There's also a lot of work ongoing at the moment on renewable energy projects;
- Procurement practices support local firms: strategy under development;
- Prompt payment of invoices: the Council paid 87.1% of invoices within 30 days during 2009-10;
- Reducing costs of interacting with local government (e.g. planning, licensing, environmental health costs): nothing to report
- Support for people out of work: good working relationships between agencies working with those who are out of work. Shetland still has low rates of unemployment, with a high proportion of those who are out of work being those requiring support to access employment. Shetland has a number of agencies able to support people in employment; and
- Partnership with other CPPs: not very relevant for Shetland.

Further work

Building on the experience gained during the past 2 years, during early 2010, we carried out a review of the SOA in Shetland. This resulted in a much tighter document, which has one overall priority outcome (the Key Purpose) for the public sector to achieve in Shetland – **“to maintain the number of economically active people in Shetland”**. It was felt that with the [Population & Migration Study](#) predicting that Shetland's population is going to get older, and with the ongoing global economic downturn, it was important to set a target that directly links to Shetland population and economic sustainability. We will continue to promote this with our partner organisations and seek to review and improve the SOA going forward.

With the [refreshed SOA](#) now in place, it's hoped that we will be able to report against all figures next year. As you will see in this report, some of the figures are no longer relevant, some are only reported every few years and some were still being developed at the time of reporting.

WEALTHIER

National Outcomes:-

- We realise our full economic potential with more and better employment opportunities for our people;
- We live in a Scotland that is the most attractive place for doing business in Europe;

Progress at March 2010

Although we reported last year that Shetland had not yet felt the effects of the global economic downturn, the information in the report would suggest that this is starting to have an impact. A number of the targets have not been met – particularly significant being the fact that there were 49 business start-ups last year compared to 84 the previous year.

In saying that, the Economic Development Unit has supported more businesses during 2009-10 than in the year before. Although there were less new businesses started last year, there was also a significant increase in the number that the EDU were able to directly support (13). In terms of increasing capacity for external growth, 10 businesses were involved in international activity and another 8 were supported to extend exporting activity, through marketing and other assistance. The unemployment rate in Shetland has also remained fairly static over the past few years (currently 2.8%), well below the national figure of 7%. of 7.0%.

One of the most important economic development projects currently being worked on is “Shetland Telecoms”. This project is seeking to connect Shetland to the fibre-optic telecoms cable, which runs from Faroe to the Scottish mainland through Shetland. Successful connection to this cable has the potential to significantly improve broadband access across Shetland, with major opportunities for individuals and businesses. Improved broadband connection was an area highlighted in the aforementioned Population and Migration Study as a constraint on business setup in Shetland. Therefore, this development has the huge potential to make Shetland a more “*attractive place for doing business*”.

Disappointing to report is the fact that there were less employment opportunities for graduates and trainees in 2009-10 than was hoped. HIE provided 3 placement opportunities for graduates against a target of 12 and Train Shetland supported 69 skillseeker and modern apprentices, 6 below the target of 75. The Council did however maintain its Graduate Placement numbers, offering 17 placements. (Note: the number of Council placements were reduced to 7 in 2010). These figures are highly significant, bearing in mind the Community Planning Partnership’s summit on 3rd September. At that meeting, which was organised and run by young people, partners were told that 69% of young people* said that job availability is one of the top 3 reasons preventing them from remaining or returning to live in Shetland (*Survey sample - 215 young people aged 16-25).

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|---|--|---|
| More research and development will take place in Shetland | LI 45: Increased number and value of R&D projects supported each year. | In 2008/09 the SIC supported 6 projects under research budget headings, committing a total of £56,933. | 13 projects were funded by Economic Development Unit (EDU) under research budget headings. This amounted to £104,840.80. | Support 4 new R&D projects every year | Shetland Targets and Priorities: We will increase employment opportunities, by 1,000 full-time equivalents by 2025, and increase average personal and household income by 10% above 2005 in real terms. |
| | NI 6: Improve knowledge transfer from research activity in universities | No projects were funded by EDU linking university research with local business in 2008/09. | EDU provided £25,000 to fund a local research project. | Involvement in 2 projects every year linking university research with economic activity and local business | |
| | NI 2: Increase the business start-up rate | 50 new VAT registrations in 2007. | There were 49 business start-ups in 2009, compared to 84 in 2008. | Increase annual business start-ups figure to at least 70 per annum. | |
| There will be more and better paid jobs | LI 46: Support increased number of new business start ups | In 2008/09 EDU supported 3 business start-ups. | In 2009/10 EDU provided financial assistance to support 13 business start-ups. | Support 20 new business start-ups per annum. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|--|---|--|--|---|---|
| | LI 47: Effective engagement and support of Shetland businesses with a potential for growth | 2008/09 = 5 businesses supported | 2009/10 = 13 businesses supported | Effective engagement & support of 10 growth businesses. | |
| We will export more high quality products | NI 3: Grow exports at a faster average rate than GDP | <p>The rate of growth of Scottish GDP was 2.3 in 2007. UK GDP rose by 3.1 in the same period. Figures are not available for Shetland GDP but at the time of the last survey the Shetland figure was very close to the Scottish average</p> <p>Export overseas from Shetland was estimated to be £150m in 2005 (HIE; November 2007)</p> | No update available | Growth in the value of exports by 4.6% | |

| | | | | | |
|---|---|--|---|---|--|
| | LI 48: Support Shetland businesses to increase the value of exports | HIE assisted 5 businesses in developing international activity in 2007/08. EDU assisted 3 businesses during 2007/08. | HIE - 10 business engaged in international activity 8 businesses supported by EDU to extend exporting activity, through marketing and other assistance. | 10 businesses engaged in new/extended international business development activity per annum HIE = 5 EDU = 5 | |
| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
| We will be better connected with high quality broadband communications | LI 11: Improve the availability, reliability and uptake of broadband communications | Approx 49% of the Shetland population have broadband (Your Voice survey 2007) | No update available | Increase broadband uptake to 80% of Shetland population by 2011 | |
| | LI 49: Support extension of broadband availability and quality | Shetland broadband currently depends on a Microwave link to the mainland 12 exchanges only offer a maximum of 512kilobyte | Shetland Telecoms working to establish fibre optic link with UK Mainland. | Fibre link to mainland Scotland to be active by 2011 2 mega byte to be available in all areas | |
| There will be good opportunities for trained and skilled people to work in Shetland and realise their full potential | LI 50: Increase the proportion of the workforce with educational, vocational or other qualifications | Proportion of the workforce with skills to be evaluated | Currently being discussed by Skills and Learning Unit (multi-agency partnership). Baseline data to be established. | Increased proportion with Graduate, Higher Education, Vocational or other qualifications | |

| | | | | |
|--|---|---|--|--|
| | | | | |
| | LI 51: Maintain and extend apprenticeship, graduate placement and workforce development programmes | <u>2007-08</u> Modern apprenticeship schemes and skill seekers ¹ = 66 (56 from SDS and 10 funded by their employer) SIC = 13 Graduate placements HIE = 10 Graduate Placements | <u>2009/10</u> 69 Modern apprenticeship schemes and skill seekers 17 SIC graduate placements 3 HIE graduate placements | Modern apprenticeship schemes and skill seekers = 75 SIC graduates = 15 HIE graduates = 12 25% increase overall |

FAIRER

National Outcomes:-

- We have tackled the significant inequalities in Scottish society;
- We have improved the life chances for children, young people and families at risk;

Progress at March 2010

The Shetland Community Planning Partnership agreed a Poverty Strategy to provide direction to the deployment of the funds that were formerly ring-fenced under the "Fairer Scotland Fund". This helped to ensure that the funding was being focused on areas that would make the most impact on the priority areas included in the SOA.

In terms of our performance, we feel that this is moving in the right direction. The figures show that over the past year we have increased the levels of support and employment opportunities available for vulnerable adults and continued to maximise benefits claims for those eligible, with overall benefits claimants being maintained. In overall outcome terms we are unfortunately not able to access data on the % of the population with an income below 60% average, however, the number of income deprived people in Shetland has been stable in recent years.

As can be seen from the figures in the table below, the Shetland CPP has made some tangible progress against the targets we set ourselves during 2009-10. Provision of support to allow eligible claimants to access benefits has been maintained and 500 welfare checks were carried out which is well above the target level. Also, local social enterprise companies COPE and Moving On provided 50 training places and supported 40 clients respectively. This is very significant activity for the groups they support (people with substance abuse, mental health, physical / mental disabilities), giving them an opportunity to develop essential skills and participate as part of a team.

¹ Level 2, level 3 or HNC

Of concern has to be the amount of debt that the local Citizens' Advice Bureau continues to deal with. During 2009-10 they saw 121 clients and dealt with a total of £2.7million of new debt. This was an increase from £2.2million the year before, and therefore represents an increasing trend.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|---|---|---|---|
| We have tackled the root causes of poverty, low income, deprivation and social exclusion | LI 53: Reduction in the number of people with very low incomes | Total claimants (benefits) = 7.4% per 1000 population (August 2008) | Total claimants (benefits) = 7.9% per 1000 population (February 2010) | Reduction in % of population with an income, which is below 60% (relative poverty) average. | Shetland Targets and Priorities: |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|--|---|--|---|---|
| | <p>LI 35: Increase the employment rates of employable vulnerable adults (e.g. adults with learning disabilities, mental health problems, drug or alcohol misuse problems and physical disabilities) living in Shetland.</p> | <p>Moving On 'Job Crew' project had 30 new clients during 2007-08.</p> <p>6 placements provided by Community Bikes Project (2007/08)</p> <p>COPE employ 11 people and provided 45 training places (2007/08)</p> <p>Example of other schemes; Bridges, Adult Learning, Support Training and volunteer centre</p> | <p>Moving On 'Job Crew' project had 40 new clients during 2008/09 and 2009/10</p> <p><u>Community Bike Project</u> 08/09 – 11 placements 09/10 – 7 placements</p> <p><u>COPE</u> 08/09 – 48 training (of which 11 are permanent staff members with a disability) 09/10 – 50 training places (of which 11 are permanent staff members with a disability)</p> | <p><u>Moving On 'Job Crew' project</u> At least 40 new clients each year.</p> <p><u>Community Bike Project</u> 6 placements to be provided each year</p> <p><u>COPE</u> 45 training places to be provided each year</p> | <p>We will 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.</p> |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|--|---|---|
| We have provided assistance to help lift people out of poverty, low income, deprivation and social exclusion | LI 31: Maximise benefit uptake among those groups experiencing poverty and disadvantage across Shetland | 2008-09 Total number of Tenants 2,282 829 Council Tenants claiming Housing Benefit (44% of Council tenants) 140 claimants renting from private landlords (97 of whom were Hjaltland tenants) 1,313 households in receipt of Council Tax Benefit (they may also be in receipt of Housing Benefit) | 2009-10 Total number of Tenants is 2,272 of which 1,866 are entitled to claim Housing Benefit (excluding garages) 787 Council Tenants claiming Housing Benefit (42% of Council Tenants) 208 claimants renting from private landlords (144 of whom were Hjaltland tenants) 1,323 households in receipt of Council Tax Benefit (they may also be in receipt of Housing Benefit) | Increase the % making full or partial claims | |
| | | 120 welfare benefit checks carried out during 2008-09 Less than 80 benefit claims (Council Tax and Housing Benefit) were refused owing to a failure to provide sufficient information during 2008-09. | 500 welfare benefit checks were carried out in Shetland during 2009-10 69 benefit claims (Council Tax and Housing Benefit) were refused owing to a failure to provide sufficient information during 2009-10. | At least 120 welfare benefits checks to be carried out each year. Benefits applications refused due to insufficient information: 2009-10 – less than 50 2010-11 – less than 25 | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|---|---|---|--|---|
| We have acted to reduce the impact of poverty, low income, deprivation and social exclusion on people's lives | LI 56: Make sure everyone who is entitled to discretionary services, especially children and the elderly, based on income or disadvantage is receiving them | Adult Learning and English for speakers of other language classes are Free Other Adult Learning Classes have fee waivers for those on a low income/receiving benefits, concessionary rates for over 60's and under 18's. | Adult Learning and English for Speakers of Other Languages classes are free. Other Adult Learning Classes have fee waivers for those on a low income/receiving benefits and there are concessionary rates for over 60's and under 18's. | Greater number of appropriate discounts are available. | |
| | LI 37: Increase the number of young people from families experiencing poverty or disadvantage who are receiving free, discounted or supported services. | Free School Meals - 216 Clothing Grants - 386 Supported extra-curricular activities or supported to go on school trips – 22 Access nursery schooling - 19 Befriending – 25 Children In Need - 153 | Free School Meals – 275 Clothing Grants - 422 Supported extra-curricular activities or supported to go on school trips – 0 Access nursery schooling - 13 Befriending – 35 Children In Need – 172 | Ensure that those eligible to claim these benefits are claiming, but seek to reduce these numbers each year. | |
| | LI 34: Decrease the levels of personal and housing debt in Shetland for people on low incomes by helping them use insolvency legislation if that is appropriate. | The Shetland CAB dealt with £3,500,000 of personal debt during 2007-08, of which £2.2 million was new debt. This amounted to 104 new cases. | £2.7million of new debt, made up of 121 new clients. | Seek to use legislation to reduce the number of people who are in debt by 25 per year. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|---|--|---|---|
| We have acted to help the most fragile areas and groups to regenerate economically and socially. | LI 57: Improve the situation in Shetland's poorest performing areas on the Scottish Index of Multiple Deprivation | Figures on average earnings between areas, or unemployment rates between areas, or SIMD classifications | Number of People in Income Deprivation 2004: 1492 (6.8% of population) 2006: 1934 (8.8% of population) 2009: 1870 (8.4% of population) | Poor performing areas should be closer to the better performing | |
| | LI 58: Support regeneration initiatives in communities to create jobs, get people into work or improve their skills and earning power. | 2 areas have been supported through the 'Initiative at the Edge' Programme between 2004-2009 | 2 areas were assisted under the Community Regeneration Policy (the 'Initiative at the Edge' Programme closed in 2009) | 3 areas to be supported each year for the next 5 years. | |

SMARTER

National Outcomes:-

- **We shall nurture creativity, build skills and encourage enterprise;**
- **We are better educated, more skilled and more successful, renowned for our research and innovation;**
- **Our young people are successful learners, confident individuals, effective contributors and responsible citizens;**

Progress at March 2010

Over the past year the Council has managed to maintain its excellent school pupil attainment levels. In Primary, 7% more pupils are reaching Level E in Reading than last year, 11% in Writing and 12% in Maths. In Secondary education, Shetland has again maintained its strong performance, which is traditionally higher than national averages. 90% of pupils achieved 5 or more Standard Grades at General Level and 47% at Credit Level, which is in line with local target levels. In S5 and S6, there was a 4.5% increase in the number of pupils achieving 5 or more Highers, but a slight drop in the number achieving Advanced Higher. Overall this is an excellent set of results and a good indicator of the level at which Shetland is delivering on the national outcome mentioned above.

The Council's Adult Learning Service and Shetland College place a high emphasis on the quality of adult learning provision as part of the Skills and Learning Strategy's aim: 'beyond 16, all learners have the opportunity to specialise within their chosen learning pathway, change to another pathway or enter employment with training' and 'beyond 18, students can study vocational skills at degree level for qualifications recognised and valued by employers' (see link: <http://www.shetland.gov.uk/policy/documents/ShetlandsSkillsandLearningStrategy.doc>) During 2009-10, 1885 people took part in community-based learning and 246 people for whom English is a second language were involved in learning English. Again, helping in-migrants to settle and take a full and active part in Shetland society is extremely important in terms of building a sustainable population level.

Work is also ongoing at the new Mid Yell Secondary as part of the Council's commitment to ensure that pupils have the best possible school infrastructure in which to learn.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|--|--------------------------------|--|
| Sustain and improve availability, uptake and participation and/or attendance at pre-school, school, FE & HE & informal adult education and youth work opportunities, particularly among those less likely to take part | LI 12: Maintain and enhance the availability and range of childcare and pre-school provision. | Current position 21 Local Authority nurseries, predominantly for pre-school education 1 Local Authority childcare facility 6 Partner Providers 3 out of school clubs 4 community or private enterprises providing childcare 26 childminders | Current provision maintained 21 Local Authority Childcare Facilities 6 Partner Providers 3 out of school clubs 4 social or private enterprises providing childcare 24 active childminders | Maintain current provision | Shetland Targets and Priorities: We will increase employment opportunities, by 1,000 full-time equivalents by 2025, and increase average personal and household income by 10% above 2005 in real terms |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|---|---|---|---|---|
| | <p>LI 14: Maintain and enhance participation in community based learning</p> <ol style="list-style-type: none"> 1. No of Adult Literacy Learners reporting positive impact in personal, family, community or working life. 2. No of "English for Speakers of Other Languages" (ESOL) Learners 3. Uptake of Youth Work Opportunities 4. No of Young People involved in Achievement Awards 5. No of Participants in community based adult learning (Adult Learning, College, VALDO) 6. Library participation | <p>2007/08</p> <ol style="list-style-type: none"> 1. 180 Learners reporting positive impact 2. 232 ESOL Learners (increase of 140) 3. 33,122 youth work attendances 4. 38 young people involved in Achievement Awards 5. 1,799 participants in Adult Learning classes 619 enrolments: Shetland College (community learning) 132 participants in VALDO training 6. 34% of resident population use a library 23% of resident Shetland population use the library Learning Centre | <p>Shetland College (SC), Adult Learning (AL) and Voluntary Action Shetland (VAS)</p> <ol style="list-style-type: none"> 1. Adult Literacy Learners AL: 113 SC: 492 Total: <u>605</u> 2. ESOL learners AL: 146 SC: 100 Total: <u>246</u> 3. Youth Work Attendances <u>28,211</u> 4. Young people Achievement Awards: <u>24</u> 5 Community based Learning participants AL: 1127 SC 733 VAS: 25 Total: <u>1885</u> 6. Library users 33.9 % of residents use the library | <p>Target for all of these is to sustain at the current level except No. of Young People involved in Achievement Awards whereby the expectation is to increase to 50 by 2009/10</p> | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|---|--|---|---|
| Improve attainment of pupils and students at all levels especially in the core skills of literacy and numeracy. | LI 13: Increase the percentage of P3-P7 pupils attaining or exceeding age and stage levels in Reading, Writing and Maths. | 2008 P3 – P7 Reading 84% Writing 78% Maths 85% | Aug 2010 P3-P7 Reading - 81% Writing – 73% Maths – 83% | 2010/2011 P3-P7 Reading - 86.5% Writing – 78% Maths – 87.5% | |
| | | Level E by the end of S2 Reading - 76% Writing - 62% Maths - 72% | S2 Reading - 83% Writing – 73% Maths – 84% | S2 Reading - 80% Writing – 66% Maths – 76% | |
| | | | | | |
| | II 40: Increase the percentage of S4 pupils with a) 5 or more Standard Grades or equivalent at General level or better b) 5 or more Standard Grades or equivalent at Credit level or better | 2008 a) 89.9% b) 45% | August 2010 a) 90% b) 47% | 2010/2011 a) 91% b) 48% | |
| | II 41: Increase the percentage of a) S5 pupils with 5 or more Highers or equivalent b) S6 pupils with 1 or more Advanced Highers or equivalent | 2008 a) 10.5% b) 14% | 2010 a) 15% b) 12% | 2010 a) 12% b) 16% | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|--|--|--|---|---|
| Equip learners of all ages with skills, duties, attitudes and expectations to prosper in a changing society and ensure positive destinations for more individuals following later stages of Education | NI 7: Increase the proportion of school-leavers in positive and sustained destinations (FE, HE, employment or training) | Currently, 10% of young people in Shetland are not in positive destinations 3 months beyond their school leaving date. This equates to 30 individuals. Volunteering is a positive destination for young people. Volunteer Centre Shetland places young people and helps identify volunteering opportunities for the More Choices More Chances programme | 2007-08 – 92.4% of pupils in positive destinations 2008-09 – 91.7% of pupils in positive destinations 2009-10 information will be available in December 2010 | 93% in 09/10 95% in 10/11 Longer term aspiration to have 100% positive destinations | |
| Sustain and improve the high quality of educational experience with teachers and learners sharing high quality environments and learning experience | NI 8: Increase the proportion of schools receiving positive inspection reports | 2008 100% This represents 2 schools and 3 out of 5 key indicators being good to very good | 2009/10 75% This represents 4 schools, with 3 out of 5 key indicators assessed as good / very good | Maintain at 100% | |
| | NI 12: Increase the proportion of pre-school centres receiving positive inspection reports | 2008 100% This represents 2 schools and 3 out of 5 key indicators being good to very good | 2009/10 100% This represents 6 schools, with 3 out of 5 key indicators assessed as good / very good | Maintain 100% | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|--|---------------------|--|--|---|
| | LI 58: Ensure that Shetland's schools offer the best learning environment through completing planned new builds at the AHS and Mid Yell and through the Blueprint for Education | | <p>The handover date for the Mid Yell JH School is 3rd November 2010.</p> <p>Statutory consultation on change of site for new AHS started on 30th Aug 2010</p> <p>Statutory consultations on closure proposals, which came out of the Blueprint process, were started on 30th Aug 2010.</p> | <p>Mid Yell School to be complete by 2010</p> <p>AHS to be complete by 2012</p> <p>Blueprint to be completed in 2009</p> | |

HEALTHIER

National Outcomes:-

- Our children have the best start in life and are ready to succeed;
- We live longer, healthier lives;

Progress at March 2010

The key areas we have focused on to demonstrate our performance in relation to giving our children the best start in life show some improvements in performance. 100% of 3-5 year olds are registered with a dentist in Shetland, which means that we have met the national target well ahead of time. 27 children have now completed the Child Healthy Weight Programme as part of the work NHS Shetland is doing to tackle childhood obesity, although this was less than the target of 40 and the number of children that are being breastfed has been maintained at a high level.

Shetland has performed well in terms of our outcome aim to help people to live longer and healthier. The overall life expectancy rates have slightly increased to 76.2 years for men but slightly dipped to 81.8 for women. Despite this dip in life expectancy seen for women, people are still living longer in Shetland than mainland Scotland (national figures are 75.4 for men, and 80.1 for women). In line with national priority areas, Shetland has reduced the number of people dying from rate of coronary heart disease among the under 75s and has carried out 10 more cardiovascular checks with disadvantaged groups than expected. Smoking levels continue to be lower than the national average, with this coming down from over 22% of the population to 18% in recent years.

This section in the 2010 SOA contains more effective measures that are up to date and relevant. It's hoped that next year's SOA report will contain all information on those indicators.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|---|---|---|---|---|
| People in Shetland live longer, healthier lives | NI 16: Increase healthy life expectancy at birth in Shetland | Male and female life expectancies are better than the national average and significantly so in the case of females. Current estimates (2005/07) state that life expectancy at birth is 76.1 years for men and 82.6 years for women. | Life expectancy for 2007-09 for men is 76.2 and for women is 81.8 . (GROS data) | Target 2014/16 – 83.0 years for women and 77 years for men. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|---|--|---|---|
| | LI 44: Sexual Health – maintain a low rate of underage pregnancies, reduce STI rates and deliver high quality and universal Sexual Health and Relationships Education | | Pregnancies in 13-15 year olds remain low: 2008 – 2.3 per 1000 population. No more up to date information available. | | |
| Children have the best start in life | NI 11: 60% of school children in primary 1 will have no signs of dental disease by 2010 | NDIP currently 59.7% | Target no longer used nationally. | Target for 2009/10 = 62% | |
| | II 2: 80% of all three to five year old children to be registered with an NHS dentist by 2010/11. | 72.1% as at March 2008 | 100% by December 2009. Target met early. | Target for 2009/10 = 78.5% | |
| | NI 14: Reduce the proportion of children with their Body Mass Index outwith a healthy range by 2018 | Current data from ISD shows that 2,019 patients are currently registered with 10 GPs as being obese. The raw prevalence rate (per 100 people) currently stands at 9.09 in Shetland. | ISD data from 2009 shows that 1,941 patients are registered as being obese. Raw prevalence rate down to 8.69 per 100 people . Children's data available soon. | Will be set once baseline is available | |
| | H 3: Achieve agreed completion rates for child healthy weight intervention programme by 2010/11. | Raw data available - yet to be collated as part of data recording for H3 target. | 27 children completed programme by June 2010. | 22 children to have completed programme by March 2010 and 74 by March 2011. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|---|---|--|--|---|
| | H 7: Increase the proportion of newborn children exclusively breastfed at 6-8 weeks from 26.6% in 2006/07 to 33.3% in 2010/11. | Currently 53.0% | Recording system changed since baseline set so rate now lower. 35.4% in March 2010. Well behind trajectory. Work plan in place to improve performance. | Local target is 57% by 2010. We already meet national target of 33.3% by 2010/11 | |
| Reduction in avoidable death from cancer, coronary heart disease, stroke and suicide. | NI 21: Reduce mortality from coronary heart disease (CHD) among the under 75s in Shetland | 3 year combined figure (2004-6) of deaths from CHD under age of 75 was 40. SMR ² 56.1 for Shetland. This is significantly better than the Scottish figure of 80.3. | 2008 – Mortality rate was 47.3 per 1000 population which meets target. Still need to maintain (or improve) this rate. (Scotland 70.3 per 1000 population) | Target of fewer than 5 deaths from CHD by 2011 under 75s | |
| | H 8: Achieve agreed number of inequalities-targeted cardiovascular Health Checks during 2009–10. | | 30 checks undertaken in 2009-10 | 20 checks | |
| | H 5 - Reduce suicide rate between 2002 and 2013 by 20% | Small numbers which fluctuate between 1 & 8 each year. | 2009 – Rate 18.01 per 100,000 population. (4 people) Ahead of trajectory but should not be complacent as small numbers can mean large fluctuations year on year. | Local suicide review group to be established | |

² Shetland CHP Health and Well-being Profile 2008 – ISD Scotland

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|--|---|---|---|
| | H 5: Reduction supported by 50% of key frontline staff in mental health and substance misuse services, primary care, and accident and emergency being educated and trained in using suicide assessment tools/ suicide prevention training programmes by 2010 | 33% of key frontline staff are currently trained. ASIST ³ being targeted at key staff. STORM ⁴ training to be offered in 2009. | June 2010 - 50.0% Target met early | 50% of frontline staff to be trained by 2010. | |
| Reduction in Smoking and Obesity | NI 17: Reduce the percentage of the adult population who smoke to 22% by 2010 | 22.5% (3868) of the Shetland population is currently estimated to smoke. (03/04) | 2008 - 18% Ahead of target but no more recent data available | Reduce to 18.4% of adult population smoking by 2010 – this would be fewer than the national target of 22% by 2010. | |
| | H6: Through smoking cessation services, support 8% (237 people) of your Board's smoking population in successfully quitting (at one month post quit) over the period 2008/9 – 2010/11 | | July 10 – 185 people in total are still not smoking 1 month after deciding to give up Ahead of trajectory for revised target date of March 2011 | By 2010, 79 people should have given up smoking at 1 month (237 in total between 2008 – 2010) | |
| Reduction in harm from drugs and alcohol | NI 18: Reduce alcohol related hospital admissions by 2011: | From 2005-2008 there were 625 admissions directly related to alcohol in Shetland. This is an average of 208 admissions per | 2008-09: 147 inpatient discharges of which 135 were emergency admissions | Target of fewer than 150 admissions by 2011, with, in particular, a reduction in admissions due to binge-drinking and under-age drinking. | |

³ Applied Suicide Intervention Skills Training

⁴ Skills Based Training on Risk Management

| | | | | | |
|--|--|------|--|--|--|
| | | year | | | |
|--|--|------|--|--|--|

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------------------------------|--|---|---|---|---|
| | H 4: Achieve agreed number of screenings using the setting-appropriate screening tool and appropriate alcohol brief intervention, in line with SIGN 74 guidelines by 2010/11. | Current data shows 41 Brief Interventions undertaken by Alcohol Nurse in A & E, Ward based and Primary Care | 152 screenings completed by July 2010. Behind trajectory but plans in place to catch up by March 2011. | 312 screenings to have been completed by March 2010 | |
| | II 11: Offer drug misusers faster access to appropriate treatment to support their recovery. | Quarterly figures from July – Dec 08 state that clients wait no more than 14 days for initial assessment. 15% of clients were offered an intervention between 2 & 26 weeks. | 100% - August 2010. | Discussions regarding redesign of Shared Care Prescribing clinic underway. Target will be set by working group of SADAT | |
| Improved healthcare experience | NI 44 & T 7: Improve the quality of healthcare experience | Baseline to be agreed once survey results are available | No longer a HEAT target and removed from SOA indicator list. | Target to be agreed once survey results are available. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|---|--|--|---|---|
| | NI 19: (H10) Deliver 18 weeks referral to treatment from 31 December 2011. No patient will wait longer than 12 weeks from referral to a first outpatient appointment from 31 March 2010. No patient will wait longer than 12 weeks from being placed on a waiting list to admission for an inpatient or day case treatment from 31 March 2010. | Referral to Outpatient: Jan 09 – 11 Waiting list to Inpatient or Day Case: Jan 09 – 2 | August 2010 – no patient waiting over 12 weeks from referral to outpatient appointment or over 9 weeks for inpatient/day case treatment. | Referral to Outpatient: Zero patients waiting more than 12 weeks from 31st March 2009 Waiting list to Inpatient or Day Case: Zero patients waiting more than 12 weeks from 31st March 2009 | |
| | LI 32 No person will wait more than 6 weeks to be discharged from hospital into a more appropriate care setting | Baseline March 2008: zero | Consistently maintained at zero. | Maintain at zero | |
| | LI 29: Increase the proportion of people needing care or support who are able to sustain an independent quality of life as part of the community, through effective joint working. | | Target no longer being used. | | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|---|--|--|---|
| Increase in Healthy Lifestyle Activities | II 25: Increase the percentage of the local population taking part in sport and leisure activities. | National data from the 2003 health survey shows that in terms of children aged 2-15 - 74% of boys and 63% of girls are meeting recommended activity levels. For adults aged 16-74 44% of men and 33% of women. Data taken from the same survey shows that physical activity levels in the island groups are lower than the national average. | Active Lives Strategy to go to October Health Board meeting. Target no longer being used. | Active Lives Strategy completed and adopted. Active Lives strategy for Shetland is currently being developed local targets will be set in line with findings of the soon to be launched consultation. Any targets will have to tie in with the revised physical activity strategy for Scotland, launched on the 25 th February 2009. | |
| | LI 33: Increase the number of community ventures that have a positive impact on health | No funding source currently requires the fundee to make a positive impact on health | Target no longer being used. | All projects funded through Fairer Scotland Fund to make a positive contribution to improving health in Shetland | |

SAFER**National Outcome:-**

- **We live our lives safe from crime, disorder and danger;**

Progress at March 2010

Although on a national scale, Shetland has low levels of crime and people in Shetland generally feel safe, rates of crimes in some reporting groups have risen during the past year. Crimes involving indecency are up from 20 in 2007-08 to 35, crimes of dishonesty are up from 266 two years ago to 370. However, crimes for resisting arrest, carrying a weapon etc are down from 202 to 154 and crimes involving a firearm, breach of the peace etc are significantly down to 460 this past year.

Fatalities from road traffic accidents, which can have a major impact on small communities such as Shetland, have also been reduced from 5 two years ago to 1. Reconviction rates show that over 40% of those criminals released from prison reconvict again within 2 years. With the high numbers of offenders who have alcohol and or drug issues, it is worth noting that 75% of offenders have participated in alcohol or drug programmes, which could help reduce the chances of reconviction.

Of the Your Voice citizen's panel for Autumn 2010, 11% of respondents said that they had been a victim of crime in the past 12 months, which shows little change from the 10% reported in Spring 2009. The most common forms of crime that respondents had encountered were antisocial behaviour, theft and vandalism.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|--|---|--|---------------------------------------|--|
| Reduction in volume and rates of crime affecting individuals and households | NI 24 – Reduce overall crime victimisation rates by 2% by 2011 | 10% of respondents to the Your Voice survey, Spring 2008, said that they had been a victim of crime in the past 12 months. This figure rose to 16% of respondents aged between 45 and 54 years. | 11% of respondents to the Your Voice survey, Autumn 2009, said that they had been a victim of crime in the past 12 months. | Reduce % in line with figures below | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|--|--|--|--|---|
| | NI 24: Reduce crime rates in each reporting group. 1 – Non-sexual crimes against the person 2 – Crimes involving indecency 3 – Crimes of dishonesty 4 – Fire-raising, vandalism etc 5 – Other crimes, e.g., carrying offensive weapons, resisting arrest etc 6 – Miscellaneous offences, e.g., breach of the peace, firearms and offences by licensed persons etc | Group 1 2007/08 - 15 crimes 2006/07 - 33 crimes Group 2 2007/08 - 20 crimes 2006/07 - 24 crimes Group 3 2007/08 - 266 crimes 2006/07 - 269 crimes Group 4 2007/08 - 255 crimes 2006/07 - 247 crimes Group 5 2007/08 - 202 crimes 2006/07 - 209 crimes Group 6 2007/08 - 575 crimes 2006/07 - 595 crimes | <u>2009/10</u> Group 1 – 18 Group 2 – 35 Group 3 – 370 Group 4 – 270 Group 5 – 154 Group 6 – 460 | Group 1 – a reduction from 33 to 32 (2%) Group 2 – a reduction from 24 to 23 (2%) Group 3 – a reduction from 269 to 263 (2%) Group 4 – a reduction from 247 to 242 (1%) Group 5 – a reduction from 209 to 204 (2%) Group 6 – a reduction from 595 to 583 (1%) | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|--|--|---|
| | NI 28: Increase the percentage of adults who rate their neighbourhood as a good place to live | Your Voice 2008 produced the following results on rating of Shetland as a place to live: Very good 68% Fairly good 29% Fairly poor 2% Very poor 0% No opinion 1%. | Your Voice 2010 will contain questions on community and the local area in which respondents live. Update expected in 2011. | | |
| Reduction in the fear of crime affecting quality of life | NI 31: Increase positive public perception of the general crime rate in local area | Positive public perception of the general crime rate was 96.25% in 2007/08 | This will come out in public survey due to be carried out. | 97% by 2010/11 | |
| Improved reporting and detection of crime | LI 20: Reduce the number of incidents of domestic abuse throughout Shetland | 48 incidents of domestic abuse during 2007/08 | 48 incidents of domestic abuse during 2009/10 | Expected to increase until confidence in reporting levels reached | |
| | LI 21: Reports of racist incidents | 4 racist incidents reported during 2007/08 | 1 racist incident reported during 2009/10 | Expected to Increase until confidence in reporting levels reached | |
| Reduced incidence of accidents resulting in casualties, particularly home fires, road accidents and marine incidents | LI 26: Reduce number of people killed or seriously injured on our roads | 2007-08 No. of people killed – 5 No. of people seriously injured - 4 | 1 person killed during 2009/10 | Reduce the number of people killed in Road Traffic Collisions by 33% by 2010/11 | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|--|--|---|---|
| | LI 27: Reduce number of fatal and non fatal fire casualties | 0 during 2007-08 | 1 during 2008/09 0 during 2009/10 | Maintain at 0 for 2010/11 | |
| Increased effectiveness in the management of offenders | NI 23: Reduce overall reconviction rates by 2 percentage points by 2011 Reconviction rate of the number we work with. | Scottish Executive Statistical Bulletin 2005-2007 shows that there was a 35% reconviction rate of offenders discharged from custody or given non-custodial sentences. Internal audit of 88 risk assessments completed in 2007 / 2008 showed that 78 offenders had alcohol and or drug problems. | Percent reconvicted within: 6 months: 18% 1 year: 31% 2 years: 42% 75% of substance misusing offenders subject to community based supervision have participated in drug and alcohol programmes | Reduce reconviction rate to 33% 75% of substance misusing offenders subject to community based supervision to participate in drug and alcohol programmes | |

National Outcome – Safer (Social Welfare)

Progress at August 2010

The Shetland Islands Council, with support from the Shetland Charitable Trust, has placed care for elderly and disadvantaged groups as a high priority over the years, with a lot of resources being committed to building and maintaining a network of care centre facilities. The expenditure has meant that Shetland has very high standards of care across the islands, however, to cope with the increasing numbers of clients, the Community Health and Care Partnership's aim has increasingly been to support older people in their own homes for as long as possible.

The results of that policy are shown in the figures below. 44% of over 65s with a high level of care needs are being looked after at home. This far exceeds the national government target of 35%. As part of the support to this policy, there has been a need to reduce waiting times for supply of aids and adaptations to homes. Until recently, the number of people delayed from going to a suitable care setting, was a recurring problem for the local NHS. However, the waiting list has been reduced dramatically to 55 last year (a 37% reduction) and 71% of assessments are now carried out on time.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|--|---|---------------------|---|--|---|
| Ensure children with care or other needs get the best life chances | LI 37: Overall proportion of inspection reports which include positive evaluation of the work of area child protection committees | 63% (2007/08) | Shetland's only child protection inspection so far had a positive outcome – 100% | 90% of identified improvement activities included in the Child Protection Committee annual Business Plan achieved within the agreed timescale. | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---------------|---|---|--|---|---|
| | LI 59: Support the extension of the Shetland Befriending Service to meet demand and extend to ASN befriending services | Currently meeting 40% overall demand ASN is new Service Development started 08 | Scheme is currently meeting 60% demand for the service. 20 young people currently on matching list, 8 waiting for their first match with a volunteer. From July 09 to Aug 10 the scheme has supported 10 young people with ASN to access mainstream provision. Since start of service in Aug 08 the scheme has supported 15 young people. | Increase to 60% Offer 10 ASN places during 2009/10 | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|--|---|---|--|--------------------------------|---|
| Assist vulnerable people to live longer safely in or near their own homes | LI 29: Increase the proportion of people needing care or support who are able to sustain an independent quality of life as part of the community, through effective joint working. | <p>Care Homes: Number of people resident in Care Homes is published each year in Care Homes publication: Care Homes</p> <p>Home Care: Number of people receiving 10+ hours of home care (purchased or provided by a local authority) is published each year in Home Care Services publication: Home Care</p> <p>Hospital: Hospital statistics are available from ISD Scotland: ISD</p> <p>Learning Disability: total known population published through "The Same As You?" Annual statistics TSAY</p> <p>Assessments of people at risk of hospital admission: collected in 2007/08 through Community Care Performance Reporting PIOD</p> | <p>Care Homes: At March 2009 - 153 registered places (of which 144 are in the client group aged 65+) At March 2010 – 153 registered (144 are 65+)</p> <p>Home Care: At March 2009 - 118 clients receiving 10+ hours of home care At March 2010 – 124 clients receiving 10 hours or more care at home.</p> <p>Hospital: At March 2010 - The number of people in nursing homes and those who are in hospital for over a year = 0</p> <p>Learning Disability: At March 2009 - The rate of adults (per 1,000 population) with learning disabilities known to public authorities = 6.6 (2010 figures not available until 2011)</p> <p>Assessments of people at risk of hospital admission: No up-to-date figure available.</p> | | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---------------|---|---|--|--|---|
| | NI 26: Increase the percentage of people aged 65+ with high levels of care needs, who are cared for at home (complex care needs) | 37% at March 2008 | 44% as at 31 March 2010 | 40% by March 2010 (Scottish Government target of 35%) | |
| | NI 20: Reduce proportion of people aged 65+ admitted as emergency inpatients 2 or more times in a single year | 40.6 people per 1,000 population, at March 2008 | 42 people per 1,000 population (2008/09) | 35.3 people per 1,000 population by March 2010 | |
| | LI 32: No person will wait more than 6 weeks to be discharged from hospital into a more appropriate care setting | March 2008 a) No people waiting for support to return home b) 15 People waiting for a residential care place or other accommodation that accords with their choice and is deemed reasonable in terms of national guidance on choice | a) Maintained at zero b) Maintained at zero | a) Maintain at 0 b) Reduce numbers waiting for accommodation to zero by June 2010 | |
| | LI 7: Reduce the number of people on the Occupational Therapy waiting list | 87 people on the list as at March 2008 | 55 at 31 March 2010 | Reduce to 58 by March 2010 | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---|---|---|---------------------------|--------------------------------|---|
| Maintain and improve the quality of the Social Care experience | LI 10: Improve user / carer satisfaction rate of community care assessment process and services received | 85.9% (2006/07) | 93% (January 2010) | 87% (2009/10) | |
| | LI 8: Increase the number of carers assessments done by 10% including young carers | 40 carers assessments carried out during 2007/08 | 16 in 2009/10 | 44 at March 2010 | |
| | LI 9: Increase the number of Single Shared Assessments (SSAs) done within target date | 49% of SSAs carried out within target date during 2007/08 | 71% in 2009/10 | 65% at March 2010 | |

STRONGER (Transport)

National Outcomes:-

- **We live in well-designed, sustainable places where we are able to access the amenities and services we need;**
- **We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others;**
- **We take pride in a strong, fair and inclusive national identity;**
- **Our public services are high quality, continually improving, efficient and responsive to local people's needs;**

Progress at March 2010

A key target for the Council in reducing the community's carbon footprint is to encourage more commuters to use public transport. This has its own challenges, particularly with the dispersed nature of Shetland's communities. However, this year bus passenger numbers again rose to over 404,000.

Unfortunately, much of the information required for monitoring purposes in this section was not recorded owing to staff shortages in the Transport Service. This has now been rectified.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|---|---|--|--|--|
| Improved Transport Quality, Availability, Affordability and Accessibility | <p>LI 1: Increase the availability, accessibility, affordability and usage of internal public transport</p> <ul style="list-style-type: none"> Decrease road traffic levels Increase bus passenger numbers Increase the ratio of passengers to cars on inter-island ferry routes. Increase the population served by DRT services. Monitor affordability. Increase integration between different transport services | <p>The road traffic level for 2007 was 206 million kilometres. (calculated as the total volume of traffic x the distance travelled per vehicle)</p> <p>Bus passenger numbers had an increase of 1.6% in 2007/08 with a total of 426,740 compared to 420,035 in 2006/07.</p> <p>In 2008, 40% of the population was covered by a Demand Responsive Transport/Shopper service</p> <p>Air & Ferry services connecting with a bus service (2008): 15% of arriving inter-island ferries (4% on Sunday) 18% of departing inter-island ferries (3% on Sunday) 48% of arriving flights 61% of departing flights 43% of departing external ferries</p> | <p>404,127 – increase of 0.34% on 2008/09 figure (402,736)</p> <p>Towards the end of 2009/10, 2 new services were set up, linking Scalloway to Burra/ Whiteness/ Weisdale.</p> <p>Due to staff shortages, this indicator was not monitored during 2009/10. This has been identified as an essential piece of information and monitoring arrangements have been put in place for 2010/11.</p> | <p>2% decrease for 09/10.</p> <p>2% increase for 09/10</p> <p>Maintain service</p> <p>Maintain service</p> | <p>Shetland Targets and Priorities:</p> <p>We will 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</p> |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---------------|--|--|---|--|---|
| | <p>LI 2: Increase the reliability, affordability and appropriateness of external air and sea links</p> <ul style="list-style-type: none"> reliability affordability number of primary destinations | <p>Reliability excluding weather related (2007-08) Loganair performance on Shetland routes: 99.8%</p> <p>Northlink performance on Shetland routes: 98.85% (figures exclude weather related cancellations)</p> <p>Affordability: Sea: Lerwick/Aberdeen, Adult Single: High Season £22.89</p> <p>Air: Sumburgh to Glasgow, adult single, with ADS and taxes, £57.60</p> <p>External Destinations (2007/08) External Ferry Services: 2 Primary Destinations of External Air Services : 6</p> | <p>Due to staff shortages, records of these figures were not kept during 2009/10. This has been noted for 2010/11.</p> <p>In a recent presentation by Northlink, performance on Shetland routes was 100%.</p> <p>Due to staff shortages, records of these costs were not kept during the 2009/10 year. The figures for 2010/11 are: £24.22 (Sea) £40.65 (Air)</p> <p>1 primary service giving daily access to/from Aberdeen with stop off in Orkney 3 times weekly in summer and twice weekly in winter</p> <p>5 + 1 summer service</p> | <p>99.8%</p> <p>99.8%</p> <p>£25 £60</p> <p>2</p> <p>7</p> | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|---|--|--|--|---|
| Reduce transportation emissions | <p>NI 36: Increase the proportion of journeys to work made by public or active transport</p> <ul style="list-style-type: none"> ▪ Increase the use of sustainable modes of transport ▪ Decrease the use of single occupancy private cars <p>And</p> <p>LI 3: Increase the proportion of journeys made by public or active transport</p> | <p>2005/06 baseline:</p> <p>Car Driving - 70%</p> <p>Walking - 12%</p> <p>Bus - 4%</p> <p>Cycling - 1%</p> | <p>Due to staff shortages, the annual survey of SIC staff was not carried out.</p> <p>This was identified as essential through a work planning exercise conducted with the now fully staffed team and has been scheduled for 2010.</p> | <p>Car - 65%</p> <p>Walking -14%</p> <p>Bus - 6%</p> <p>Cycling - 2%</p> | |

National Outcome – Stronger (Housing)**Progress at March 2010**

The provision of housing to meet demand is a high priority for Shetland. The Council's Housing Service and Hjaltland Housing Association's waiting list continues to sit at over 1000 people. However over 100 new houses were completed last year between the private sector and the Housing Association, which will help. The Council has also recently begun a major new house building project in Lerwick with 72 single or 2 person dwellings.

Fuel poverty is also an issue that is a high priority for the Council and partner organisations, with the 2008 Scottish Household survey reporting that an estimated 33% of Shetland houses were either in fuel poverty or severe fuel poverty. With the harsh weather experienced in Shetland, this has been an issue that Councillors have been keen to see progress made on. Last year 11 fuel poverty grants were issued, and 9 of these resulted in the household being taken out of fuel poverty. With the rises in fuel prices, remaining out of fuel poverty can often be a huge challenge, particularly if the household has low income levels.

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---------------|------------|---------------------|------------------------|--------------------------------|---|
| | | | | | |

| | | | | | |
|--|---|---|---|---|--|
| Improve the availability of housing in Shetland, across all tenures and communities | NI 27: Increase the rate of new house building | In the financial year 2008/09 there were 169 new property builds throughout Shetland. 110 of which were private and 59 of which were Hjaltland/SIC. | 2009/10 = 126 new build completions. (61 private and 65 Hjaltland Housing Association, 0 SIC). | 100 house completions | Shetland Targets and Priorities: We will increase the supply of housing to 12,000 by 2025 And We will 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 |
| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
| | LI 39: Increase the supply of affordable housing for rent and low cost home ownership. | 2008/09 SIC Housing stock = 1823 Hjaltland = 438 | SIC Housing Stock = 1804 . Hjaltland = 531 . HHA completions in 2009/10 = 65 . | HHA Planned Development = 84 additional units | |

| | | | | | |
|--|---|---|---|---|--|
| Ensure all unintentionally homeless households have settled accommodation | NI 22: All unintentionally homeless households will be entitled to settled accommodation by 2012 | 2008/09 70% of all homeless decisions were assessed as priority unintentional. | 2009/10 65.7% assessed as priority homeless. | 2009/10 - 75% 2010/11 - 85% 2011/12 – 95% 2012/13 – 100% | |
| | LI 43: Support the number of vulnerable young adults between the ages of 16 and 25, who are either homeless or potentially homeless, through the Shetland Befriending Scheme | 22 vulnerable young adults between the ages of 16 and 25 were supported in 2008/09 through the Befriending Scheme | 32 young adults aged 16-25 registered with Befriending Scheme and 14 of these are currently matched to a volunteer. | 25 | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|--|--|---|
| Support high quality housing standards across all tenure types | LI 40: Increase the level of support provided to low-income households for repair and adaptation of their houses. | 92 private sector housing grants were provided during 2007-08. 53.3% of these were means tested. | 40 grants were provided during 2009-10 (29 private sector housing grants and 11 fuel poverty grants). 2009/10 = 100% of these were means tested. | Household grant awards that are awarded after means testing: 2009-10 – 60% 2010-11 – 65% | |
| Eradicate fuel poverty | LI 41: Reduce the number of households that are experiencing fuel poverty each year. | Combined data from the 2003-04, 2004-05 and 2005-06 Scottish House Condition Surveys, indicates that 31% of households in Shetland were in fuel poverty or extreme fuel poverty at May 2005. | Scottish House Condition Survey 2005-2008 indicates 33% of all households in Shetland are in fuel poverty. 11 Fuel Poverty Grants were awarded in 2009/10 and 9 of those households were taken out of fuel poverty (82%). | 15 households to be taken out of fuel poverty each year to meet National target of eliminating fuel poverty by 2016. | |

| National Outcome – Stronger (Community) | | | | | |
|---|--|--|--|---|---|
| Progress at March 2010 Most of the indicators in this section are not measured annually, therefore, the report is limited in what it can tell for the 2009-10 financial year. Shetland continues to have a very high percentage of volunteers and a strong sense of community | | | | | |
| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
| Increased size of Social / Voluntary Sector with high levels of participation. | NI 13: Increase the social economy turnover | HIE have supported 5 social enterprises with growth plans in 2008/09 | HIE have supported 4 social enterprises with growth plans in 2009/10. | HIE target for 09/10 is 8 Social enterprises supported with growth plans. Increase SLA/Contract Services awarded to Social Economy and Voluntary Organisations from Public Sector Agencies by 2% | |
| | LI 30: Increase the percentage of the local population taking part in cultural and volunteering activities. | 35% of Your Voice, 2008 respondents said that they volunteer (3 most common) 1) Helping children and young people 2) Helping the elderly 3) Sport and outdoor activities | Your Voice 2010 will contain questions on Social Capital. Update expected in 2011. | Increase by 10% | |

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|--|---|--|--|--|---|
| Take pride in Shetland and all its communities, people, values and heritage | NI 28: Increase the percentage of adults who rate their neighbourhood as a good place to live | Your Voice 2008 produced the following results on rating of Shetland as a place to live: Very good 68% Fairly good 29% Fairly poor 2% Very poor 0% No opinion 1%. | Your Voice 2010 will contain questions on community and the local area in which respondents live. Update expected in 2011. | To maintain the high level of satisfaction at 68%. | |
| | NI 41: Improve other people's perceptions, attitudes and awareness of Shetland's reputation | Shetland was named 3 rd most desirable island destination by National Geographic Visitors per year 104,241 ⁵ | Shetland Visitor Survey will be conducted in 2011. | Increase occupancy rates of tourist beds by 10% Increase direct visitor spend to £20m per annum | |
| Maintain and improve high quality and efficient public services | NI 42: Improve public sector efficiency through the generation of 2% cash releasing efficiency savings per annum | Annual revenue spend across all Community Planning partners is approximately £200 million | Council efficiency savings were in excess of £1.3 million during 2009-10. NHS Shetland efficiency savings during 2009-10 - £1,528,000 | £4 million efficiency savings annually | |

⁵ Based on research carried out in 2006

| Local Outcome | Indicators | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2011-12 | 'End' target/s & timescale/s or direction of travel |
|---------------|---|--|--|--|---|
| | NI 43: Improve people's perceptions of the quality of public services delivered | Your Voice respondents, 2008 who said that they were 'satisfied or very satisfied' with services - Local health services – 81.9% Local Schools – 78.8% Public Transport – 69.9% | Your Voice 2010 will contain questions on people's perceptions of the quality of public services delivered. Update expected in 2011. | Maintain these levels and improve them wherever possible | |
| | LI 29: Reduce the number and streamline local organisations, strategic groups, committees, working groups, taskforces etc. | Baseline to be confirmed through review later this year | Not available | Not available | |

GREENER

National Outcomes:-

- We value and enjoy our built and natural environment and protect it and enhance it for future generations;
- We reduce the local and global environmental impact of our consumption and production;

Progress at March 2010

Unfortunately, there are a few areas in this section where information is not gathered on an annual basis (Ecological footprint, electricity generated from renewable sources) and where it is particularly difficult to quantify at a local level. This is not a reflection of the level of priority that this outcome area is accorded in Shetland as there is a lot of work going on in this area. A multi-agency Carbon Group is improving the co-ordination of opportunities for assistance for individuals and communities to reduce carbon emissions.

Shetland's biggest contribution to the "greener" outcome is the fact that we are well ahead of other areas in terms of the solid waste that is sent to landfill. Last year only 719 tonnes were landfilled, slightly up on the previous year, but 1938 tonnes less than the level we would have to be at to meet our national obligations. This is due to the incinerator, which burns waste to produce hot water for Lerwick's District Heating Scheme.

As with other sections in this report, it is hoped that having completed the review of the SOA and worked closely with agencies to refresh the targets and measures in it, that the 2011 annual report will be more comprehensive in the information reported.

| Local Outcome | Indicator/s | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|--|---|----------------------------------|---|---|
| Promotion of sustainable and efficient use of energy resources to maximise social, environmental and economic benefit to Shetland | NI 32: Reduce Scotland's Overall ecological footprint | The Ecological footprint is measured as part of the national scheme run by WWF and SSN, many of the policies relating to CO2 reduction, transport and waste will all help to reduce the ecological footprint. Shetland's ecological footprint is currently 5.39 global hectares per capita | No up to date figures available. | Annually report ecological footprint data for Shetland from the monitoring programme managed by the Sustainable Scotland Network/ WWF | Shetland Targets and Priorities: We will be world renowned for being clean and green islands, decreasing CO2 emissions by 30% by 2020 |

| Local Outcome | Indicator/s | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|---|---|---|--|---|
| | NI 38: 50% of electricity generated in Scotland to come from renewable sources by 2020 (interim target of 31% by 2011) | Currently 14,122 kWh generated from renewable sources in Shetland Burradale Wind Farm currently meets 8-18% of Shetland's electricity needs | No up to date figures available | Continue to support locally significant renewable and other energy projects as part of the national agenda | |
| Prevent biodiversity loss as a direct result of human activity in Shetland | NI 33: Increase, to 95%, the proportion of protected nature sites in favourable condition (proportions of features) | Designated features in favourable or recovering condition at March 2007 – 79% Another 13% were described as 'no on-site action', e.g. climate change, however these are reported separately. | Designated features in favourable or recovering condition – 74% Scottish Natural Heritage has initiated action to remedy 4 sites in 2010/11 For 22% of the sites in unfavourable condition, no on-site action is available – due to climate change. | Increase to 95% the proportion of protected nature sites in favourable condition by March 2010 | |
| | NI 35: Increase the index of abundance of significant terrestrial breeding bird species | Wild Birds: Songbirds - 5 species stable, 3 species increasing Wild Birds: Eiders – declining population Wild Birds: Waders – 5 species stable, 3 species declining | No change from baseline. | Annual report on Shetland population data comes from 5-yearly rolling monitoring programmes | |

| Local Outcome | Indicator/s | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|--|--|--|---|---|---|
| | LI 28: Increase the index of abundance of key sea bird species | Wild Birds: Seabirds - 3 species stable, 1 species increasing, 6 species declining | No change from baseline. | Annual report on Shetland population data comes from 5-yearly rolling monitoring programmes | |
| | NI 40: Increase to 70% key commercial fish stocks at full reproductive capacity and harvested sustainably by 2015 | Not possible to set baseline at Shetland level. | Information not available. | Not being measured at a local level | |
| Protect, sustain and enhance Shetland's built environment and cultural heritage for future generations to enjoy | NI 34: Improve the state of Scotland's Historic Buildings, monuments and environment | 49 listed buildings were assessed as 'at risk' in 2006/07 (14%) | 48% of listed buildings surveyed – information on 'at risk' status will be reported at the end of the 5-year programme (due to end 2013) | To reduce the number of listed buildings assessed as being at risk. Annually report listed buildings at risk data from 5-yearly rolling monitoring programme | |
| | NI 37: Increase the proportion of adults making one or more visits to the outdoors per week | See below | See below | See below | |

| Local Outcome | Indicator/s | Baseline at 2008-09 | Progress at March 2010 | 'Progress' target/s to 2010-11 | 'End' target/s & timescale/s or direction of travel |
|---|--|--|--|---|---|
| | LI 59: Complete and extend Shetland's Managed Core Paths Network | There are currently 200 'managed general access routes', which is equal to 560km. 100 of which are Core Paths | 4 core path routes completed 17 routes currently having signage and accessibility improvements made. Commitment to improve 6 further routes | All core paths signed, way marked and accessible by 2011. Develop 10 new routes per year aimed at specific user groups. | |
| Reduced waste production and increased recycling | NI 39: Reduce to 1.32 million tonnes of waste sent to landfill nationally by 2010 | 1,169 tonnes of waste were sent to landfill in 2007/08 690 tonnes of waste were sent to landfill in 2008/09 Shetland's proportion of the 1.32 million tonnes target is a maximum of 2,657 tonnes of MSW to Landfill. | 2009/10 - 719 tonnes | Continue to landfill substantially less than 2,657 tonnes of waste through appropriate waste reduction, diversion and recycling activity. | |



REPORT

To: **Audit & Scrutiny Committee**
Shetland Islands Council

15 November 2010
8 December 2010

From: **Head of Organisational Development**
Executive Services

CE-39-F

Corporate Plan 2010/12 – Progress Report

1 Introduction

- 1.1 This report provides an update on progress made on achieving the outcomes and targets within the Council's Corporate Plan 2010-12.

2 Link to Corporate Priorities

- 2.1 The Corporate Plan sets the Council's key priority areas for the term of this Council. A considerable amount of activity and improvement continues, as set out in Service Plans and Operational Plans. However, the actions set out in this document are believed to be the most significant to achieve, by this Council, for the remainder of this term.

3. Risk

- 3.1 There are significant internal and external risks to the Council and community if the Corporate Plan is not effectively delivered and monitored.

4. Background

- 4.1 The Council's refreshed Corporate Plan 2010/12 was agreed by Council on 30th June 2010. The approved outcomes and targets are embedded within Shetland's Single Outcome Agreement (SOA) the Key Purpose of 'Maintaining the Economically Active Population Throughout Shetland'.
- 4.2 Progress Reports on the Plan are one of the performance management tools within the Council's overall Strategic Planning, Performance and Risk Management Framework.

5 Progress on Outcomes and Targets

- 5.1 Sections A to G of the Progress Report monitors the progress of services in meeting the outcomes and targets set in the Corporate Plan.
- 5.2 These outcomes and targets are clearly set to deliver on Shetland's Single Outcome Agreement (SOA). Dials have been incorporated to provide an indication of how well Shetland is delivering on the outcomes set in the SOA. These dials relate to progress made during the financial year 2009/10:
- Better indicates an improved direction of travel;
 - Stable indicates no change; and
 - Worse indicates a deterioration.
- 5.3 Section H of the Progress Report monitors the progress in improving the Council as an organisation. This section currently has a strong overlap with the Council's developing Corporate Improvement Plan, and the documents be amalgamated in due course.
- 5.4 Progress has been assessed by using a traffic light system:
- Red: significant issues, with a medium to high risk of failing to meet target;
 - Amber: experiencing minor issues, with a low risk of failure to meet target; and
 - Green: likely to meet or exceed target.
- 5.5 The table below shows a summary of the status of the targets. Of the 71 targets, over half are Green; on target for achieving the outcome within the timescale set. However, there is uncertainty as to whether this can be maintained with fewer resources available.

| Status of Targets | July-September 2010 |
|-------------------|---------------------|
| Red | 2 |
| Amber | 24 |
| Green | 45 |

- 5.6 Of the two Reds, those targets with significant issues:
- The 6% reduction in carbon emissions set is unlikely to be reached. However, this is being addressed by the development of a Carbon Reduction Strategy, which will be ready for approval in February 2011;
 - The timescales for the development and approval of the Local Development Plan may have to be lengthened, due to the preferences expressed by the community during the Main Issues Report consultation.

- 5.7 In recognition of the need to prioritise, the Council agreed to a number of key priorities as part of the Corporate Plan 2010/11. If delivered, it is believed these will make a significant contribution to Shetland's future. Again, steady progress is being made against these, with those priorities showing an amber being primarily due to circumstances not directly within the control of the Council.

| Priority Area | Progress Assessment | Progress Commentary |
|---|---------------------|---|
| Fast and reliable broadband throughout Shetland | GREEN / AMBER | Good progress being made on provision of resilient broadband to Lerwick, but challenges remain in being able to roll this out to other areas. |
| Development of renewables | GREEN / AMBER | Progress continues to be made, but continues to be restricted by decisions made out with Shetland on the interconnector and funding for the Smart Grid project. |
| Decide on and implement the Blueprint for Education | GREEN | The Blueprint process is still on target to meet the statutory consultation and reporting milestones. |
| Decide on Shetland's long-term transport infrastructure | GREEN | Currently on target to present a proposed programme to delivery on fixed links, over a period of 20 years, to Council in early 2011. |
| Get more affordable Housing | GREEN | A number of projects are being developed by the Housing Service to provide different options for people to access affordable housing, such as agreement to progress sales of houses and building plots as a pilot and agreement to progress a shared ownership model for low cost home ownership. |
| Intervene early to tackle any poverty | AMBER | Multi-agency work continues, in particular through Getting it Right for Every Child and With You For You, and improvements can still be made. However, the risk in this area is the impact on those on low income and benefits with the potential for a reduction in services and changes to the national benefit system. |
| Make sure we organise and carry out all our business properly | AMBER | Progress being made on development and approval of Corporate Improvement Plan and achieving long term financial policy objectives. However, due to the current financial context, risks remain in meeting targets. |

6. Financial Implications

- 6.1 The Council's medium-term financial strategy sets out a commitment to reduce the draw on Council reserves to support General Fund revenue spending to zero by 2012 (SIC Min Ref 107/09). That strategy also sets a five year spending target of £100m on the draw from Reserves to support the Capital Programme, and sets a floor level for Council Reserves of £250 million. The actions contained within this Plan will have to be achieved within these existing budget constraints.

7. Policy and Delegated Authority

- 7.1 All principal policy documents require approval by the Council. This report sets out the Council's Progress in delivering on the Corporate Plan for the period 2010-12 and therefore Council is required to note progress and recommend whether any changes to priorities should be made.
- 7.2 The role of Audit and Scrutiny Committee is to monitor and comment on progress being made by the Council, making recommendations to Council, if required.

8. Conclusion

- 8.1 This report provides a Progress Report on the Council's Corporate Plan for the period 2010-12.
- 8.2 It shows that good progress is currently being made, with the majority of outcomes and targets currently likely to meet or exceed the target set. However, this progress may become more difficult to sustain with less resources available.

9. Recommendations

- 9.1 I recommend that:
- Audit and Scrutiny Committee comment on progress being made by the Council, to deliver on the Corporate Plan 2010/12, and make recommendations to Council, if required;
 - Council discuss progress being made and, as a result of this discussion, decide whether any amendments are required, or priorities changed.

Date: 1 November 2010

Report No: CE-39-F

Ref: EP/JR



SHETLAND ISLANDS COUNCIL

COUNCIL PLAN

2010/12

PROGRESS REPORT

END OF SEPTEMBER 2010

Key for Assessment of Progress


| | |
|--------------|--|
| RED | Significant issues, with a medium to high risk of failing to meet target |
| AMBER | Experiencing minor issues, with a low risk of failure to meet target |
| GREEN | Likely to meet or exceed target |

Key Priorities for Shetland Islands Council 2010/12

In recognition of the need to prioritise, the Council agreed to the following key priorities as part of the Corporate Plan 2010/11. This first section of the Progress Report summarises progress against these.

| Priority Area | Progress Assessment | Progress Commentary |
|---|----------------------|---|
| Fast and reliable broadband throughout Shetland | GREEN / AMBER | Good progress being made on provision of resilient broadband to Lerwick, but challenges remain in being able to roll this out to other areas. |
| Development of renewables | GREEN / AMBER | Progress continues to be made, but continues to be restricted by decisions made out with Shetland on the interconnector and funding for the Smart Grid project. |
| Decide on and implement the Blueprint for Education | GREEN | The Blueprint process is still on target to meet the statutory consultation and reporting milestones. |
| Decide on Shetland's long-term transport infrastructure | GREEN | Currently on target to present a proposed programme to delivery on fixed links, over a period of 20 years, to Council in early 2011. |
| Get more affordable Housing | GREEN | A number of projects are being developed by the Housing Service to provide different options for people to access affordable housing, such as agreement to progress sales of houses and building plots as a pilot and agreement to progress a shared ownership model for low cost home ownership. |
| Intervene early to tackle any poverty | AMBER | Multi-agency work continues, in particular through Getting it Right for Every Child and With You For You, and improvements can still be made. However, the risk in this area is the impact on those on low income and benefits with the potential for a reduction in services and changes to the national benefit system. |
| Make sure we organise and carry out all our business properly | AMBER | Progress being made on development and approval of Corporate Improvement Plan and achieving long term financial policy objectives. However, due to the current financial context, risks remain in meeting targets. |

A) Wealthier and Fairer: Head of Economic Development, Head of Ports and Harbours, Head of Environment and Building Services

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |
|---|--|------------------------------|-------------------|---|
| Wealthier 1: Develop the telecommunications network throughout Shetland to offer high level broadband services for business development in all areas of Shetland | | | |  |
| W1.1 | Provision of a resilient broadband link to Lerwick Target: 2 cables from Lerwick to international link | Head of Economic Development | 30 September 2011 | GREEN Contract prepared for first fibre link between Lerwick and SHEFA2 cable to be complete March 2011. £367k ERDF funding awarded to project. |
| W1.2 | Equip a Point-of-Presence service in Lerwick Target: Operational Point of Presence using high speed link | Head of Economic Development | 31 March 2011 | GREEN Contract prepared for first fibre link between Lerwick and SHEFA2 cable to be complete March 2011. £367k ERDF funding awarded to project. |
| W1.3 | Encourage existing telecommunications companies to make full use of the new telecommunications infrastructure Target: Two companies using the Point of Presence | Head of Economic Development | 31 March 2011 | AMBER State aid advice taken, and permissions are imminent. Special Purpose Vehicle company, Shetland Telecom, being set up to tender for operation of the system. Discussions with BT as service provider ongoing. |
| W1.4 | Costed-plan to provide high-speed broadband to benefit peripheral communities Target: Completed Plan ready for implementation | Head of Economic Development | 30 September 2011 | AMBER Project work has been focused to date on the enabling fibre connection. |
| W1.5 | Facilitate the development of a data-centre in Lerwick Target: One Operational Data Centre | Head of Economic Development | 30 September 2012 | AMBER The Council have entered into a MOU with Alchemy+ to develop a data centre project in Lerwick. Service requirements for green power supply are currently being actioned. |

Wealthier 2: Our renewable energy resources will be used as a stimulus for economic growth





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| W2.1 | <p>Ensure a decision is made for the provision of an inter-connector between Shetland and Mainland Scotland</p> <p>Target: Decision taken by national grid to invest in an inter-connector, providing clarity</p> | Head of Economic Development | Decision taken by 31 March 2012 | <p>AMBER</p> <p>A decision has yet to be taken on the planning consent for the interconnector.</p> |
| W2.2 | <p>Local communities able to reduce carbon emissions negotiate better access to the local grid, for the benefit of renewable projects at community level</p> <p>Target: Six projects connected under Low Carbon Network Fund</p> <p>Target: Assist 3 land-based projects to completion</p> | Head of Economic Development | <p>31 March 2012</p> <p>31 March 2012</p> | <p>AMBER</p> <p>Smart Grid project, ERDF and LCNF funding applied for. This will stabilise the existing grid and enable more renewable energy projects to be connected. Awaiting response on funding applications.</p> |
| W2.3 | <p>Renewable energy production from marine - negotiate seabed leasing arrangements with Crown Estate and develop offshore renewables capacity (equipment, infrastructure and skills)</p> <p>Target: Develop two marine renewable projects to completion</p> <p>Target: Identify medium term seabed development plan in relation to marine renewables</p> | Head of Economic Development | <p>31 March 2012</p> <p>31 March 2012</p> <p>31 March 2012</p> | <p>GREEN</p> <p>Pelamis Vattenfall 'Egear' 20MW wave generator project on West side of Shetland progressing subject to interconnector. Bluemull Sound tidal project progressing.</p> <p>Shetland Marine Energy Development group set up. Work progressing on mapping Shetland marine energy resource and developing a marketing plan for the resource.</p> <p>Discussions with Crown Estate and Marine Scotland ongoing.</p> |



Wealthier 3: Shetland's reputation for sustainable practices and quality products will be strengthened



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| W3.1 | Develop Shetland's Brand and the economic opportunities this brings Target: Assist 20 businesses to develop quality products Target: Support 10 projects to add value in all the main production sectors: tourism, agriculture, fisheries and Creative Industries. Target: Support 10 projects to maximise quality of output from progressive agricultural holdings | Head of Economic Development | 31 March 2012 31 March 2012 31 March 2012 | GREEN Currently developing a system which will enable local organisations to link closely to the Shetland brand encouraging adoption of agreed Shetland brand principles. A number of initiatives supported to date in connection with the 3 target areas. The Lerwick marts and abattoir projects are progressing well and will assist livestock producers. Agriculture Strategy being developed with industry. |
| W3.2 | Lengthen the duration of the tourist season Target: Support 20 projects | Head of Economic Development | 31 March 2012 | GREEN The Tourism strategy is currently being refreshed. The 2010 season to date is being reported as a major success by tourism operators. |
| W3.3 | Develop the role of Promote Shetland as the main promotional tool for Shetland Target: The service will meet the contract requirements | Head of Economic Development | 31 March 2012 | GREEN First operating year of Promote Shetland completed. Operating Plan for 2010/11 underway and 2011/12 Plan currently being developed. Contract expires September 2011 – extension to contract likely. |
| W3.4 | Work with the oil industry and other marine sectors to identify future opportunities for Sullom Voe Terminal Target: Facilitate two significant potential projects | Head of Economic Development, Head of Ports and Harbours | 31 March 2012 | GREEN The Total Laggan Tormore project will play a large part in the medium term development of the port. Working on securing and improving number of Ship to Ship Operations. Some progress. Have been looking at a number of potential projects. However, so far no firm business case has been forth coming. Work continues. |
| W3.5 | Encourage business and individual use of the Business | Head of Economic Development | | GREEN |



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| | Gateway service Target: 400 clients logged, with 300 using the Business Gateway | | 31 March 2012 | It is anticipated that both targets will be exceeded. |
| W3.6 | Secure the maximum benefit for Shetland from the European funding programmes and play a full part in key European organisations Target: Gain approval of £850,000 of European funding | Head of Economic Development | 31 March 2012 | GREEN SHEFA2 Interconnect Project £367k. Fetlar breakwater and berthing face £300k. ESF Skills Development Scheme £85k. Other applications pending. |
| W3.7 | Encourage sustainable fisheries by Shetland vessels under the terms of the Common Fisheries Policy Target: Support six projects | Head of Economic Development | 31 March 2010 | AMBER Quota purchase loan scheme in place. Alison Kay Fishing Company licence purchase under the licence parking scheme. |
| W3.8 | Encourage firms operating in Shetland to develop stricter environmental criteria Target: Maintain high quality environment as part of the Brand | Head of Economic Development & Head of Environment and Building Services | Ongoing | AMBER Encouraged through delivery of the tidy business scheme and direct support and advice. Implementation of Council policy to insist on environmental assessment in all Grants or Loans over £10,000 to be audited. And development through Brand. |
| Wealthier 4: Strengthening the Economy: Businesses will be supported to overcome barriers to growth thereby improving profitability and longer-term performance | | | |  |
| W4.1 | Development of innovation Target: Completion of 4 R&D projects in Shetland businesses, including maximising opportunities with relevant higher education bodies | Head of Economic Development | 31 March 2012 | AMBER The Technology Strategy Board have two research projects currently linked with local company Bod Ayre. NAFC Marine centre are carrying several research projects with private sector partners. |
| W4.2 | Market Shetland's Brand Target: Support 30 marketing improvement projects under the Marketing Development Programme | Head of Economic Development | 31 March 2012 | GREEN 17 individual projects assisted since April 2010. Anticipate this target will be exceeded. |
| W4.3 | Work with the aquaculture sector | Head of Economic | | GREEN |

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| | to investigate new ways of organising site management and different types of production Target: Complete a research project | Development | 31 March 2012 | <p>The Council has supported the appointment of a coordinator to further develop Area Management Agreements among fish farming businesses in Shetland.</p> <p>Hjaltland Seafarms Ltd has begun 2 trials: a feed trial to establish optimum growth rates for salmon and a predation protection project using acoustic deterrent devices aimed at improving fish welfare and minimising escapes.</p> |
| W4.4 | Encourage the introduction of more efficient practices in all productive sectors Target: Assist 6 projects | Head of Economic Development | 31 March 2012 | <p>GREEN</p> <p>North Atlantic Shellfish Ltd has now completed the project to upgrade their mussel packing facility in Walls to enable a more efficient operation. A second project to expand and reorganise the mussel growing operation has now begun.</p> <p>Hjaltland Hatcheries Ltd. reinstatement and extensive upgrade of Girsta hatchery. Shetland Seafood Quality Control funding for whitefish improvement scheme and salmon inspectorate service. Shetland Shellfish Management Organisation funding supporting staff to development MSc accreditation for some inshore species.</p> |
| Wealthier 5: Strengthening the Economy: Peripheral communities will be assisted to improve the economic sustainability of their areas | | | |  |
| W5.1 | Assist in development of sustainable communities Target: Support four community inspired economic development projects Target: Support six projects to improve non-public service provision in remoter areas Target: Support the development of six new businesses in remoter areas | Head of Economic Development | 31 March 2012 31 March 2012 31 March 2012 | <p>AMBER</p> <p>Fetlar and North Mavine development projects are progressing well.</p> |

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| Fairer 1: We have reduced levels and the impact of poverty, deprivation and social exclusion in Shetland | | | |  | |
| Fairer 2: Socio-economic disadvantage does not impact on the opportunities people have | | | |  | |
| F1.1 | Increase in number of individuals taken out of fuel poverty Target: 40 referrals to EAP / 25 Fuel Poverty Grants per year Increased uptake of EAP through better integration of grant processes Target: Use of low carbon network fund to reduce fuel poverty in public sector housing | Head of Environment and Building Services & Head of Housing | 31 March 2012 31 March 2012 | AMBER Meetings have been held and an opportunity to streamline the processes to enable EAP and the Fuel Poverty Scheme to complement each other to maximise funding seems to be on the horizon. The Home Insulation Scheme should maximise the referrals into EAP and Fuel Poverty grant as every house in Shetland will be visited. Currently 30 referrals at EAP. Applications for ERDF funding and LCNF have been submitted, outcome of applications will not be known until early December | |


B) Smarter: Executive Director – Education and Social Care, Head of Schools, Director of Shetland College, Head of Economic Development


| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending | |
|---|--|------------------------------|----------------|--|---|
| Smarter 1: We will provide help to individuals to get the learning opportunities they need, focusing on the long-term unemployed, the 18-24 age group, those misusing substances and winter school leavers | | | | |  |
| Sm1.1 | Meet Scottish Government targets on P1 class size Target: Reduce number of pupils in classes with 25 pupils or over | Head of Schools | 31 August 2011 | GREEN This will be implemented in August 2011. | |
| Sm1.2 | Increase in number of learners from disadvantaged groups | Director of Shetland College | | GREEN | |

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| | Target: 5% increase each year | | 31 March 2012 | Enrolments at learning centres and Adult Learning still being collated but on track to meet this target. |
| Smarter 2: We recognise each person's strengths, and building on these to give them greater capacity, increased confidence and encourage participation and responsible citizenship | | | | |
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| Sm2.1 | All Scottish Government milestones for Curriculum for Excellence met from early stage to senior phase Target: Implementation in pre-school to S1 | Head of Schools | 30 June 2013 | GREEN Implementation on target. |
| Sm2.2 | Blueprint for Education proposals considered and agreed plan for implementation in place. Target: Consider Blueprint proposals and implement decisions | Head of Schools | Ongoing | GREEN Working though process. First decision by Council to be made on 8 December. |
| Sm2.3 | Implementation of the ASL Act Target: Continue to ensure meet up and coming changes in legislation | Head of Schools | Ongoing | GREEN Changes in Act due on 14 November 2010, with training provided and planned. This includes through Head Teacher meetings, ASN Cluster meetings and Allied Health Professionals. |
| Smarter 3: We will work to match Shetland's skills with Shetland's economic need | | | | |
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| Sm3.1 | High uptake of opportunities matching the needs of the local economy by provide young people with the skills and competencies necessary to match economic needs Target: Explore development of 2 new vocational pathway courses 5% increase in places awarded | Head of Schools, Director of Shetland College | 30 June 2012 | AMBER New course in 'Contemporary Skills in Art' has begun at Shetland College. Another course 'Skills for Work – Energy Course' is hoped to start next academic year. Not been able to develop skills for work "Energy" course due to staff illness. Numbers awarded places on skills for work courses have remained steady but needs to be reviewed in relation to actual school rolls over next two years. |
| Sm3.2 | Assist in re-skilling people to meet | Director of Shetland | | GREEN |


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| | <p>the current and future needs of the economy</p> <p>Target: Establish the needs of the business and commercial sector through Employers Survey and follow-up work on regular and sustained basis</p> <p>Target: Improve employability and vocational skills in response to Shetland's changing economic and community needs by delivering relevant courses</p> <p>Target: Ensure there are appropriate opportunities to up-skill the workforce in Shetland through providing vocational training, short courses and access to national programmes</p> | College, Head of Economic Development | 31 December 2010 | <p>3 yearly Employers survey due 2010 will now be undertaken during 2011 using graduate resources.</p> <p>Uptake on all courses at college this year would indicate that the courses are relevant to the economic needs of the community. Employability skills have been introduced to all national certificate courses.</p> <p>The national programme for apprentices allocated sufficient starts in relation to industry uptake. In addition 9 places were sought and agreed to for apprentices over age of 20.</p> |
| Sm3.3 | <p>Investigate and provide a vocational and graduate traineeship scheme for wealth creating businesses</p> <p>Target: Yr 1: Scheme in Place Yr 2: 15 placements</p> | Director of Shetland College, Head of Economic Development | 30 April 2012 | <p>GREEN</p> <p>A bid has been put forward for growth funding to allow this to go ahead. Dependant on savings being identified within overall SIC budgets.</p> |

C) Stronger – Head of Housing, Head of Transport, Head of Roads, Head of Children's Services


| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |
|--|--|-------------------|--------------|---|
| <p>Stronger 1: We will improve the availability, accessibility, affordability and usage of internal and external public transport</p> | | | |  |
| St1.1 | <p>Maximise external transport opportunities for Shetland</p> <p>Target: Full involvement in the Scottish Ferries review</p> | Head of Transport | January 2011 | <p>GREEN</p> <p>The Council is fully involved in the Scottish Ferries Review and represents the Council on the Review Steering Group, Council Sub-Group and the Operators Group. The timescale for the review has been extended by Government and it is not likely to conclude until after the</p> |


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| | <p>Target: Work in partnership with the Scottish Government to ensure that external contracts are able to meet Shetland's economic and social objectives are met in the next generation of public service ferry contracts and air service contracts</p> | Head of Transport and Head of Economic Development | March 2011 | <p>Government elections in May 2011. This is outwith the control of the Council.</p> <p>The Council is fully involved in the consultation process for the next Northern Isles Ferry Service contract.</p> <p>Aberdeen City Council have offered to arrange meetings with Aberdeen air and sea link operators to discuss route development.</p> <p>Promote Shetland is working with both Flybe and Northlink to promote the routes.</p> |
| St1.2 | <p>Maintain high quality of Shetland's roads and transport infrastructure</p> <p>Target: Percentage of A class roads that should be considered for the treatment not to exceed 21.8% as measured by the Road Condition Index (RCI).</p> <p>Target: Council approval of a fixed links and ferry/terminal maintenance programme.</p> | <p>Head of Roads</p> <p>Head of Transport</p> | <p>Ongoing, indicator measured annually.</p> <p>March 2011</p> | <p>AMBER</p> <p>RCI for 2010 is 24.7%, falling short of our target by 2.9%.</p> <p>GREEN</p> <p>On 30 June 2010 the Council decided to pursue a programme of fixed links over a period of 20 years. A programme to deliver this strategy is under development and will be presented to the Council in the first cycle 2011. The programme will include what is required to maintain the network of ferries and terminals.</p> |
| St1.3 | <p>Increase levels of access and usage of public transport</p> <p>Target: Increase 5% back to 2008/09 levels</p> <p>45% coverage of population to Demand Responsive Transport</p> | Head of Transport | Ongoing to August 2016 | <p>AMBER</p> <p>In the first 6 months of the 2010/11 financial year there were 217,865 passengers compared to 216,267 passengers in the first 6 months of 2009/10, demonstrating a position of being on target to increase bus passenger numbers in 2010/11.</p> <p>Coverage has increased with the introduction of DAR services linking Whiteness/Weisdale and Burra/Trondra with Scalloway, the figure currently stands at 41%.</p> <p>Budget targets for 2011/12 have been set at a reduction of 15% compared to 2010/11 budgets. This may have an effect on progress towards 45% coverage.</p> |
| <p>Stronger 2: We will ensure the right house is available in the right place at the right price</p> | | | |  |

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|--------------|---|-----------------|---------------|---|
| St2.1 | Completion of Housing Strategy Target: Produce a new Local Housing Strategy in line with Government guidance for 2010-2015 To include: <ul style="list-style-type: none"> - Investigate future options for increasing housing supply across all tenures - Investigate and develop a better understanding of the private sector housing in Shetland - Investigate, and if feasible, develop local mortgages or grants to assist private individuals in the provision of housing - Continue to work in partnership with agencies on the housing and housing support needs for a projected ageing population | Head of Housing | December 2011 | <p>GREEN</p> <p>Making good progress on producing a new Local Housing Strategy. A refreshed Housing Strategy Steering Group has been appointed and 5 key themed sub-groups have been set up. Public consultation is planned for early in 2011 and hope to submit the final document to the Scottish Government in May 2011. Completion of HNDA and approval of document as robust and credible from the Scottish Government.</p> <p>Commenced £10m investment programme in council housing. Facilitated an innovative loan arrangement with Hjaltland Housing Association to fund their new house building activities.</p> <p>Progressing a range of initiatives to stimulate private sector investment in housing in Shetland.</p> <p>The Brucehall Terrace extra care housing project has been successful in piloting a new approach. The outreach service is also expanding its services to deal with new client groups in partnership with other agencies.</p> |
| St2.2 | Achieve Scottish Housing Quality Standard national target by 2015 Target: 100% of stock | Head of Housing | March 2015 | <p>GREEN</p> <p>62% of properties meet the SHQS. Significantly more would pass subject to consideration of exemptions relating to energy ratings only. Further, a high proportion of properties that currently fail, do so on minor elements.</p> <p>A programme of investment to meet the 2015 target is in place. Therefore, the additional requirements of SHQS are unlikely to have a detrimental financial effect on SIC rents.</p> |
| St2.3 | Achieve national target of eliminating homelessness target by 2012 deadline Target: Meet the national targets on homelessness by 2012 | Head of Housing | March 2012 | <p>GREEN</p> <p>Local policy changes implemented in April 2010 mean that in the first 6 months of 2010/11, 90% of those assessed as unintentionally homeless were also entitled to permanent accommodation. Further changes to policy will be introduced in March 2011 to ensure 100% of all unintentionally homeless households are entitled to permanent accommodation.</p> |

| Stronger 3: We will sustain and, where necessary, grow the number of childcare places | | | | |  |
|---|---|------------------------------|---------------|---|---|
| St3.1 | Implement the Childcare Strategy: to increase the sustainability of wrap around childcare and equalise the cost between the public and private sector Target: Improved access to buildings Target: Zero differential between charges | Head of Children's Services | March 2012 | AMBER Making steady progress with the Strategy. Work ongoing to make the private sector more robust in the North Isles and in Lerwick, as a result of improved access to buildings. A report will be going to Services Committee this cycle to address this. This is a volatile sector and things can change quickly. | |
| St3.2 | Work with North Isles Childcare to develop a viable model of Childcare for the North Isles Target: Support group to develop viable sustainable model for long-term | Head of Economic Development | 31 March 2011 | GREEN Three year operational plan being developed. Solutions for premises in Unst and Yell being considered. Support Schemes in place. | |
| St3.3 | Sustain and / or increase childcare provision in Lerwick Target: Long-term sustainable model of childcare provision in Lerwick | Head of Children's Services | 31 March 2012 | GREEN Work ongoing. | |

D) Healthier – Executive Director – Education and Social Care, Head of Community Care

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending | |
|---|--|--|-----------|------------------------|---|
| Healthier 1: Maintain a healthy life expectancy, focusing on early years, healthy weight, alcohol, drugs and mental health | | | | |  |
| Healthier 2: Tackle health inequalities ensuring that the needs of the most vulnerable and hard to reach groups are recognised and addressed | | | | | To be established |
| Hth1.1 | Develop more positive alcohol culture in Shetland by implementing the Drink Better Campaign | Executive Director – Education and Social Care | | GREEN | |

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| | Target: Reduction in alcohol related offences, drink driving incidents and number of 15-16 yr olds drinking | | 31 March 2012 | The Shetland Alcohol and Drug Partnership has promoted improved access to services, including the relocation of the prescribing clinic. The Drink Better Campaign will continue to promote healthy attitudes to drinking, which will include information and initiatives for all ages, using a community wide public health education approach. Specific issues and trends are monitored by the Partnership on a regular basis, recognising the long standing nature of the issues. |
| Healthier 3: We will support and protect the most vulnerable members of the community, promoting independence and making sure services are targeted at those that are most in need | | | |  |
| Hth3.1 | Better outcomes for customers, as per national Community Care Outcomes Framework by delivering on the Community Health and Care Partnership Agreement Target: 296 long term care places | Head of Community Care | 2020 | GREEN Montfield Support Services opened 17.08.10. Other projects at detailed design phase. High performance against targets. |
| Hth3.2 | Maximise technological opportunities through pilot studies, including the use of telecare for preventative care Target: % customers with intensive support needs supported at home - TBC, dependent on pilot results | Head of Community Care | 30 April 2011 | GREEN High numbers of people supported in their own home. Increasing use being made of Telehealthcare with both cluster pilot projects in place, providing individual solutions for complex needs. |
| Hth3.3 | Continue to develop more local management of services, including the development of 24/7 care services and rolling out the extra care housing model developed at Brucehall Terrace in Unst Target: Maintain at 46% customers with long term care needs supported outwith institutional care settings, as needs arise; reduction in admissions to hospital and residential care as an emergency | Head of Community Care | Ongoing | GREEN Target maintained. Care Centre settings used as hubs for a wide range of local services. Additional delegated authority to managers in localities through new single shared assessment (With You, For You), which is providing more flexible responsive services in localities. |
| Hth3.4 | Undertake an options appraisal for the level and quality of services | Head of Community Care | | GREEN |


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| | <p>provided for a range of services, including permanent care, respite care, learning disabilities and drugs and alcohol services</p> <p>Target: Reduction in unit costs of services with no loss of quality (evidenced by inspection reports and customer satisfaction through the "With You, For You" QA framework)</p> | | June 2010 | <p>Information on unit costs used to calculate direct payment rate. Unit costs included in plans for additional long term care places. National costing model (Integrated Resource Framework) being introduced covering all health and care services. Customer Relations Function for With You For You is now in place through CAB.</p> |
| Hth3.5 | <p>Work with partners to take the Community Health and Care Partnership to the next stage of joint management, to ensure that all resources can genuinely be shared in the interests of service users</p> <p>Target: Joint management and resourcing structures</p> | Head of Community Care | June 2011 | <p>GREEN</p> <p>Discussions ongoing through CHC Committee. Link with review of Committee and Senior Management Structures.</p> |


E) Safer – Chief Social Work Officer & Head of Children's Services

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |
|---|---|-----------------------------|------------|--|
| <p>Safer 1: We will retain the current high level of community safety, but will continue to play our part to; a) further reduce overall crime; b) tackle serious crime; c) make the roads safer; d) maintain public order; and e) protect adults and children from harm and exploitation</p> | | | | |
| Sf1.1 | <p>Increased awareness amongst workforce of Adult Protection legislation</p> <p>Target: Increased participation in training</p> | Chief Social Work Officer | March 2011 | <p>GREEN</p> <p>Delivered 153 places this financial year to date. 500 places booked between December and the end of March for half day Inter-agency training. Further training to be delivered in the early part of 2011.</p> |
| Sf1.2 | <p>Greater Shetland-wide awareness of the issues and impact of domestic abuse</p> <p>Target: Sustained public relations and multi-agency training programme</p> | Head of Children's Services | March 2011 | <p>GREEN</p> <p>Public awareness and training campaign to be implemented in the new year. Awareness will not be significantly increased by March though.</p> |

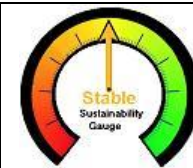


F) Greener – Head of Transport, Head of Environment and Building Services, Head of Planning

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |
|--|--|---|------------------|--|
| Greener 1: We will move further towards sustainable and efficient, consumption and production | | | |  |
| G1.1 | Reduction in carbon emissions and energy used Target: 6% reduction in carbon emissions from Council buildings and Council energy use | Head of Environment and Building Services | 30 April 2011 | <p>RED</p> <p>Energy reduction at 6 months is 6.99%, carbon emissions reduction is 4.83%, it is unlikely that in the current year we will achieve a 6% reduction in carbon emissions and this will be addressed in the Carbon Reduction Strategy.</p> |
| G1.2 | Take a coordinating role with other agencies and report on the success of individual projects Target: Promotion of carbon reduction across communities through education and support community energy schemes | Head of Environment and Building Services | Ongoing | <p>GREEN</p> <p>Combined the energy unit with the Environment and Buildings Service to deliver a more focussed and consistent message. Progressing the development of a Carbon Reduction Strategy to consolidate Environmental policies within the Council.</p> |
| G1.3 | Meet Landfill Allowance Scheme targets Target: Waste going to landfill to be less than 2567 tonnes/yr | Head of Environment and Building Services | Ongoing | <p>GREEN</p> <p>Waste to Landfill is only 3.1% of the waste collected by the Council. Currently on target for approximately landfilling only 450 tonnes of waste to Landfill in the year.</p> |
| G1.4 | More efficient deployment of vehicles, more efficient use of fuel and improved driving performance Target: 5% reduction in emissions And lower numbers of vehicles in fleet, evidence of consistent efficient driving, falling trend in vehicle maintenance costs | Head of Transport | 31 March 2012 | <p>AMBER</p> <p>Minimal change in fleet numbers (298 to 295), but reduction in fuel is currently 27,880 this financial year, to date.</p> |

| Greener 2: We will protect Shetland's renowned natural and built environment | | | | |  |
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| G2.1 | Approved, fit for purpose Local Development Plan Target: Progress on Local Development Plan | Head of Planning | Autumn 2012 | RED Timescales still relevant. However, the responses to the Main Issues Report, and the preferences expressed by the community, has resulted in examination of development spread over the whole community. This option is the most time consuming and labour intensive and has the potential to delay the end date. | |
| G2.2 | LEAMS index validated by KSB Target: Be one of top three cleanest places in Scotland | Head of Environment and Building Services | 31 May 2011 | AMBER The Leams index has fallen in the first months of the year. Non filling of vacancy due to budget restrictions is likely to impact further on cleanliness meaning it will be difficult to attain a top three place. | |
| G2.3 | Maintain air quality below action levels Target: Below action level | Head of Environment and Building Services | Ongoing | GREEN Latest Air Quality Review accepted by Scottish Government. | |
| G2.4 | Represent Local Authority views on marine pollution at the national and international level Target: Retain KIMO secretariat | Head of Planning | Ongoing | GREEN | |
| G2.5 | Continue support for NFLA Target: Retain status quo | Head of Planning | Ongoing | GREEN | |

G) Cross Cutting – Executive Director – Education and Social Care, Head of Children's Services

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |  |
|---|------------------|--------------|-----------|------------------------|---|
| Cross Cutting 1: Children's Services | | | | | |

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|---|---|--|--------------------------|--|
| C1.1 | Holistic to addressing vulnerable young people and their families Target: All children with an identified need have in place a GIRFEC plan | Head of Children's Services | | AMBER Good progress being made in children who are identified having a GIRFEC or "Child's Plan". Some issues with some service areas not coming forward with concerns early enough but improvements are being made. |
| C1.2 | A choice of placements available for children requiring foster care Target: 12 households 15 households | Head of Children's Services | March 2011 March 2012 | AMBER Steady progress being made. Assessments ongoing that should see increase in the number of households this year. Some recent delays due to medium term sickness of a staff member. |
| C1.3 | Every child with additional needs would move from school to a positive destination Target: All children | Head of Schools Services | March 2012 | GREEN Enhanced transition documentation and procedures in place. |
| C1.4 | Appropriate level of service in place to support young carers Target: Young carers supported | Head of Children's Services | September 2010 | AMBER Young Carers Support group set up, therefore all young carers identified are having their needs met. There is a need to identify young carers. Research is being done to better identify young carers in schools: to be completed by end of December 2010. The results will inform future actions. |
| Cross Cutting 2: Strengthening Communities & Culture | | | | |
| C2.1 | Ensure people have more active lifestyles: efficient and effective service delivery by maximising opportunities for joint work with the Shetland Recreational Trust Target: Maximise opportunities for joint working | Executive Director – Education & Social Care | 31 March 2012 | GREEN A broad range of cultural opportunities are available to our young people, in school and community settings. |
| C2.2 | Young people supported to reach their full creative potential, with a range of opportunities available to them. | Executive Director – Education & Social Care | 31 March 2012 | GREEN Shetland Recreational Trust and the Council's Sport and Leisure services are working out a combined programme for joint work and sharing of: assets, people, systems, activities, training and promotion. |



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| | Target: Continue to seek external funding to maximise opportunities | | | sharing of: assets, people, systems, activities, training and promotion. |
|--|--|--|--|--|

H) Organising Ourselves Better

| | Outcome / Target | Lead Officer | Timescale | Status 3 months ending |
|---------------------------------------|--|---|-------------------------------------|--|
| Vision and Strategic Direction | | | | |
| O1.1 | The key Shetland outcomes (in SOA) are delivered, with Shetland's quality of life being maintained. Target: 80% of targets to be achieved each year | Chief Executive | 30 April 2012 (renewed annually) | GREEN Key Shetland outcomes all showing progress or maintaining progress in difficult financial circumstances. |
| O1.2 | Promote and champion the delivery of this Corporate Plan as the key document guiding the Council's delivery of services in Shetland Target: 80% of targets to be achieved each year | Chief Executive, with Corporate Management Team | 30 April 2012 | AMBER Signs of greater significance to corporate plan guiding council. |
| Governance and Accountability | | | | |
| O2.1 | Review of Council's Committee and organisational structures are complete and report agreed by Council Target: Structures in place that are fit for purpose and enabling the Council to run as efficiently as possible | Chief Executive | December 2010 | AMBER Key aspect of Council's Improvement Plan, but timescale has changed to March 2011. |
| O2.2 | The Council receives a satisfactory follow-up Audit report. Target: Agree and then deliver a comprehensive Improvement Plan for the Council | Chief Executive | 30 April 2012 | AMBER Improvement plan is in process of being agreed by Council and will form the basis for Audit Scotland evaluation. |
| O2.3 | The views of staff and members of the public are taken onboard when considering any proposals for change Target: Co-ordinated consultation activity that is provided to Councillors | Chief Executive | April 2012 | AMBER Progress is dependent on approval and delivery of Improvement Plan. |

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|-------------------------|---|--|------------|--|
| | activity that is provided to Councillors ahead of decisions being taken | | | |
| Use of Resources | | | | |
| O3.1 | <p>Ensure that everything the Council does is within its long term financial policy objectives: aim of eliminating the draw on reserves to support General Fund revenue spend and reserves are maintained at sustainable levels, in line with policy.</p> <p>Target: Reserves maintained at target levels</p> | Chief Executive and Head of Finance | April 2012 | <p>GREEN</p> <p>The overall target is likely to be exceeded, although there may be overspending on revenue more than compensated for by under-spending on capital and better investment returns than forecast.</p> |
| O3.2 | <p>Agree a strategy and then deliver sustainable efficiency savings, with particular focus on procurement</p> <p>Target: Delivery of Efficiency savings as a result of improved procurement practice.</p> | Chief Executive, Head of Finance and Head of Capital Programming | | <p>AMBER</p> <p>The pursuit of efficiency savings is under way, but the outcome is not yet quantifiable. Procurement is now a matter for the Head of Capital Programming, who has recently put resources in place to take this ahead.</p> |
| O3.3 | <p>The Council's Capital aspirations are being delivered in a sustainable way</p> <p>Target: Agree a 5-year Capital Programme and apply the Gateway mechanism consistently to all major capital projects.</p> | Head of Capital Programming | April 2012 | <p>GREEN</p> <p>Gateway mechanism and associated project prioritisation process now Council policy. Gateway mechanism has been applied to projects within the indicative 5-year capital programme. 5-year capital programme agreed by Council on 27 October 2010.</p> |



REPORT

To: Audit & Scrutiny Committee

15 November 2010

From: Service Manager – Internal Audit

INTERNAL AUDIT – Six-monthly Internal Audit Progress Report 2010/11 Report No: F-058-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 2010/11. It also highlights the main issues identified during Internal Audit assignments (Appendix 1).
- 1.3 A number of issues which will require to be reported to Audit & Scrutiny, particularly in relation to Corporate reviews, are currently near finalisation. I would propose to present an interim report early in 2011 advising Members on these matters. Primarily this will focus on issues arising from our contracts and absence management reviews which will be issued to CMT in early course.
- 1.4 Members are also reminded that Internal Audit reports are published on the Council website following clearance for FOI purposes. Members can find information on issues identified, in addition to those deemed as key / main, within these reports.
- 1.5 Members are asked to note the contents of this report and that a further report will follow early in 2011.

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.

- 2.2 Whilst no specific risk can be attributed to this report, Internal Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if Council management act as per action plans to deal with the issues identified by Internal Audit.

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 2010/11

- 4.1 Appendix 1 details the Internal Audit activity for 2010/11 to date.
- 4.2 Progress to date on the Audit Plan is substantially on target, as at the end of October. The situation will continue to be closely monitored. It is anticipated that over 90% of the plan will be completed by financial year end.
- 4.3 All reports have been issued within 14 days of completion of audit work.
- 4.4 Employee performance reviews in Internal Audit are up to date.
- 4.5 Corporate Reviews are now being progressed and progress will be further reported early in 2011
- 4.6 The Internal audit 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 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 2010/11 and that a further interim progress report will be presented early in 2011.
- Consider main issues identified.

Date: 4 November 2010
Our Ref: CMcl/DS

Report No F-058-F

| Audit | Auditee | Progress Report / Key Audit Issues |
|--------------------------------------|---|---|
| Finance – Local Taxation | Revenue Services Manager | No key audit issues were identified. Two issues were identified and an action plan was agreed to address them |
| Building Standards | Service Manager – Building Standards | There were no key audit issues resulting from this audit. However, three audit issues covering the collection of building warrant fees, building warrant charges and end user system security were identified. An agreed action plan is in place. |
| Train Shetland – Short Courses | Short Courses Manager | There were no key audit issues resulting from this audit. However, four audit comments were raised and a number of minor concerns were identified. These have been acknowledged by the Short Courses Manager and an action plan to address them has been agreed. |
| Train Shetland – Vocational Training | Train Shetland – Vocational Training Manager | There were no key audit issues resulting from this audit. There was one audit issue that was mostly concerned with good housekeeping and completeness of files. An agreed action plan is in place. |
| Laboratory | Laboratory Section Leader | No key audit issues were raised as a result of this audit but one audit comment and two verbal comments have been issued and we have been assured by the Section Leader that these matters will be addressed. |
| Development Management | Service Manager – Development Management / Coastal Zone Manager | <p>There was one key audit issue involving the issue of an Enforcement Notice and four other issues covering the planning register, the appeals process and internal charging. An agreed action plan is in place.</p> <p>In addition, there was one key observation regarding the time it takes to process planning applications. This issue has been identified by the Service and was already being addressed through the Planning Service Improvement Plan, the commencement of a Local Review Body, Performance Management Reporting, the 2010/11 Service Plan and the introduction of a new computer application</p> |



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| Development Plans | Service Manager – Development Plans | One key audit issue was identified during the course of this audit, which related to the absence of appropriate approvals, administration and controls surrounding a grant scheme. The only other issue was regarding the procurement of professional services. An agreed action plan is in place. |
| Halls of Residence | Manager – Janet Courtney Halls of Residence | No key audit issues were identified. Two audit comments were issued as a result of this audit. One of these, covering a number of concerns, will be addressed by the Manager and the second by his line manager. |
| Building Services | Building Services Manager | Audit work commenced October 2010 |
| Safety & Risk | Safety & Risk Manager | Audit scheduled to commence November 2010 |
| Catering & Cleaning | Catering & Cleaning Manager | To commence January 2011 |
| Finance - Treasury | Treasury Accountant | Scheduled for 4 th quarter |
| Community Care | Head of Service – Community Care | Scheduled for 4 th quarter |



| Follow up Audit | Auditee | Progress Report |
|----------------------------------|-------------------------------------|--|
| Environment - Waste Services | Waste Services Manager | The majority of issues identified had been fully or partly addressed. Commitment was given to progress outstanding matters. |
| Environment – Cleansing Services | Cleansing Services manager | The majority of issues identified had been fully or partly addressed. Commitment was given to progress outstanding matters. |
| ICT | ICT Unit Manager | The majority of issues identified had been fully or partly addressed. Commitment was given to progress outstanding matters. |
| Community Work | Community Work Manager | All issues had been substantially addressed. |
| Members Allowances | Executive & Members Support Officer | Travel continues to be booked less than 14 days prior to departure resulting in additional travel costs. Whilst we acknowledge it may not be possible to book earlier in some situations, travel could be requested and booked sooner in other cases. In addition, total costings of travel requests are still not always undertaken prior to authorisation. |
| Sport and Leisure / Islesburgh | Sport and Leisure Services Manager | The majority of issues identified had been fully or partly addressed. Commitment was given to progress outstanding matters. |
| Payments | Payments Manager | Scheduled for 3 rd quarter |
| Asset & Properties | Acting Asset and Properties Manager | Scheduled for 3 rd quarter |
| Economic Development | Head of Economic Development | Scheduled for 3 rd quarter |
| Trading Standards | Trading Standards Service Manager | Scheduled for 4 th quarter |
| Environmental Health | Environmental Health Manager | Scheduled for 4 th quarter |
| Shetland College | Director – Shetland College | Scheduled for 4 th quarter |



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|--|------------------------------------|---|
| Network Security | ICT Unit Manager | Scheduled for 4 th quarter |
| Remote Working | Head of Organisational Development | Scheduled for 4 th quarter |
| Software Review | ICT Unit Manager | Ongoing – Review 4 th Quarter |
| Payroll & Pensions | Expenditure Manager | Scheduled for 4 th quarter |
| | | |
| Investigations / Reviews | Requested by | Progress Report |
| SUMS College | Director – Shetland College | Work undertaken and charged in accordance with SLA. |
| LEADER Funding | Head of Business Development | Work undertaken and charged in accordance with SLA. |
| Absence Management Corporate Review | Strategic Audit Plan | Work is being finalised for presentation to CMT subject to reporting to Audit & Scrutiny early 2011. HR have been advised of preliminary findings which may form part of report submitted to Audit & Scrutiny today |
| Contracts Corporate Review | Strategic Audit Plan | Again work is being finalised for presentation to CMT subject to reporting to Audit & Scrutiny early 2011. |
| Register of Interests Corporate review | Strategic Audit Plan | From our sample of 100 employees 25% had not completed Register of Interests form in accordance with Council policy. This is in the process of being reported to Corporate Management Team. |
| Specific capital project (Mid Yell JHS) – Corporate Review | Strategic Audit Plan | Work is currently ongoing in relation to this. |
| Flexitime – Corporate Review | Strategic Audit Plan | Work is currently ongoing in relation to this. |



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|---|----------------------|---|
| Flexible Relocation Policy | Strategic Audit Plan | Scheduled for 4 th quarter. |
| Webroster – IT Review | Strategic Audit Plan | <p>The Key concerns are:</p> <p>The current practices are too complex and have no methods of reconciliation, therefore there is no assurance that the resulting financial output i.e. the payroll, is correct.</p> <p>Whilst Webroster appears to deal with the complexities and requirements of the Social Care rota, there are a significant number of issues of concern compounded by a worrying lack of checks within the system and the surrounding procedures.</p> <p>There is insufficient evidence of controls surrounding the authorisation of additional hours and relief work and the final data to be input to Webroster. This results in overpayments and budget implications.</p> <p>The monitoring of relief staff working hours and short term contractual arrangements are not adequately managed and administered. Accordingly there is no assurance that a duty of care and working time regulations are being observed. This concern was raised in a previous investigation in 2007 and has not been addressed.</p> <p>A verification exercise has now commenced to identify wrong payments made and meetings are ongoing between Payroll and Social Care to try to find resolution to the situation.</p> |
| Payment Card Industry Standards – IT Review | Strategic Audit Plan | To commence January 2011. |
| ITIL / GSX compliance | Strategic Audit Plan | GSX email project is complete. This provides a secure e-mail service to government bodies. ITIL compliance is a work in progress that will span a couple of years. |



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|----------------|----------------------|---|
| Systems access | Strategic Audit Plan | CHRIS Security and access controls are currently under review. The Computer Auditor is taking an active role in the process to ensure that security arrangements meet recognised standards – ongoing. |
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REPORT

To: Audit and Scrutiny Committee

15 November 2010

From: Human Resources Manager

Promoting Attendance Up-Date
Report No. CE-38-F

1. Introduction

- 1.1 Members of the Audit and Scrutiny Committee have asked for regular up-dates on progress made in regard to improving the Council's sickness absence levels. This report looks at the position at the 6-month stage of the current financial year, taking account of the Statutory Performance Indicators (SPI's) on absence for 2009-2010, other statistical data on absence and relevant bench marking information.
- 1.2 Central Safety Committee are also interested in these regular updates and have requested further information on the impact of the introduction of Fit Notes.

2. Links to Council Priorities

- 2.1 The Council's Corporate Plan 2008-11 contains a specific target to "Reduce the employee sickness absence rate for the whole Council to less than 4.5%, thereby ensuring that the Council is ranked in the top 8 Councils in Scotland".
- 2.2 There are no risks associated with this report as it is for noting.

3. Statistical Data – Statutory Performance Indicators

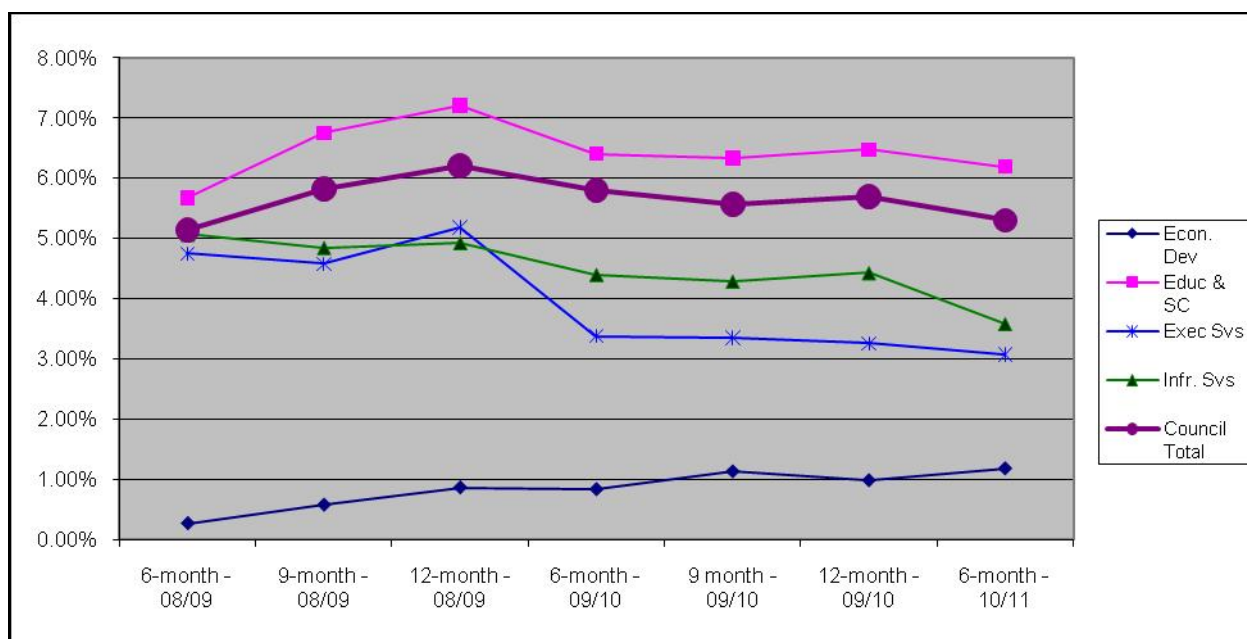
- 3.1 The Head of Organisational Development reported on the Council's performance in relation to all SPI's at the September meeting of the Audit and Scrutiny Committee. SPI Indicator 1, asks for "the average number of working days per employee lost through sickness absence for local government employees and craft workers, and for teachers, and the Council's position is as follows:

| Specified Group | SIC Av days lost 08/09 | SIC Av days lost 09/10 | SIC Av days lost 10/11 first 6 months |
|----------------------------------|------------------------------|------------------------------|--|
| Teachers | 5.3 days | 6.8 days | 5.1 days |
| Other local government employees | 13.3 days | 12.2 days | 11.4 days |

- 3.2. The Scottish average days lost in 08/09 was 7.4 days for teachers and 12.5 days for other employees. In 2008/2009, Shetland Islands Council was ranked 2nd in Scotland for teachers absence, and 20th in Scotland for other employees.
- 3.3 The 2010/11 6 month figure for both SPI's reflects improvements from the 09/10 SPI rate. For teachers it is similar to the 08/09 average days lost. The increase in the 09/10 figure for teachers reflected a marked increase in long term absences compared with the same period the year before for this employee group.
- 3.4 The SPI figure has changed in recent years from % days lost to average number of days lost, and the categories have changed. Never-the-less, when collating current SPI's the Human Resources Service continue to make a % time lost calculation and this shows that for teachers the position at the first 6 months of this year (2.6%) is the lowest absence rate since these SPI's were collated in 03/04, with the previous best being 3.2% time lost in both 04/05 and 05/06. For non teachers, again the position for the first 6 months of this year is 5.1% comparing against the previous best of 5.7% which was gained in 05/06.
- 3.5 Audit Scotland provides the 2009/2010 SPI's for all Scottish local authorities early in the new year, and that will show this Council's performance relative to others.

4. Statistical Information – Other Data

- 4.1 As well as gathering data for SPI reporting, the Human Resources service collates management information on absence, reflecting days lost and numbers of instances of absence quarterly, by service. The chart below compares % time lost at departmental level, over the last two years.



- 4.2 This data shows the overall Council days lost figure has improved slowly over the last 18 months, and that the trend by the three large departments shows the same improvement.

- 4.3 Appendix 1 sets out data over the same period by Service. This data is to be provided to CMT for performance management review & monitoring and to each Head of Service. As members will appreciate the size of service area varies considerably and for smaller services statistics can be skewed by one or two employees having a long-term absence.
- 4.4 The Education and Social Care department represents 79% of the Council's employees, and so the absence levels in the department impact proportionately greater than other departments on the Council's overall absence figures. In the Education and Social Care department in 08/09 7.2% of available time was lost to sickness, in 09/10 that had improved to 6.5%, and for the first 6 months of 10/11 that had improved again to 6.2%. Despite this sustained improvement the department is still well outside the target of 4.5%.
- 4.5 Within the same period the departments of Infrastructure Services and Executive Services, and the Economic Development unit have improved their absence rates to achieve the 4.5% target, with most services in these departments meeting the Council target. It is heartening to note that the 2010/11 6-month figure for Infrastructure Services and Executive Services also shows that this improvement is being sustained, with Infrastructure having a 6-month figure of 3.6%, improving from 4.4% in 09/10, and Executives Services coming in at 3.1%, improving from 3.3% in 09/10.
- 4.6 Absence management information is also collated in relation to duration of absences and causes of absences. This data shows that the number of employees who had prolonged absences (7 months or over) has reduced considerably in the last two years, demonstrating again that increased management focus on absence management is showing improvements.
- 4.7 In regard to causes of absence, as may be expected for shorter absences, the most frequent reasons are Infectious, Gastrointestinal and Neurology. For longer term absences the main causes relate to musculoskeletal, mental Health and serious health conditions.
- 4.8 This is consistent with benchmarking information from a Chartered Institute of Personnel and Development (CIPD) survey on absence management trends, policy and practice looking at absence in the calendar year 2009, which reports acute medical conditions, musculoskeletal and stress are the most common causes of long term absence. However, where Shetland Islands Council differs from the trends in the CIPD survey is in the proportion of absence due to short term leave of up to seven days. The CIPD survey shows that on average two-thirds of working time lost is due to absences up to 7 days, while in the Council the position is reversed with over two-thirds of time lost due to absences over 7 days. The survey also shows that in public services and organisations with more employees the greater proportion of time lost is to longer term absences.

5. Developments

- 5.1 The Council's policies and procedures in the area of absence management are well established, and training is provided through Train Shetland, supplemented in recent years through ACAS training services. The methods for dealing with short term and long term absence in the council incorporate return-to-work interviews, trigger mechanisms to review attendance, involvement of occupational health professionals, provision of information and support to

managers, phased returns to work and consideration of other adjustments, and welfare services.

- 5.2 Consideration has also been given over the last two years to a more proactive approach to absence management and attention has been given to improving management information and to efforts to promote employee wellbeing. The Council is committed to work through the Healthy Working Lives awards programme taking forward action in areas highlighted through a needs analysis. The Employee Health Checks programme has been relaunched during 2010 and 109 employees have benefited from these so far this year and the Council has also participated in the British Heart Foundation "Know your numbers" campaign this year.
- 5.3 The high incidence of absences attributed to mental health and behavioural reasons in Shetland is consistent with the position across UK organisations as described in CIPD bench-marking information. Through the Welfare Officer, council employees can access external counselling and in 2009/10 ninety-nine employees were supported in this way, at an average cost of £185 per employee. Of those employees who completed the post-counselling questionnaire 84% reported that counselling helped them to stay in work or return to work quicker. Of the respondents 30% felt counselling fully helped in resolving their difficulties and 67.5% felt counselling partially helped. The first 6 months of 2010/11 has seen a reduction in requests for counselling, with 38 employees being supported in this way, costing an average of £135 per employee.
- 5.4 While there have been undoubted improvements in the provision of absence information these have in the main allowed for better reporting on historical data. The Internal Audit service are currently undertaking a corporate audit in Absence Management and while the Service Manager will report findings to the next Audit and Scrutiny Committee he has provided summary details to this regular review of Promoting Attendance. This summary notes a fairly poor compliance with triggers set out in the Absence Management policy across a corporate sample, a relative lack of training attended by those responding to the questionnaire, a gap in consistently identifying when triggers are met for return to work interviews and a desire for more guidance in dealing with difficult cases. Human Resources will take account of the findings of the audit and are currently exploring other methods of supporting managers, including surgery style case reviews and one to one coaching.
- 5.5 A Lean event took place in 2009/10 with the goal of designing one standardised system, providing real-time data for managers on sickness absence. The Lean team resulted in some improvements to recording and these improvements are reflected in the information provided in this report. However the issues identified in workflow and the provision of more timely information were identified as being more properly addressed through utilising the possibilities through the Council's Human Resource and Payroll System and this is being considered by the Chris21 Project Board. The Project Board agreed at its last meeting that sickness/absence recording and reporting will be progressed.
- 5.6 In April 2010 the Department of Work and Pensions introduced the Statement of Fitness to Work note, replacing the previous sicknote. The aim of the change was to encourage employees, employers and doctors to consider whether an employee may be fit to return to work from a period of sickness absence if he or she could do some, or all, of the job with support. A public awareness

campaign was run by the DWP when the change was made. Within the council information was provided to administrators, managers and employees regarding the change, and systems put in place to accommodate consideration of adjustments.

- 5.7 Employing departments and the Payroll service have noted that since the introduction of the fit note most periods of sickness requiring a doctor's certificate for council employees have been provided as "not fit for work" and this appears to be consistent with the experience of other employers. The change to Fit Notes appears to have made little impact on absence levels in the Council.

6. Financial Implications

- 6.1 Sick pay entitlements are based on National Local Government Conditions, and Statutory Sick Pay requirements. In the last financial year the Council paid out over £2.25 million in sick pay. The 6-month figure for the current financial year is over £1.18 million which shows a likely increase at year end. Although the % time lost is reduced this year on last year's figure the increase in sick pay may be related to the increased number of employees (Manpower Watch December 2009 is 4122, FTE 2666 and September 2010 is 4136, FTE 2739 with the increase predominantly in the Social Work category).
- 6.2 As reported to Audit & Scrutiny on 1 March 2010, provided employee numbers do not increase, each reduction of 1% in absence could provide £398,976 in savings.

7. Conclusions

- 7.1 The SPI figures for 2009/10 and the 6-month figure for 2010/11 show sustained improvement in absence figures. In the departmental breakdowns, the target of absence below 4.5% has been met in 2009/10 and in the first six months of 2010/11 in the Economic Development unit, Infrastructure Services and Executive Services, and although Education and Social Care is still outwith the target, the department has shown steady improvement towards it.
- 7.2 Opportunities must continue to be taken to improve management information, particularly in the provision of more timely information. Ensuring managers have the skills required to manage absence consistently and to provide appropriate support to employees remains a high priority, so that absence targets are achieved.
- 7.3 Improvements in attendance will contribute towards necessary financial savings and assist in better service delivery.

8. Policy and Delegated Authority

- 8.1 The role of the Audit and Scrutiny Committee is to carry out a corporate scrutiny role to evaluate the effectiveness of the Council as an organisation to ensure that effectiveness is actively monitored and measured, as detailed in section 10 of the Scheme of delegation.

- 8.2 The role of the Central Safety Consultative Committee is a consultative one and focuses on all matters concerning the Health, Safety and Welfare of all Council employees as well as the Health and Safety of anyone affected by the Council activities.

9. Recommendation

- 9.1 I recommend that the contents of this Report and Appendices are noted.

Date: 1 November 2010
Ref: MG/BP

Report No: CE-38-F