Agenda Item
1

Shetland Islands Council

Executive Committee	**28 November 2011**
Shetland Islands Council	**7 December 2011**
Audit and Standards Committee	**15 December 2011**

Final Audited Accounts 2010/11	
F-042-F	
Report Presented by Head of Finance	**Finance Service**

1.0 Summary

1.1 The purpose of this report is to present the final signed and audited accounts for 2010/11 for approval and to receive Audit Scotland's Annual Report on the 2010/11 Audit.

2.0 Decision Required

2.1 The Executive Committee is asked to RECOMMEND to the Council:

a) approval of the final signed and audited accounts for 2010/11; and

b) note Audit Scotland's Annual Report on the 2010/11 Audit and approve the Action Plan.

2.2 The Executive Committee is further asked to APPROVE the Action Plan devised to address the audit risks; and

2.3 The Audit and Standards Committee is asked to CONSIDER the Annual Report, the Action Plan, and the Finance Service Improvement Plan and make comment as appropriate.

3.0 Detail

3.1 The Annual Audit Plan requires the Council to receive the Annual Report and Certified Accounts by December 2011. These are included at Appendix 1.

3.2 The accounts remain qualified in respect of the Council's not grouping the accounts with those of Shetland Charitable Trust. The Council continues to work towards reaching a resolution to this matter with Shetland Charitable Trust in time for preparation of the 2012/13 accounts.

3.3 The 2010/11 Annual Report from Audit Scotland contains a number of risks that require to be addressed. The Annual Report is enclosed as Appendix 2 to this Report. The risk areas identified are:

- resolving the group accounts qualification
- ensuring the 2011/12 final accounts closedown is adequately resourced, pro-activity managed and that the accounts are prepared code compliant and in a timely manner
- adequately resourcing the finance function, including appointments to key posts
- preparing to comply with charity accounting regulations
- developing further the reporting arrangement on budgets
- addressing the slippage on the capital programme
- ensuring compliance with the reserves policy
- completing the risk management arrangements

3.4 An Action Plan to address these issues has been drawn up and is included as Appendix B: Action Plan (part of Appendix 2). The Action Plan is realistic and achievable within the timeframe.

3.5 A separate Appendix 3 is included in the revision of this report for Audit and Standards Committee, comprising a copy of the Finance Service Improvement Plan as approved by the Executive Committee (appears as a separate item on the Executive Committee agenda).

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The preparation and presentation of the Accounts is a key element of the Council's overall governance and reporting arrangements.

4.2 Community /Stakeholder Issues – NONE.

4.3 Policy And/Or Delegated Authority –The Audit and Standards Committee remit includes consideration of all reports from the external auditors, including the External Auditor's Annual Report and to review the Council's financial performance as contained in the Annual Report. The Executive Committee's remit includes overseeing the financial affairs of the Council. Receiving the unaudited and audited accounts of the Council and related certificates and reports is a matter reserved by the Council

4.4 Risk Management – The Final Accounts and the Annual Report from Audit Scotland includes the identification of key financial risks and internal control arrangements in place to manage those risks, together with any improvement actions required.

4.5 Equalities, Health And Human Rights – NONE.

4.6 Environmental – NONE.

Resources

4.7 Financial – NONE.

4.8 Legal – NONE.

4.9 Human Resources – NONE.

4.10 Assets And Property – NONE.

5.0 Conclusions

5.1 The Council is required to prepare and publish a set of Accounts, within a set timescale. The accounts are then subject to external audit and currently Audit Scotland is the Council's nominated auditors. Audit Scotland has now certified the accounts as being a true and fair statement of the Council's financial position at 31 March 2011, except in one respect. The Accounts remain qualified in respect of the non grouping of accounts with those of Shetland Charitable Trust. Audit Scotland have provided an Annual Report of the 2010/11 accounts and have identified several areas of risk which require to be addressed. An Action Plan has been agreed to ensure that those risks are well managed and resolved, within a reasonable timeframe.

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15 November 2011

List of Appendices

Appendix 1: Final Audited and Certified Accounts 2010/11

Appendix 2: Annual Report on 2010/11 Accounts by Audit Scotland

Appendix 3: Finance Service Improvement Plan

Background documents:

NONE.

END

Shetland Islands Council

Statement of Accounts 2010/11

Contents

Introduction

Welcome to the Council's accounts for the year 2010/11. These look very different from those that you will be used to seeing in the past. In particular, this year we have been required to adopt a new approach to the presentation of the Accounts.

This is intended to make the information presented more relevant and to give you a better understanding of the most significant financial matters that have affected the Council and the wider group of organisations covered by the Accounts.

Nonetheless the accounts remain, as they must, a rather technical document but I hope that the Explanatory Foreword will help you better understand the financial affairs of the Council. The Explanatory Foreword below does not comment on policies but concentrates on trying to explain the financial facts in respect of 2010/11.

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance, year-end financial position and cash flows in a concise and understandable manner; for ease of understanding and in the interest of conciseness the foreword is structured under broad headings below.

The Regulatory Framework

First of all it is helpful to understand the regulatory framework within which the authority works. In Scotland the local authority accounting framework is enacted as follows:

- section 96 of the Local Government (Scotland) Act 1973 requires Scottish authorities to keep accounts;

- section 12 of the Local Government in Scotland Act 2003 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), supported by International Financial Reporting Standards (IFRS), the Best Value Accounting Code of Practice, the Prudential Framework and other statutory guidance issued under section 12 of the 2003 Act, defines proper accounting practices for local authorities in the UK;

- the Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No.2011/64) amended the Local Authority Accounts (Scotland) Regulations 1985 (SI No.1985/267) to require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts;

- under paragraph 3 of the Local Authority Accounts (Scotland) Regulations 1985 (s1 1985/267, Finance circular 5/1985) the "proper officer" is formally responsible for the form of accounts; the Code requires this officer to sign, date and submit the un-audited statement of accounts to the authority and the Controller of Audit by 30 June.

The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2010. The overriding requirement of the Code is that the Statement of Accounts provides a true and fair view of the financial position and the financial transactions of the authority. The Code reiterates the primacy of legislative requirements whereby the overriding principle of local authority accounts is that, where an accounting treatment is prescribed by law, the legal requirement must be applied even where this contradicts accounting standards.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2011 and its cash flows. All monetary amounts shown in the statements are rounded to the nearest one thousand pounds for the purposes of presentation. The Statement of Accounts is prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code.

The four primary statements and their relationships are explained in more detail below:

- **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and those that the authority is not able to use to provide services but must set aside under statute and accounting regulations.

  The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services which is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for setting Council Tax and dwelling rents.

  The Net Increase/Decrease before Transfers to Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from reserves are undertaken by the Council.

- **Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (GAAP), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement, as explained above, and the adjustments made between the accounting basis and the funding basis to reflect the amount available to the authority to meet future capital and revenue expenditure is disclosed at note 7.

- **Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement** – this shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

Financial Performance – Budget Out-turn

Council services are paid for from national taxation by way of a grant from the Government, non-domestic rates; local taxation by way of the council tax and more generally from fees and charges. The Council is also able to draw on income which it generates from reserves to pay for services and projects.

The Council's financial performance is presented in the four primary statements. The out-turn position for each of the budgeted funds, excluding accounting practice adjustments, as compared to the budget set is summarised below.

Further details were presented in a report to the Executive Committee of the Council on 4 July 2011, which is available on the Council's website.

2010/11 Budget v Expenditure	Original Budgeted Draw on Reserves £m	Revised Budgeted Draw on Reserves £m	Actual Draw on Reserves (after capital trfs) £m	Revised Budget v Actual Variance Fav/(Adv) £m
General Fund Revenue	2.000	15.070	14.740	0.330
Reserve Fund Revenue	11.366	11.366	11.050	0.316
Harbour Account	(3.898)	(3.898)	(2.357)	(1.541)
Housing Revenue Account	(0.398)	(0.398)	0.489	(0.887)
Capital	31.300	31.300	7.350	23.950
Total	**40.370**	**53.440**	31.272	22.168

The main variances against revised budget arose in the following areas:

- a net underspend of £0.330m on the General Fund;

- a net underspend of £0.316m on the Reserve Fund, mainly to do with the scheduling of grant aid expenditure;

- a net reduction in the contribution to the Reserve Fund, from surpluses on the Harbour Account of £1.541m, mainly due to reduced income streams;

- a net overspend of £0.887m on the Housing Revenue Account from meeting new build capital spend from revenue;

- a net underspend of £23.950m on capital, of which £4.060m was transferred to revenue, with the remainder being slippage or revisions to the programme, i.e. projects not commencing as originally anticipated in 2010/11.

In 2010/11, the Council continued to face significant financial pressures. Potential future pressures relate to the general economic climate such as:

- the potentially lower level of returns on funds invested in equities;

- the reduction in direct government support through the revenue support and capital grants;

- reduction in household income and the ability to pay for goods and services and Council Tax.

From a service perspective there is a growing need for community care and services for people with learning disabilities, increases in fuel costs impacting on the transport network and the severe weather resulting in increases to the winter maintenance service.

The Council was successful in securing a new income stream from the gas processing plant, based at Sullom Voe, which was a very welcome increase in industry at a time of more general economic recession.

During the year, the Council undertook some significant service redesign projects, with a view to achieving significant savings in areas where efficiencies could be implemented. The projects were called "Ports for the Future" and the "Education Blueprint" and both projects have made significant contributions to delivering ongoing revenue savings. A different model of providing community care was developed, through an extra care housing scheme, which is a more cost effective model than permanent care places. That work is continuing into 2011/12, alongside a new drive for efficiencies and some focused best value reviews around community care and infrastructure services.

The Chief Executive introduced a Vacancy Management Panel, to critically review the Council's approach to recruitment to vacant posts. This system, alongside general budget pressures, has created a slow down and stabilisation of overall staffing numbers, so helping to manage staffing costs. Reducing the Council's overall staffing costs by a significant amount will be a key part of the 2011/12 savings process.

The start of the process of management reform saw the amalgamation of some posts, following the early retiral of some senior managers. That work continues into 2011/12 with the formal approval of a management review, which has a target saving of fifteen senior management posts and £1 million per annum.

Another key area of cost is property costs. The Council had developed a specific project to look for savings and efficiencies in the way in which it uses property. There will be a drive to find uses for, or dispose of, vacant properties and a concentrated effort to support dispersed working and shared services across all areas of Shetland.

The Council's financial policy framework since 2005 has been made up of several elements:

- General Fund reserves (mainly the Reserve Fund, Capital Fund and Repairs and Renewals Fund) should be maintained at no less than £250 million (the Reserves Floor Policy).

- Use of reserves to support General Fund revenue spending to be reduced by a minimum of £1 million per year (with a target level of £1 million in 2011/12 and £0 thereafter).

- Use of reserves to support the General Fund Capital Programme should be constrained to levels consistent with the Reserves Floor Policy. Initially the target was £20 million per year, subsequently modified to a Programme of no more than £100 million over five years.

In 2010/11 the Council budgeted to draw £40.370m from reserves, in order to balance the accounts. However, the actual draw on reserves in 2010/11 is £31.272m. The overall impact of the projects and services provided during 2010/11, and funded from reserves, is that the Council has ended the year with a balance on reserves of £268.899m. This is a reduction in reserves from the previous year of £4.856m. This is less than the estimated draw on reserves as there were exceptionally high gains on the sale of investments, interest and dividends due to very good market conditions.

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2010 £m	Closing Balance 31 March 2011 £m
Capital Fund	(117.625)	(108.404)
Capital Efficiency/Spend to Save Reserve	0.000	(5.000)
Reserve Fund	(66.752)	(61.621)
Repairs & Renewals Fund	(74.318)	(62.900)
General Fund Balance	0	(3.000)
Revenue Efficiency/Spend to Save Reserve	0	(0.500)
Potential Contingent Liabilities	0	(11.400)
Discretionary Reserves	**(258.695)**	**(252.825)**
Marine Superannuation Fund	(2.974)	(2.582)
Pilot Boat Renewal Fund	(0.944)	(0.942)
Housing Repairs & Renewals Fund	(10.577)	(12.035)
Quarry Repairs & Renewals Fund	(0.150)	(0.150)
Insurance Fund	(0.254)	(0.222)
Hansel Funds	(0.083)	(0.090)
Central Energy Efficiency Fund	(0.077)	(0.052)
Ring Fenced Reserves	**(15.059)**	**(16.073)**
TOTAL	**(273.754)**	**(268.898)**

The overall level of reserves of £268.898m is in accordance with the long-term strategy for maintaining the financial policies of the Council. However, when the funds to be used for specific purposes are deducted, the level of reserves held for general use falls to £252.825m, just above the financial policy floor of £250 million set by the Council.

The reserves held are more than adequate to manage risks and unplanned expenditure in the short term. However, there is a significant risk that the Council's reserves will be fully used in a short period of time if expenditure levels are not brought into line with the level of income able to be generated.

The Council is taking immediate steps to address this financial risk by bringing forward the financial planning process for 2012/13 and started that process in July 2011. It has recognised the need to pro-actively manage the exercise as a significant change management project, involving all staff and the local community.

A risk has been identified that not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but over time, if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The Council has no external debt at 31 March 2011.

The Council agreed, in November 2010, a Corporate Improvement Action Plan, to address concerns raised by the Accounts Commission. The detail of that process is set out in the Governance Statement. The concern surrounded the Council's capacity to deliver the overall financial strategy with specific recommendations for improvement as follows:

- The Council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.

- The Council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management.

- The Council should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.

The Council is making progress in addressing these high-risk issues. The Council agreed to support the work of all the actions in the Corporate Improvement Action Plan through an investment in a £1 million improvement budget.

The Council continues to work closely with Shetland Charitable Trust to resolve the qualification on the accounts. The planned actions should resolve this issue for the 2012/13 accounts.

The emerging picture for next few years' financial predictions is that the gap between income and expenditure on the revenue account will be about £25 million, off-set by any ongoing savings achieved in the current year. The extent of the savings required is such that the Council has put in place early arrangements to tackle the budget deficit. This work will include a process of staff and community engagement, to help councillors to make choices over the services provided, the level of service provided and the quality of service provided to this community. Alongside this work, the Council is updating its corporate priorities, through a process called "scenario planning" to take a long term view of how the Council can contribute to Shetland remaining a vibrant, safe and healthy place to live and work.

Accounting Ratios

CIPFA Scotland Directors of Finance Section, working with Audit Scotland, are developing a suite of accounting ratios for incorporation into the financial statements.

The planned indicators are intended to represent a Council's sustainability and the affordability of its financial plans. They will also aid the Council to demonstrate the effectiveness of its financial management.

Unfortunately, the planned suite of ratios has not been finalised by CIPFA in time for inclusion within the 2010/11 financial statements but this Council is committed to including them from 2011/12 onwards.

Material Items of Income and Expenditure

Pension

The Council is still the administering authority for the Local Government Pension Scheme and more details of what this means are included in Note 33 to the accounts. However, it is worth noting that the Pension Fund accounts are no longer included within the Shetland Islands Council's financial statements. This is because there is now a statutory requirement for the publication of a separate Pension Fund annual report. Any person interested in obtaining a copy of the Shetland Pension Fund financial statements can do so by going to the following web link:

http://www.shetland.gov.uk/council/documents/Shetland Islands Council Pension Fund Account 2010-11.pdf

It is worth mentioning that as at 31 March 2011, the Council's Pension Fund had a net pension liability of £91.113m, a significant reduction from the previous year's figure of £147.169m. This arose mainly, but not wholly, from upward movements in fund assets and changes in the way in which inflation is applied to future pension increases (i.e. future pension increases will be linked to CPI rather than RPI), as introduced by the Chancellor of the Exchequer in his statement on 22 June 2010.

We continue to monitor and measure this pension liability and make changes to cash contributions as required as part of the regular assessment made by an independent actuary.

It should be noted that the 10/11 net pension liability (source: Hymans Robertson LLP "IAS19 as at 31 March 2011 – Results Schedule") at time of writing is an unaudited amount.

Changes in Accounting Policies

A move to an IFRS based code of practice from a UK GAAP based SORP has resulted in a number of significant changes to accounting practice. The date of transition to the Code was 1 April 2009. The IFRS 1 - First Time Adoption of International Financial Reporting Standards requires retrospective application of accounting policy changes although in limited circumstances it permits exceptions to this requirement.

The Code clearly specifies which exemptions from retrospective application are available to local authorities. Shetland Islands Council has applied the following exemptions in accordance with the Code:

- **Depreciated Historical Cost** - the Code states that the depreciated historical cost of an asset at 1 April 2009 (the transition date) is its depreciated historical cost at 31 March 2009 under the SORP. With the exception of assets where the carrying amount is restated due to other accounting policy changes (for example, leased assets and non-current assets held for sale), the authority is required to carry forward depreciated historical cost figures without any restatement.

- **IFRIC 4** - Shetland Islands Council reviewed its contracts and other arrangements existing at 1 April 2009 under IFRIC 4 to determine whether any contained (the substance of) a lease whereby the authority would be required to account for those leases retrospectively from the date of commencement of the lease but none were found to contain the substance of a lease.

Details of Shetland Islands Council first time adoption can be found on page 39.

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for administering and safeguarding public money received from national and local sources, on behalf of the community. The Council is also responsible for ensuring that its business is conducted in accordance with legislation and proper standards and that public money is used properly, safeguarded and accounted for appropriately. Further, the Council has a duty to secure "value for money", sometimes referred to as economy, efficiency and effectiveness, and "best value" in all its spending decisions. We, as Chief Executive (Alistair Buchan) and Head of Finance (Hazel Sutherland), acknowledge our responsibility for ensuring that an effective system of overall governance and internal financial control is maintained and applied.

In general terms, the Council Members, led by the Leader, are responsible for setting the strategic direction for the Council and deciding on key policy objectives, of both a financial and service nature. The Council staff, led by the Chief Executive as Head of Paid Service, is responsible for putting in place the appropriate systems to make sure that the policy decisions taken by Council Members are implemented. How this process works, the decision-making and implementation, is referred to as the governance arrangements of the Council.

The Governance Framework

The governance framework covers some key elements and processes, as set out below:

- The legal powers, duties and functions of the Council and roles and responsibilities of the people who take decisions on behalf of the community.

- The levels at which decisions can be made, referred to as the Scheme of Delegation.

- The Administrative Regulations and the rules around how committees are run and decisions are made.

- The Financial Regulations and rules about contracting with other parties.

- How the Council performs in delivering services and securing value for money.

- The process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

There are also a number of key documents which combine to create the governance arrangements, as follows:

- In response to the funding which the Council receives from the Scottish Government through national taxation, the Council has committed, through **the Single Outcome Agreement,** to achieving certain targets and improvements across services which are deemed to be a priority at national and local level. Often, this work is done in partnership with other public, voluntary or private sector organisations.

- The key objectives which this Council has signed up to deliver, drawn from the Single Outcome Agreement and local members' commitment to their constituents, are drawn together into the **Corporate Plan.**

- Shetland Islands Council administers a number of funds held on behalf of the community and a key strand of the governance arrangements relates to how that money is invested, what level of reserves to hold for future generations and formal approval of the spending plans each year. Looking after the Council's finances covers six key strands:

  - Medium and Long Term Financial Planning;
  - Fund and Investment Management;
  - Budget Strategy;
  - Budget Approval and Management;
  - Accountability and the Final Accounts;
  - Risk Management and Insurance.

A key element of making sure that everything works is to have good connections between all the different elements of governance and have good relationships between Council Members and staff, through a shared culture, shared objectives, shared values and shared behaviours. This is set out in Codes of Conduct for Council Members and staff. Where concerns around the conduct of Council Members are felt to have taken place, referrals can be made to the Standards Commission for Scotland. A range of human resources policies are in place to support concerns and complaints raised against staff.

The Council is planning to formally approve a Code of Governance, based on best practice guidance.

The Governance Framework

The overall objective of the Council, through the Single Outcome Agreement and the Corporate Plan, approved in June 2010, is to secure the long-term economic health of the community by ensuring that we maintain our economically active population.

Flowing from that overall objective are a range of strategic and service specific targets, such as:

- ensuring the economy is healthy and diverse by growing the private sector;

- meeting Shetland's skills and learning needs to support the growing economy;

- intervening early to minimise or eliminate poverty and deprivation and promote healthy lifestyles;

- establishing patterns of early intervention to help young people, adults and families to live safely and independently and fulfil their full potential;

- providing affordable housing; and

- making sure we organise and carry out all business properly.

The Council is not able on its own to solve all the social, economic and environmental issues facing the community. The Council therefore works with other partners to provide services which are joined up around the needs of individuals, families, organisations and communities. This work is often formalised through partnership agreements, which have been established to tackle specific issues, such as: the Community Health and Care Partnership; the Community Safety Partnership; the Skills and Learning Partnership and the Carbon Group.

Priority areas that the Council, with its partners, set out to achieve progress on throughout the year were:

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 outwith Shetland on the interconnector. First phase of the Smart Grid project is on schedule for implementation later this year.
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 over a period of 20 years to Council in 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 Action Plan and achieving long-term financial policy objectives. However, due to the current financial context, risks remain in meeting targets.

The Council's decision-making structure was based around three main committees, each reporting to the full Council, namely: Infrastructure, Development and Services Committees. These Committees, led by a Chair and Vice Chair, held the responsibility for developing strategies and policies across the range of local government services, alongside the resources and money required to deliver those services.

In May 2011 the Council renewed the governance arrangements. The Council has introduced a committee structure around four strategic groupings: Environment and Transport; Economic Development; Social Services; and Education and Families. A refreshed policy and performance framework underpins the new governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies.

The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with a new Executive Committee. The Executive Committee also has responsibility for overall financial planning arrangements, the reserves policies, budget setting and monitoring. The decision-making process is appropriately supported and challenged through the Audit and Standards Committee, with a remit to oversee standards within the Council.

The Committees ensure that their decisions are implemented by: drawing up action plans and receiving progress reports; setting and monitoring performance targets; and receiving budget monitoring reports on revenue and capital spend. From time to time, committees receive reports on performance from external scrutiny bodies, such as: the External Auditors; the Housing Regulator; the Social Work Inspectorate; and Her Majesty's Inspector of Education.

At the beginning of the financial year 2010/11, there were complaints against four councillors outstanding. The complaints against all four were investigated and in relation to two were not upheld, but in the case of the other two a report was submitted by the Chief Investigating Officer to the Standards Commission. Following a hearing where the breach was admitted under mitigation, the Commission handed down a sanction of "censure" against the two councillors: the circumstances were reported to a meeting of Shetland Islands Council on 27 October 2010.

During 2010/11, three further Standards Commission complaints against five councillors were lodged but all of those were dismissed, there being no discernible breach warranting further formal investigation.

The financial strategy of the Council is to maintain reserves levels at £250 million. The underpinning philosophy to this policy is to maintain the capital sums for future generations to enjoy. Shetland, given its remote location, has seen many periods of economic downturn in its history. In times of relative stability and economic health the Council considers it appropriate to set aside funding for future use, should difficult economic times occur again. The Council agrees each year, as part of the budget setting process, how much money will be drawn from reserves to pay for services and specific projects.

A detailed analysis on the finance policy and reserves' levels is included at page 8.

The Audit and Standards Committee's remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised. As well as an annual plan, the Committee can call for one-off reviews to investigate a particular issue. The Council's Service Manager Internal Audit reports directly to the Audit and Standards Committee.

The Internal Audit Service reports directly to the Council's Section 95 Officer, the Head of Finance, and has direct access to the Chief Executive, if required. Working to an annual audit plan, their work is endorsed to ISO 9001:2008 quality standard for systems based audit work.

The Audit and Standards Committee also holds responsibility for the Council's Risk Management arrangements. The Council employs a dedicated Safety and Risk Manager to ensure that the Council's arrangements for strategic and operational risks are robust and embedded in day-to-day work practices. A risk management board supports this work, with representatives from each service department. The Council has secured external assistance to develop a comprehensive set of Business Continuity Plans across all service areas. These plans set out what actions the Council will take to maintain service delivery in the event of a major incident or emergency.

The Chief Executive chairs the Central Safety Committee, with representatives from service departments and unions. Clear lines of communication and reporting are established between departmental health and safety forums through to this strategic forum, to ensure that all risks associated with health and safety matters are acknowledged, resourced and addressed.

The formal approval of the Budget each year gives staff the authority to spend money and raise charges for services delivered to the community. The Financial Regulations explain the rules under which decisions and choices on how to spend money can be made, with a focus on value for money. The highest proportion of Council expenditure is on staff and assets.

The Council has a range of policies and procedures relating to staff. The Performance Review Policy seeks to ensure that there is a good connection between the strategic direction of the Council, the priorities of each service area and the work of all staff, including front line staff. The Council has an approved Code of Conduct and a Policy on Reporting Concerns at Work is in place. A system of formally responding to complaints exists, with a referral and review process through to senior managers.

A formal investment appraisal system has been established for capital expenditure decisions, known as the Gateway Process. This aims to ensure that options have been fully explored before decisions to incur capital expenditure are made, in order that value for money can be demonstrated. All capital spending proposals are drawn together into one overall capital plan. The process involves a formal project management approach, with clear stages and roles and responsibilities.

A project management approach, using PRINCE methodology, also underpins all the investment decisions for ICT systems and product development.

As part of the Final Accounts work, potential and actual contingent liabilities are identified and actions agreed to mitigate the risk of cost or loss to the Council. A review of financial performance is also carried out so that cost pressures and financial risks can be identified and managed.

The Corporate Management Team receives regular progress and performance reports on all aspects of the work of the Council, to identify problems or issues which need to be resourced or alternative solutions found in order that the Council may deliver on its stated objectives.

Review of Effectiveness

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by:

- direct feedback from members of the public through a variety of mechanisms including the local media and formal consultation exercises;

- progress towards key strategic and service objectives, as demonstrated through reporting on targets and performance;

- financial and budget monitoring, including comparisons on cost and quality through benchmarking exercises;

- Internal Audit reviews on specific services and on activities which occur across the Council;

- the work of managers within the Council, which will include self evaluation against key performance standards such as the Best Value 2 Framework, How Good is Our School, Balanced Score Card, and ISO:9001;

- the Annual Report and Accounts;

- external inspections and quality assurance reports and recommendations for improvement; and

- External Audit and the Accounts Commission observations, comments and recommendations for improvement following Best Value and/or Financial Accounting audit work, including the Assurance and Improvement Plan.

The Council's external auditor, Audit Scotland, reports to the Accounts Commission through the Controller of Audit. The Accounts Commission's role is to help ensure that public money is spent properly, efficiently and effectively. It is responsible for the audit of all local authorities, police and fire and rescue joint boards and other similar public bodies. The Commission operates independently of local authorities and of the Scottish Government, and it reports in public. Where the Accounts Commission has concerns about the operation of a public body, it can call for further reports to investigate the issues in more detail.

In 2009/10, for the fourth consecutive year, Audit Scotland gave a qualified opinion on the financial statements of Shetland Islands Council, with respect to an issue over the grouping of accounts with Shetland Charitable Trust.

The 2009/10 audit work also identified a significant number of late adjustments to the financial statements and areas of non-compliance with accounting requirements, to the extent that Audit Scotland expressed concerns over financial stewardship. Concerns were also expressed over the Council's ability to achieve savings that would enable it to live within the financial policy framework set.

In December 2009 the Commission expressed serious concerns about Shetland Islands Council. The Controller of Audit therefore called for a report under Section 102(1) of the Local Government (Scotland) Act 1973. At the time, the Chair of the Accounts Commission stated that, "the qualifications may be symptoms of deeper problems at the Council. Bearing in mind the Council's duties to deliver best value to local people we have decided to seek further evidence from Audit Scotland on how the Council is being run".

This led to the Accounts Commission holding a public hearing on 28 and 29 June 2010, where a wide range of areas for improvement were discussed in respect of the Council's governance arrangements. The Hearing provided an opportunity for the Commission to hear at first hand from the Council on how it was addressing the concerns raised by Audit Scotland.

The recommendations from the Public Hearing, as set out in a Report by the Controller of Audit, are set out below in full.

Recommendations

The Commission makes the following recommendations to Shetland Islands Council:

The Council must put in place a comprehensive programme of improvements as a matter of urgency to address the issues we have identified. The programme should set clear objectives, milestones and timescales for delivery.

This programme of improvements should ensure that:

- the Council can develop the leadership, governance and strategic direction it requires;
- there is the 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.

In particular, the programme of improvements should address the following specific recommendations:

a) The Council should establish a comprehensive programme of training and development to be undertaken 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. This programme should ensure that:

   - councillors, in particular those holding positions with additional responsibilities, are able to develop clear and authoritative strategic leadership;
   - councillors are able to distinguish appropriately the requirements of their separate duties as local representatives and corporate leaders;
   - mutual trust and respect is established among and between councillors and officers for their respective roles;
   - senior officers establish a strong and effective commitment to meet their strategic corporate responsibilities.

b) The Council should review its approach to governance and ensure that rigorous systems are in place to support clear and transparent decision-making, such as formal recording of meetings and routine systems for the dissemination of decisions and information to staff and the public.

c) The Council should agree effective procedures for engaging with the local community and understanding its needs and expectations, and put these procedures on a systematic basis.

d) The Council should improve the way it develops clear, coherent messages to communicate with the local community, and take steps to improve the way it conducts its relationship with the media and recognises the media's legitimate interest in Council matters.

e) 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 and learning from good practice.

f) Councillors and senior officers should work together to improve the management information available to councillors, to enhance the capacity and commitment to deliver robust appraisal of policy choices, and thereby help to ensure that councillors are supported to develop the skills to discharge their scrutiny role rigorously.

g) Councillors should work together to ensure that they have a shared understanding of the requirements of the Code of Conduct and other relevant guidance for the way they approach the Council's business.

h) 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.

i) The Council should ensure that senior officers, particularly the relevant statutory officers, are able fully to advise councillors on their obligations.

j) The Council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.

k) The Council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management.

l) The Council should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.

m) The Council should ensure that robust and transparent procedures are established and followed for the creation and filling of all posts, and the performance management and appraisal of all staff.

A full copy of the Findings and Recommendations can be accessed on the following web link.

http://www.audit-scotland.gov.uk/docs/local/2010/ac_100816_shetland_findings.pdf

The Council was required to put in place an Improvement Plan to establish a comprehensive programme of improved governance to address all the concerns raised. The Chief Executive, appointed in July 2010, put together the Corporate Improvement Action Plan and this was approved by the Council in November 2010.

The Council acknowledges the weaknesses which were identified in the Council's governance arrangements and welcomes the clarity from the external scrutiny of what is required to change to ensure that the Council works towards best practice. Considerable work has been done in 2010/11 to address this and significant progress has been made.

As at June 2011, a significant number of items in the Corporate Improvement Action Plan have been fully implemented and the Council continues to make good progress in other areas. Audit Scotland, on behalf of the Accounts Commission, continue a watching brief on progress and will formally undertake a review of progress culminating in a report at the end of 2011. Both the Single Outcome Agreement and the Corporate Plan have been refreshed and updated. Work has been done to ensure that there is consistency of message with regard to the strategic direction, influencing services on the ground and for all staff throughout the organisation. More focused performance measures and targets have been set, moving away from measuring how we do things to challenging the difference which the service or activity actually makes to people's lives.

In February 2011 the Council identified significant savings, in the order of £9 million, to achieve a balanced revenue budget and set the Council Tax within the financial policy framework. To date, £5.100m of ongoing revenue savings have been secured. Similarly, significant adjustments to the Capital Programme were agreed to reduce the total spend by £5 million in 2011/12 in line with a more affordable draw on reserves. This work was done through a Member/Officer Working Group, focused on financial resources and led by the Leader and Chief Executive. The process demonstrated the Council's ability to work together to reach strategic solutions to some long standing matters.

Internal and external data indicates that the Council provides high quality services to the community. There remain concerns for some service areas, about the cost of providing those services and a real focus has begun on identifying ways of making savings, ideally from doing our work more efficiently and comparing what we do with other areas.

Significant challenges have been addressed in balancing the services which local communities would like to see with an affordable and efficient level of service, such as with the debates on the school estate and transport links.

The arrangements in place for the management of the Council's investments, through unitised products and cash investments are robust and risk-based. The portfolio is split by category of investment and by value of investment, to ensure that the risks are spread across funds, investment type and fund managers. The arrangements are subject to an external quality assurance and scrutiny check through Hymans Robertson.

During the 10/11 financial year Audit Scotland, the Council's External Auditors, have raised specific concerns by letter on the following items:

- the Council's state of readiness with regard to adopting the International Financial Reporting Standard (IFRS); and
- potential internal control weaknesses with regard to contracts and procurement.

The Council has commissioned external assistance to ensure that the Council addresses all aspects of the IFRS and the Final Accounts to 31 March 2011 are prepared in accordance with this guidance.

The Head of Capital Programme Service has drawn up an action plan to address the concerns raised by Audit Scotland. In addition, detailed analysis has been done on expenditure incurred during 2010/11 to confirm that no legislative or policy breaches have occurred. The raised awareness of legal and policy requirements relating to procurement, which also came about from Internal Audit work, and the improved systems and procedures which are now being developed and implemented, will go some way towards ensuring that any risk of internal control weaknesses are minimised, or avoided in the future. This is an area of work that the Council will continue to work hard at to make sure that all the relevant legislation, regulations and policies are followed, through an updated strategy, improved guidance and training.

The Internal Audit work programme has been completed, with some minor carry forward of work into the 2011/12 financial year. A programme of cross-Council corporate audits has been particularly effective in identifying and addressing areas of high strategic risk, such as procurement and contracts. This is an increasingly effective tool in ensuring effective governance and strong internal controls. As a result of their work, improved practices have been addressed by the Corporate Management Team with regard to the application of the Council's Standing Orders for Tenders and Contracts; the Relocation Policy and absence management.

Specifically, with regard to the adequacy and effectiveness of the internal financial control arrangements, the Council's Service Manager Internal Audit states in his annual report for 2010/11 that managers had generally undertaken to rectify issues through agreed action plans to a satisfactory degree.

However, in relation to the key issues identified in the original review of Remote Working, progress had not been in accordance with original timescales. In addition, the follow up audit of Economic Development identified that some key issues had not been fully resolved in relation to whitefish quotas, VAT and other tax matters. With effect from 2010/11 Internal Audit introduced Corporate Reviews covering specific topics across the Council. The contracts review identified a number of issues of concern and these have been taken forward and were subject to a recent report to Council. Absence Management was a further area where compliance with policy was poor. Communication has been issued in relation to this.

Risk registers throughout the Council are still not fully completed although progress has been made in the last year. Completion of these is important to fully assess risks faced by the Council.

Internal Audit concluded 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 assumed that issues identified and agreed are or have been addressed.

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 trustee is the Council. 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.

Significant Governance Issues

The system of governance can provide only reasonable (and not absolute) assurance that assets are safeguarded, the transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and that all the significant risks impacting on the achievement of our objectives have been mitigated.

Work continues apace to address the key improvements required to develop and implement more effective governance arrangements for Shetland Islands Council. Some key strategic actions are highlighted below.

- Audit Qualification and Non-Compliance Issues. Additional resources have been brought in to address the specific concerns on the application of accounting regulations. Shetland islands Council recognises the need to resolve the issue of grouping of accounts with the Shetland Charitable Trust. However, it has not been possible to prepare the 2010/11 Accounts as a group and the Council regrets that the qualification will continue into a fifth year. The Council is, however, working to resolve the situation. The Shetland Charitable Trust is in a process of renewing the composition of the Trust and when that work is complete it will be possible to reassess the relationship between the Council and the Trust, for accounting purposes. It is envisaged that this work will be completed in time for the preparation of the 2012/13 Final Accounts.

- Clear Common Purpose. A process of "scenario planning" what Shetland might look like in 20 years is being developed with a wide range of local people. From this, the Council will develop a "clear, common purpose" around which future plans will be built.

- Decision Making Processes. A new committee structure has been implemented with the core documents to support that work approved in May 2011. With a more transparent decision making process in place, it is hoped that the number of referrals to the Standards Commission will decrease, as the community builds confidence in Council decisions.

- Financial Sustainability. Work continues to put a focus on managing the cost of services downwards, seeking more efficient ways of delivering services, linked with a review of the policy on reserves.

- Communications and Community Engagement. A clear, consistent and common approach to communicating within the Council and with the local community, and seeking their views as to how we do our work, is being developed.

- Financial Monitoring. Forward focused and analytical budgetary reports to Corporate Management Team and Council Members will be developed from July 2011.

- Asset Strategy. A comprehensive asset strategy, to make more efficient use of public sector buildings across partner agencies and promote dispersed ways of working, will be in place by December 2011.

- Workforce. The Council's workforce strategy is being developed, alongside key policy updates including: recruitment; competency; and the code of conduct.

- Management Review. The Council has approved a new management structure to support the Chief Executive in managing services on behalf of the Council. The structure is based on five strategic director positions for: children; community care; development; infrastructure; and corporate services. The process of recruitment will take place in the summer of 2011 and, from a financial perspective, has an objective to save £1 million per annum by reducing the overall number of management posts across the Council by fifteen.

Conclusion

The difficulties surrounding the governance arrangements, risks and internal controls in Shetland Islands Council have been well documented over the past year. Activity over the last six months has demonstrated the Council's capacity to work together to address the weaknesses and put in place modern, appropriate and robust structures, systems and procedures to make Shetland Islands Council "fit for purpose" in delivering all that is expected of modern local government. It is a challenge and will continue to be so for the next eighteen months as the new ways of working bed in. While the corporate improvements are made, we are reassured that the level of service at the front line continues to be delivered to the local community.

Significant corporate risks have been identified, but plans are in place to mitigate those risks and implement improvements to how the Council operates at all levels. Regular progress reports are presented to Council Members on the Corporate Improvement Action Plan. For core services and systems, robust arrangements are in place and are operating as planned; exceptions and non-performance are highlighted for action.

We propose over the coming year to continue to take steps to address all the improvement actions identified; we are confident that Shetland Islands Council has turned the corner in its approach and attitude to ensuring effective governance arrangements are in place. We look forward to the Accounts Commission follow up later in 2011, to help us assess our progress.

There is a common saying that an organisation is only as good as the staff who work there. Shetland Islands Council is no different in that respect and we pay them thanks for their hard work, dedication and commitment to the public services they provide to this community. More specifically, we thank the staff who have worked hard to prepare and present this set of Accounts.

Overall, we consider the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Hazel Sutherland CPFA	**Alistair Buchan**
Head of Finance	**Chief Executive**

Remuneration Report

Introduction

The Remuneration Report is set out in accordance with the Local Government Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011 (SSI No. 2011/64)). These Regulations require various disclosures on the remuneration and pension benefits of senior councillors and employees.

All information disclosed in the tables in this Remuneration Report was audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

From 2011/12 the Code of Practice on Local Authority Accounting in the UK (the Code) will require the disclosure of exit packages. This disclosure has been included in the Remuneration Report for 2010/11.

Remuneration arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Convener of the Council, senior councillors or councillors. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure, usually referred to as the chair or vice-chair of a committee, sub-committee or board.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415 which came into effect on 10 February 2009. For 2010/11 the salary for the Convener of Shetland Islands Council was £27,057.96. It was confirmed that Shetland Islands Council could apply the remuneration payable for a Civic Head to the position of Vice-Convener. For 2010/11 the salary for the Vice-Convener was £20,293.92

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its senior councillors shall not exceed £164,376. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors and their salary within these maximum limits.

The nine senior councillor positions are:

- Chair of Services Committee
- Chair of Infrastructure Committee
- Chair of Audit and Scrutiny Committee
- Chair of Development

- Chair of the following sub-committees or boards:

  - Shetland College/Train Shetland
  - Inter Island Ferries
  - Harbour
  - Planning; and
  - Licensing.

As the Vice-Convener is also the Chair of Development only one additional remuneration (that which would have been payable to a Civic Head) was paid in respect of these two positions in 2010/11. Similarly, the Chair of Planning is also the Vice-Convener of the Orkney and Shetland Valuation Joint Board so again only one responsibility allowance was paid in 2010/11 in respect of the latter position, and that additional remuneration was paid by the Board.

In 2010/11, excluding the Convener and the Vice-Convener, Shetland Islands Council therefore had eight senior councilors and the additional remuneration paid to these councillors totalled £144,958.

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the Local Government Pension Scheme.

The original policy, following the regulations, which encompasses the salaries of all elected members including the Convener, Vice-Convener and senior councillors was agreed at a meeting of the full Council on 8 February 2007, in a Report entitled Review of Committee and Decision Making Structures, and is available at the web address below.

http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=5835

The scheme was updated on 7 March 2011 to reflect amendments to the Committee Structure, including the positions which attract special responsibility allowances.

http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=11923

Remuneration of Conveners and Vice-Conveners for Joint Boards

In addition to the senior councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board such as the Orkney and Shetland Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.

The Vice-Convener of the Orkney and Shetland Valuation Joint Board is also a senior councillor of Shetland Islands Council.

The Council is reimbursed by the Orkney and Shetland Valuation Joint Board for the additional remuneration paid to the councillor from being the Vice-Convener of the Joint Board.

Remuneration of Senior Employees

Remuneration is the term used to describe the total payments made to staff and will include salary payments and allowances such as distant islands allowance and statutory duty allowances.

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. On 24 June 2010 the full Council approved payment in excess of the rate set by the SNJC due to the need to appoint an interim Chief Executive. Remuneration for interim appointments are unavoidably higher than standard rates. Circular CO/144 sets the amount of salaries for the Chief Executives of Scottish local authorities for the period 2008 to 2011. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary for Shetland Islands Council, as detailed in circular CO/144, in three bandings. Executive Directors receive 93% (maximum point of 6 point salary range) of the amount of the Chief Executive's salary. Heads of Service fall into two bandings, to reflect their level of responsibility, at 75% (maximum point of 10 point salary range) and 65% (maximum point of 8 point salary range) of the Chief Executive's salary. These arrangements were agreed through approval of report "SIC Staff Organisational Change Proposals" at a meeting of the full Council on 17 May 2000 and updated through the Organisational Update and Change Report at a meeting of the full Council on 13 April 2006. Four Heads of Service holding the named statutory posts also receive an annual allowance to reflect their specific duties, ranging from £5,000 - £8,000 per annum. This was agreed through approval of report "Head of Services Salaries" at a meeting of the full Council on 18 February 2009.

The senior employees of the Council are those who form the Council's Corporate Management Team, those who report directly to the chief executive and those who hold certain statutory positions, namely:

- Chief Executive
- Executive Director, Education and Social Care
- Executive Director, Infrastructure
- Assistant Chief Executive
- Head of Service Finance, being the Chief Financial Officer
- Head of Service Legal, being the Chief Legal Officer
- Head of Service Schools, being the Chief Educational Officer
- Service Manager Social Work, being the Chief Social Work Officer
- Head of Service, Economic Development
- Head of Service, Capital Programmes

Other benefits received by senior employees are an essential car user allowance and some have the provision of a mobile phone/blackberry. These benefits are currently being reviewed.

General Disclosure by pay band (paragraph 4 of the Schedule)

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or more. This information is to be disclosed in bands of £5,000.

Remuneration Bands	Number of Employees	
	2010/11	2009/10
£50,000 - £54,999	41	58
£55,000 - £59,999	29	35
£60,000 - £64,999	17	12
£65,000 - £69,999	14	15
£70,000 - £74,999	15	11
£75,000 - £79,999	5	1
£80,000 - £84,999	2	1
£85,000 - £89,999	0	0
£90,000 - £94,999	3	0
£95,000 - £99,999	0	0
£100,000 - £104,999	2	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	0
£130,000 - £134,999	2	0
£135,000 - £139,999	0	0
£140,000 - £144,999	1	0
Total	**131**	**133**

The table above includes staff that terminated employment during 2010/11. Many of the staff who left received remuneration packages that included compensation for loss of office, and because of this payment a number of staff's remuneration has increased in the 2010/11 year only.

Summary of Remuneration paid to Councillors

The Council paid the following salaries, allowances and expenses to all councillors (including the senior councillors).

	2010/11 £000	2009/10 £000
Salaries	357	357
Allowances	33	34
Expenses	95	93
TOTAL	**485**	**484**

The annual return of councillors' salaries and expenses for 2010/11 is available for any member of the public to view at Finance Services, Montfield during normal working hours.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2010-11 Salary, Fees and Allowances	2010-11 Taxable Expenses (a)	2010-11 Benefits other than Cash	Total Remuneration 2010-11	2009-10 Total Remuneration 2009-10	Notes
		£	£	£	£	£	
Mr A Cluness	Convener	27,057.96	0.00		**27,057.96**	27,328.42	
Mr J Simpson (b)	Vice Convener & Chairperson of Development Committee	20,293.92	154.50		**20,448.42**	20,748.68	
Mrs F Grains	Chairperson - Audit & Scrutiny Committee	17,755.92	117.69		**17,873.61**	18,088.58	
Mr L Angus	Chairperson - Services Committee (Part 2010/11)	19,456.06	81.65		**19,537.71**	20,521.90	Chair of Services to 03/02/2011
Mrs E Fullerton	Chairperson - Services Committee (Part 2010/11)	16,682.34	311.86		**16,994.20**	16,866.18	Chair of Services from 17/02/2011
Mr R Henderson	Chairperson - Inter Island Ferries Board	17,755.92	117.84		**17,873.76**	18,098.66	
Mrs I Hawkins	Chairperson - Infrastructure Committee (Part 2009/10)	20,040.00	0.00		**20,040.00**	19,714.44	Chair of Infrastructure from 17/09/2009
Mr A Wishart	Chairperson - Infrastructure Committee (Part 2009/10)	16,233.96	0.00		**16,233.96**	18,259.47	Chair of Infrastructure to 16/09/2009
Mr A Cooper	Chairperson - Harbour Board	17,755.92	106.42		**17,862.34**	18,219.19	
Mr F Robertson (c)	Chairperson - Planning Board & Vice Convener of O & S VJB	19,278.96	470.23		**19,749.19**	19,777.78	
Mr C Cmith	Chairperson - Licencing Sub-Committee	17,755.92	0.00		**17,755.92**	17,979.86	
Mr A Hughson	Chairperson - Shetland College/Train Shetland Mgmt	17,755.92	0.00		**17,755.92**	17,987.74	

Notes: a) Taxable Expenses – Telephone Line Rental/Broadband
b) Mr J Simpson only receives one senior councillor payment even though he holds two positions.
c) Mr F Robertson only receives one senior councillor payment even though he holds two positions. The position of Vice-Convener of the Orkney and Shetland Valuation Joint Board attracts a payment of £3,405 per annum, which is included in the salary figure detailed above but is reimbursed to the Council by the Board.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2010/11 Salary, Fees and Allowances	2010/11 Taxable Expenses (a)	2010/11 Compensation for Loss of Employment (e)	2010/11 Benefits other than in Cash	2010/11 Total Remuneration 2010/11	2009/10 Total Remuneration 2009/10	Notes
		£	£	£	£	£	£	
M Goodlad	Chief Executive					**0.00**	16,662.03	Terminated Employment 31/05/2009
	Chief Executive - Full Yr Remn 09/10 £98,887.50					**0.00**		
D Clark	Chief Executive					**0.00**	73,476.79	Employed 1/06/2009 to 24/02/2010
	Chief Executive - Full Yr Remn 09/10 £98,887.50					**0.00**		
A Buchan (b)	Chief Executive from 5/07/2010	118,278.88			18,821.97	**137,100.85**		Commenced with SIC 05/07/2010
	Chief Executive - Full Yr Remn 10/11 £141,803					**0.00**		
H Sutherland (c)	Executive Director: Education & Social Care	93,526.36	822.00			**94,348.36**	77,922.00	Acting Chief Executive 09/9/09 to 18/10/09 & 25/01/10 to 08/8/10
G Greenhill	Executive Director: Infrastructure	77,268.00	1,011.40			**78,279.40**	74,568.64	
W Shannon	Assistant Chief Executive	66,948.00	822.00			**67,770.00**	66,192.00	
G Johnston	Head of Service: Finance	73,713.44	822.00	27,075.42		**101,610.86**	71,316.96	Efficiency Retirement 31/03/2011
J Riise (d)	Head of Service: Legal and Administration	72,201.12	822.00			**73,023.12**	73,121.95	
H Budge	Head of Service: Schools	72,201.12	822.00			**73,023.12**	71,316.96	
R M Sinclair	Head of Service: Capital Programme	55,000.88	822.00			**55,822.88**	43,964.88	
J R Smith	Head of Service: Organisational Development	65,172.09	822.00			**65,994.09**	66,745.67	
N Grant	Head of Service: Economic Development	65,253.00	822.00			**66,075.00**	64,539.00	
M A Williamson	Service Manager: Social Work	56,289.25	991.01			**57,280.26**	55,330.73	

Notes

(a) Taxable Expenses - Essential Car User Allowance & Telephone Line Rental/Broadband

(b) A Buchan - Salary, Fees and Allowances, includes SIC Secondment Allowance. Benefits other than in cash include provided accommodation, car and return family trips

(c) H Sutherland remuneration in 2010/11 includes payment of £12,803.91 in respect of Acting Chief Executive in 2009/10 & 2010/11. The remuneration for H Sutherland's substantive post equated to £80,722.45 in 2010/11.

(d) Jan Riise carries out both Returning Officer & Deputy Returning Officer Duties. Deputy Returning Officer Duties were carried out in 2009/10 and the associated fee in this regard is included in the 2009/10 figure disclosed above.

(e) Compensation for loss of Employment - The figures detailed in this column are the Compensatory Added Years (CAYs) Lump Sum Payment paid on termination of employment.

(f) Data has not been disclosed in respect of confidentiality agreements where such agreements were agreed prior to 7 February 2011 (the date the amendment Regulations were laid before the Scottish Parliament).

Pension Benefits – Senior Councillors

The pension entitlements for senior councillors for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each senior councillor during the year.

Name of Councillor	Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
		Year ending 31 March 2011	Year ending 31 March 2010		As at 31 March 2011	As at 31 March 2010	Increase / (Decrease)	
		£	£		£	£	£	
Mr A Cluness	Convener	8,608.90	8,388.00	Pension	2,076.86	1,311.31	765.55	
				Lump Sum	2,079.02	1,941.86	137.16	
Mr J Simpson	Vice-Convener & Chairperson - Development Committee	6,456.79	6,291.12	Pension	1,636.72	986.21	650.51	
				Lump Sum	1,152.07	1,096.57	55.50	
Mrs F Grains	Chairperson - Audit & Scrutiny Committee	0.00	0.00	Pension	0.00	0.00	0.00	Pension Scheme's age limit exceeded
				Lump Sum	0.00	0.00	0.00	
Mr L Angus	Chairperson - Services Committee (Part 2010/11)	6,182.00	6,212.40	Pension	1,317.97	776.87	541.10	Chair of Services to 03/02/2011
				Lump Sum	927.16	878.73	48.43	
Mrs E Fullerton	Chairperson - Services Committee (Part 2010/11)	5,313.97	5,032.56	Pension	937.90	491.19	446.71	Chair of Services from 17/02/2011
				Lump Sum	1,146.15	968.82	177.33	
Mr R Henderson	Chairperson - Inter Island Ferries Board	5,649.26	5,504.40	Pension	1,167.92	736.00	431.92	
				Lump Sum	1,337.53	1,235.92	101.61	
Mrs I Hawkins	Chairperson - Infrastructure Committee	6,376.06	6,041.86	Pension	1,037.50	616.75	420.75	Chair of Infrastructure from 17/09/2009
				Lump Sum	1,267.87	1,121.04	146.83	
Mr A Wishart	Chairperson - Infrastructure Committee	5,165.11	5,578.84	Pension	1,135.03	743.92	391.11	Chair of Infrastructure to 16/09/2009
				Lump Sum	1,311.91	1,276.69	35.22	
Mr A Cooper	Chairperson - Harbour Board	5,649.26	5,504.40	Pension	1,098.94	758.38	340.56	
				Lump Sum	1,371.09	1,336.51	34.58	
Mr F Robertson	Chairperson - Planning Board & Vice-Convener of O & S VJB	6,133.87	5,976.48	Pension	1,732.47	1,102.74	629.73	
				Lump Sum	1,626.71	1,523.45	103.26	
Mr C Cmith	Chairperson - Licencing Sub-Committee	5,649.26	5,504.40	Pension	1,055.39	658.72	396.67	
				Lump Sum	1,316.75	1,223.66	93.09	
Mr A Hughson	Chairperson - Shetland College/Train Shetland Mgmt	5,649.26	5,504.40	Pension	1,021.09	687.34	333.75	
				Lump Sum	1,247.81	1,193.66	54.15	

Note Para 61 of Guidance confirms "The Pension disclosure for Joint Boards for a convener or vice-convener is limited to the contribution the Board has been asked to make to that person's pension by the Council of which the convener or vice-convener is a member. the amount of In Year Employer Pension Contributions included in the above figures for Frank Robertson the vice-chair of the Orkney & Shetland VJB amount to £505.47 in 2010/11 and £471.98 in 2009/10.

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions: Year ending 31 March 2011 £	In-Year Employer Pension Contributions: Year ending 31 March 2010 £		Accrued Pension Benefits: As at 31 March 2011 £	Accrued Pension Benefits: As at 31 March 2010 £	Accrued Pension Benefits: Increase (Decrease) £	Notes
M Goodlad	Chief Executive	ER Strain		2,564.81	Pension Lump Sum		11,571.20 33,904.00	(11,571.20) (33,904.00)	Terminated employment 31/05/2009, pension benefits preserved
David Clark	Chief Executive	ER Strain		11,294.99	Pension Lump Sum				Scheme membership less than 2 years - no pension benefits due.
A Buchan	Chief Executive	ER Strain	14,066.63		Pension Lump Sum				Accrued Pension Benefits held with OIC
H Sutherland	Executive Director: Education & Social Care	ER Strain	29,960.93	23,901.04	Pension Lump Sum	26,373.73 70,405.91	23,851.31 67,383.22	2,522.42 3,022.69	Acting Chief Executive from 09/09/09 to 18/10/09 and 25/01/10 to 08/08/10
G Greenhill	Executive Director: Infrastructure	ER Strain	24,609.51	22,772.56	Pension Lump Sum	2,658.30 246.16	1,307.10 234.82	1,351.20 11.34	
W Shannon	Assistant Chief Executive	ER Strain	21,322.54	20,264.76	Pension Lump Sum	17,086.64 44,563.17	15,584.20 43,485.16	1,502.44 1,078.01	
G Johnston	Head of Service: Finance	ER Strain	22,995.71 155,711.86	21,853.36	Pension Lump Sum	27,182.57 74,327.60	25,357.24 72,547.99	1,825.33 1,779.61	Efficiency Retirement 31/03/2011
J Riise	Head of Service: Legal and Administration	ER Strain	22,995.71	21,853.36	Pension Lump Sum	23,436.23 62,632.58	21,649.85 61,143.11	1,786.38 1,489.47	Includes Returning Officer Pension Benefits
H Budge	Head of Service: Schools	ER Strain	20,640.82	21,007.46	Pension Lump Sum	16,759.13 50,277.40	15,472.57 46,417.71	1,286.56 3,859.69	
N R J Grant	Head of Service: Economic Development	ER Strain	20,782.81	19,752.36	Pension Lump Sum	7,341.67 15,497.74	6,102.64 15,123.07	1,239.03 374.67	
R M Sinclair	Head of Service: Capital Programme	ER Strain	17,527.95	13,374.32	Pension Lump Sum	14,300.26 37,398.75	10,286.21 28,744.24	4,014.05 8,654.51	
A Williamson	Chief Social Work Officer	ER Strain	17,881.86	16,859.42	Pension Lump Sum	21,107.49 57,726.70	19,627.71 56,161.04	1,479.78 1,565.66	
Total			**368,496.33**	**195,498.44**		**569,322.03**	**575,954.39**	**(6,632.36)**	

Notes a)

The "strain" costs detailed are the cost to the Pension Fund (which requires to be met upfront by the General Fund) for allowing staff to retire early with an unreduced LGPS pension & lump sum.

b) Head of Legal & Administration has pension benefits arising from his Returning Officer duties in respect of Local Government and Scottish Parlimentary Elections. A single disclosure of the pension benefits is detailed above and detailed below is the pension benefits associated with Returning Officer duties.

Returning Officer	Accrued Pension Benefits: As at 31 March 2011 £	Accrued Pension Benefits: As at 31 March 2010 £	Accrued Pension Benefits: Increase (Decrease) £
Pension	680.98	624.08	56.90
Lump Sum	1,588.88	1,588.88	0.00

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). The pension scheme is a funded pension scheme consisting of payment from members of the scheme as well as the employer.

Councillors' pension benefits are based on career average pay. Councillors pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that the person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five-tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2010/11 remain at the 2009/10 rates, (due to negative increases in the costs of living index for 2010/11) and are as follows:	Contribution Rate 2010/11 %	Contribution Rate 2009/10 %
Whole time pay:		
On earnings up to and including £18,000	5.50	5.50
On earnings above £18,000 and up to £22,000	7.25	7.25
On earnings above £22,000 and up to £30,000	8.50	8.50
On earnings above £30,000 and up to £40,000	9.50	9.50
On earnings above £40,000	12.00	12.00

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service, and not just their current appointment. The figures will also reflect any transfer of pension benefits from another pension fund or scheme.

Joseph G Simpson .... **30 September 2011**
Leader

Alistair Buchan .... **30 September 2011**
Chief Executive

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibility

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs; in this Council the proper officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- acknowledge the audited accounts must be laid before a meeting of the authority (i.e. the Council under SIC/Scheme of Administration and Delegations par. 2.1.3 sub par. 1 (G)) within two months of receipt of the audit certificate.

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 Code).

It is the responsibility of the Head of Finance to sign, date and submit the un-audited statement of accounts to the authority and Controller of Audit by 30 June.

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 Code.

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 reporting date and its income and expenditure for the year ended 31 March 2011.

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Hazel Sutherland CPFA.
Head of Finance

Movement in Reserves Statement

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2009	**(70)**	**0**	**(114,308)**	**0**	**(180,329)**	**(294,707)**	**(222,090)**	**(516,797)**
Movement in reserves during 2009/10:								
(Surplus) or deficit on the provision of services	34,949	(458)				34,491		34,491
Other Comprehensive Income and Expenditure						0	21,637	21,637
Total Comprehensive Income and Expenditure	**34,949**	**(458)**	**0**	**0**	**0**	**34,491**	**21,637**	**56,128**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(14,662)	755	0	0	0	(13,907)	13,907	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**20,287**	**297**	**0**	**0**	**0**	**20,584**	**35,544**	**56,128**
Net Transfers to/(from) Other Statutory Reserves	(20,378)	(297)	(4,273)		25,304	356	(356)	0
(Increase)/Decrease in 2009/10	**(91)**	**0**	**(4,273)**	**0**	**25,304**	**20,940**	**35,188**	**56,128**
Balance as at 31 March 2010	**(161)**	**0**	**(118,581)**	**0**	**(155,025)**	**(273,767)**	**(186,902)**	**(460,669)**

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2010	**(161)**	**0**	**(118,581)**	**0**	**(155,025)**	**(273,767)**	**(186,902)**	**(460,669)**
Movement in reserves during 2010/11:								
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	(9,785)	0	(9,785)
Other Comprehensive Income and Expenditure							(43,277)	(43,277)
Total Comprehensive Income and expenditure	**(19,728)**	**9,943**	**0**	**0**	**0**	**(9,785)**	**(43,277)**	(53,062)
Adjustments between accounting basis & funding basis under regulations (Note 7)	16,745	(9,454)	0	(171)	0	7,120	(7,120)	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**(2,983)**	**489**	**0**	**(171)**	**0**	**(2,665)**	**(50,397)**	**(53,062)**
Net Transfers to/(from) Other Statutory Reserves	0	(489)	4,224	0	3,615	7,350	(7,350)	0
(Increase)/Decrease in 2010/11	**(2,983)**	**0**	**4,224**	**(171)**	**3,615**	**4,685**	**(57,747)**	**(53,062)**
Balance as at 31 March 2011	**(3,144)**	**0**	**(114,357)**	**(171)**	**(151,410)**	**(269,082)**	**(244,649)**	**(513,731)**

Total usable and unusable reserves are shown within disclosure notes 21 and 22 respectively.

Comprehensive Income and Expenditure Statement for year ended 31 March 2011

2009/10 Net Expenditure £000		Notes	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
50,933	Education Services		56,104	(8,304)	47,800
1,523	Housing Services		8,779	(5,677)	3,102
(2,059)	Housing Revenue Account		15,578	(6,758)	8,820
6,915	Cultural and Related Services		7,706	(877)	6,829
8,551	Environmental Services		9,094	(2,681)	6,413
2,196	Fire Services		2,197	0	2,197
13,321	Roads and Transport Services		21,394	(9,847)	11,547
11,847	Trading Services		28,272	(17,341)	10,931
1,972	Police Services		1,461	0	1,461
10,471	Planning and Development Services		14,765	(4,796)	9,969
26,744	Social Work		40,887	(8,384)	32,503
2,370	Central Services to the Public		2,436	(310)	2,126
6,649	Corporate and Democratic Core		7,572	0	7,572
2,268	Non Distributed Costs		(28,826)	0	(28,826)
143,701	**Cost of Services**		**187,419**	**(64,975)**	**122,444**
(44)	Other operating income	9			(327)
(2,784)	Financing and Investment income and expenditure	10			(23,050)
(106,382)	Taxation and non-specific grant income	11			(108,852)
34,491	**(Surplus) or Deficit on Provision of Services**				**(9,785)**
(20,308)	(Surplus) on revaluation of Property, Plant and Equipment assets				(15,540)
(43,410)	(Surplus) on revaluation of Available-for-Sale financial assets	22			(19,382)
0	Amounts recycled from the Available-for-Sale Financial Instrument Reserve upon derecognition	22			23,156
85,355	Actuarial (gains)/losses on pension assets/liabilities	33			(31,511)
21,637	**Other Comprehensive Income and Expenditure**				**(43,277)**
56,128	**Total Comprehensive Income and Expenditure**				**(53,062)**

Balance Sheet as at 31 March 2011

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
350,488	367,468	Property, Plant & Equipment	12	374,529
1,016	689	Intangible Assets	13	436
199,744	218,959	Long term Investments	14	222,739
18	13	Long Term Debtors	14	1,066
551,266	**587,129**	**Long Term Assets**		**598,770**
3,465	3,609	Inventories	15	4,023
11,803	10,349	Short Term Debtors	16	8,516
26,459	20,906	Cash and Cash equivalents	17	7,376
654	1,245	Assets held for Sale	18	206
42,381	**36,109**	**Current Assets**		**20,121**
(17,818)	(15,396)	Short Term Creditors	19	(14,037)
(17,818)	**(15,396)**	**Current Liabilities**		**(14,037)**
(53)	(4)	Provisions	20	(10)
(58,979)	(147,169)	Other Long Term Liabilities	33	(91,113)
(59,032)	**(147,173)**	**Long Term Liabilities**		**(91,123)**
516,797	**460,669**	**Net Assets**		**513,731**
(294,707)	(273,767)	Usable Reserves	21	(269,082)
(222,090)	(186,902)	Unusable Reserves	22	(244,649)
(516,797)	**(460,669)**	**Total Reserves**		**(513,731)**

The unaudited accounts were issued on 26 July 2011 and the audited accounts were authorised for issue on 30 September 2011.

.... Date: 30 September 2011

Hazel Sutherland CPFA
Head of Finance

Cash Flow Statement for year ended 31 March 2011

2009/10 £000		2010/11 £000	2010/11 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(99,109)	Cash paid to and on behalf of employees	(102,976)	
(75,754)	Other operating cash payments	(88,270)	
(4,168)	Precepts paid	(3,407)	
(179,031)			(194,653)
	Cash Inflows		
3,706	Housing Rents	2,711	
0	Trading	551	
84,694	RSG	86,894	
676	DWP Grants	769	
30,243	Sales of goods and services	39,561	
10,256	Other operating cash receipts	3,575	
13,679	Other Government Grant	12,220	
7,857	Council Tax income	8,647	
9,189	NDR Income	8,672	
160,300			163,600
	Movement of working capital		
(145)	(Increase)/Decrease in Stock	(414)	
1,454	(Increase)/Decrease in Debtors	1,833	
(2,422)	Increase/(Decrease) in Creditors	(1,359)	
(1,113)			60
(19,844)	**Net Cash Outflow from Operating Activities**		(30,993)
	INVESTING ACTIVITIES		
	Cash Outflows		
(24,578)	Purchase of Fixed Assets	(18,048)	
(170,448)	Purchase of Long Term Investments	(238,884)	
(195,438)	Purchase of Short Term Investments	(107,700)	
(390,464)			(364,632)
	Cash Inflows		
932	Sale of Fixed Assets	1,572	
194,793	Sale of Long Term Investments	253,383	
199,434	Sale of Short term investments	119,300	
4,371	Capital Grant receipts	4,657	
5,225	Interest Received & Dividends	3,183	
404,755			382,095
14,291	**Net Cash Inflow from Investing Activities**		17,463
	FINANCING ACTIVITIES		
0	Cash Outflows	0	
0	Cash Inflows	0	
0	**Net Cash Flow from Financing Activities**		0
(5,553)	**NET INCREASE/(DECREASE) IN CASH**		**(13,530)**
26,459	Cash and Cash Equivalents at 1 April		20,906
(5,553)	Net movement of Cash and Cash Equivalents during the year		(13,530)
20,906	Cash & Cash Equivalents at 31 March		7,376

Refer to note 17 for an analysis of the components of cash and cash equivalents.

Accounting adjustments made to prior year comparatives to comply with International Financial Reporting Standards

These financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. The Code requires that for the first time, Local Authority accounts in 2010/11 should be prepared in accordance with International Financial Reporting Standards (except in instances where the Code allows departures), and the comparative figures for the 2008/09 and 2009/10 Balance Sheets as well as the 2009/10 Comprehensive Income and Expenditure Statement should be restated from UK Generally Accepted Accounting Principles (UK GAAP) where required. The reconciliation to IFRS from the previous UK GAAP accounts is summarised in the tables below.

Restatement of Shetland Islands Council's 2008/09 UK GAAP Balance Sheet on an IFRS basis

	2008/09 UK GAAP Balance Sheet £000	Adjustment 1 - IAS 20 £000	Adjustment 2 - IAS 40 £000	Adjustment 3 - IFRS 5 £000	Adjustment 4 - IAS 19 £000	Adjustment 5 - IAS 7 £000	IFRS based Balance Sheet 1 April 2009 £000
Non-Current Assets:							
PPE - Council Dwellings	59,931			(654)			59,277
PPE - Other Land & Buildings	104,233		4,328				108,561
Investment Properties	4,328		(4,328)				0
Current Assets:							
Assets Held for Sale	0			654			654
Short-Term Investments	16,506					(16,506)	0
Cash & Bank / Cash & Cash Equivalents	9,953					16,506	26,459
Current Liabilities:							
Short-Term Creditors	(16,478)				(1,340)		(17,818)
Long-Term Liabilities:							
Government Grants Deferred	(12,533)	12,533					0
Reserves:							
Capital Adjustment Account	(258,075)	(12,533)					(270,608)
Accumulating Compensated Absences Adjustment Account	0				1,340		1,340

Adjustment 1 – IAS 20 Accounting for Government Grants and disclosure of Government assistance – Under IFRS accounting, Shetland Islands Council is required to recognise all grant income in its entirety at the point at which it is received. Therefore all deferred government grants have been written out of the liabilities in the balance sheet, recognised through the Income and Expenditure account and subsequently transferred from the General Fund to the Capital Adjustment Account.

Adjustment 2 – IAS 40 Investment property – Under the strict criteria of IAS 40, Shetland Islands Council had £4.328m of property which had to be re-categorised out of investment property because it did not meet the IFRS requirements to be classified as such. Instead, it has been determined that under IFRS these assets better meet the criteria of Other Land and Buildings and have therefore been transferred into that category.

Adjustment 3 – IFRS 5 Assets Held for Sale – Shetland Islands Council had a number of council houses that were in the process of being sold to tenants at 31 March 2009. As such, these are required to be separately disclosed under IFRS 5 under a category named *Assets Held for Sale*. This adjustment is to transfer those council houses from non-current assets to assets held for sale under current assets.

Adjustment 4 – IAS 19 Employee Benefits – Under this IFRS accounting standard, Councils are required to recognise a liability for all holiday pay and other entitlements that employees had accrued at the financial year-end. This liability reflects the difference between the holiday entitlement earned at 31 March and the actual amount of holidays taken. At Shetland Islands Council, the excess of holiday entitlement earned over the holidays actually taken by 31 March, as well as TOIL and flexi-time balances due back to employees, has resulted in a liability of £1.340m. The Scottish Government has introduced Statutory Mitigation for this additional cost so that its negative impact can be removed from the General Fund and transferred to a new Accumulating Compensated Absences Adjustment Account. This has been reflected in the adjustment above.

Adjustment 5 – IAS 7 Cash Flow Statement – Under IFRS accounting, Shetland Islands Council must show cash and cash equivalents as a single balance on the face of the Balance Sheet. Cash and cash equivalents include the bank balances, petty cash, overdrafts (if they are integral to the cash management of the organisation) and investments due to mature within 3 months of the balance sheet date. Therefore an adjustment was made to consolidate the short-term investments balance with the bank balance as all the short-term investments would be available to Shetland Islands Council in cash within 3 months of 31 March 2009.

Reconciliation of Shetland Islands Council's 1 April 2009 IFRS Balance Sheet to the 2009/10 IFRS Balance Sheet

	1 April 2009 IFRS Balance Sheet	UK GAAP In-year Balance Sheet Movements	Adjustment 1 - IAS 20	Adjustment 2 IAS 40	Adjustment 3 IFRS 5	Adjustment 4 IAS 19	Adjustment 5 - IAS 7	IFRS based Balance Sheet 31 March 2010
	£000	£000	£000	£000	£000	£000	£000	£000
Non-Current Assets:								
PPE - Council Dwellings	59,277	1,204			(256)			60,225
PPE - Other Land & Buildings	108,561	13,329		175				122,065
PPE - Vehicles, Furniture & Plant	37,418	(1,185)			(268)			35,965
Assets Under Construction	23,323	(418)			(67)			22,838
Investment Properties	0	175		(175)				0
Current Assets:								
Assets Held for Sale	654	0			591			1,245
Short-Term Investments	0	(3,022)					3,022	0
Cash & Bank / Cash & Cash Equivalents	26,459	(2,531)					(3,022)	20,906
Current Liabilities:								
Short-Term Creditors	(17,818)	2,446				(25)		(15,397)
Long-Term Liabilities:								
Government Grants Deferred	0	(3,218)	3,218					0
Reserves:								
Capital Adjustment Account	(270,608)	15,043	(3,218)					(258,783)
Accumulating Compensated Absences Adjustment Account	1,340	0				25		1,365

Adjustment 1 – IAS 20 Accounting for Government Grants and disclosure of Government assistance – Under IFRS accounting, Shetland Islands Council is required to recognise all grant income in its entirety at the point at which it is received. Therefore all deferred government grants received in 2009/10 have been written out of the liabilities in the balance sheet, recognised through the Income and Expenditure account and subsequently transferred from the General Fund to the Capital Adjustment Account.

Adjustment 2 – IAS 40 Investment property – During 2009/10, Shetland Islands Council recognised an increase in its investment property balance. However, under IFRS, no properties meet the criteria as being investment properties and therefore this balance has been transferred to Other Land and Buildings.

Adjustment 3 – IFRS 5 Assets Held for Sale – Shetland Islands Council had a number of council houses that were in the process of being sold to tenants at 31 March 2010 (£0.915m). As such, these are required to be separately disclosed under IFRS 5 in a category named *Assets Held for Sale*. This adjustment is to transfer those council houses from non-current assets to assets held for sale under current assets. In addition, the houses held for sale in the 1 April 2009 balance sheet were subsequently sold (£0.654m) and therefore written out of this balance. Therefore the net movement for 2009/10 was £0.261m. In addition, a number of Vehicles, Furniture and Plant (£0.268m) and Assets Held for Sale (£0.067m) were re-categorised as being held for sale.

Adjustment 4 – IAS 19 Employee Benefits – Under this IFRS accounting standard, Councils are required to recognise a liability for all holiday pay entitlement that employees had accrued at the financial year-end. This liability reflects the difference between the holiday entitlement earned at 31 March and the actual amount of holidays taken. At Shetland Islands Council, the excess of holiday entitlement earned over the holidays actually taken by 31 March has resulted in a liability of £1.365m. The Scottish Government has introduced Statutory Mitigation for this additional cost so that its negative impact can be removed from the General Fund and transferred to a new Accumulating Compensated Absences Adjustment Account. At 31 March 2010, the holiday pay accrual was re-calculated and was found to have increased by £0.025m. As a result this adjustment is to reflect the increase in the accrual, and a debit to the Accumulating Compensated Absences Adjustment Account to reflect the increase.

Adjustment 5 – IAS 7 Cash Flow Statement – Under IFRS accounting, Shetland Islands Council must show cash and cash equivalents as a single balance on the face of the Balance Sheet. Cash and cash equivalents include the bank balances, petty cash, overdrafts (if they are integral to the cash management of the organisation) and investments due to mature within 3 months of the balance sheet date. At 31 March 2009 the entire balance of short term investments were considered to be cash equivalents, and the same assessment was made at 31 March 2010. Under UK GAAP the short-term investment balance reduced by £3.022m during 2009/10, however under IFRS this reduction was against the cash and cash equivalent balance, and therefore this adjustment has been made to reflect that.

Reconciliation of Shetland Islands Council's 2009/10 SORP based Income and Expenditure Account to an IFRS based Comprehensive Income and Expenditure Statement

	£000	£000
(Surplus) or Deficit on Provision of Services for year ended 31 March 2010 (SORP)		**37,685**
IAS 20 Adjustment - Accounting for Government Grants and disclosure of Government assistance - Recognition of all the income received in capital grants during 2009/10 (£4.371m) offset by the reversal of the government grant amortisation credited to service expenditure as applied under the SORP (£1.153m).	(3,218)	
IAS 19 Adjustment – Employee Benefits – The holiday pay accrual was re-calculated at the 2009/10 year-end and this resulted in a net reduction of £0.015m on the liability. This adjustment is to reflect the movement on the accrual during the year and has resulted in a credit to the Income and Expenditure account.	25	
TOTAL VALUE OF CODE (IFRS) ADJUSTMENTS		(3,193)
(Surplus) or Deficit on Provision of Services for year ended 31 March 2010 (Code basis)		**34,492**

Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the statement of accounts;
- making changes to reserves;
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount (i.e. the one that best reflects the economic reality of a transaction or event) to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty (and the range of options is considered to be material).

1.2 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are made only when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance.

Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Prior period adjustments arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

1.3 Accounting Conventions and Concepts

The accounting convention adopted in the Statement of Accounts is historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

The concept of the authority as a going concern is based on the premise that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view. It is a matter of professional judgement as to whether users of the accounts could come to different conclusions about the authority's standards of stewardship or make different economic decisions as a result of deviations from the provisions set out in the Code.

The accounting policies, which have a significant effect on the amounts recognised in the financial statements of Shetland Islands Council, are summarised below.

a) Accruals of Income and Expenditure

(1) Recognition of Income and Expenditure in the Comprehensive Income and Expenditure Statement

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.

- Supplies are recorded as expenditure when they are consumed but where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

(2) Recognition of Debtors and Creditors on the Balance Sheet

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

b) Cash and Cash Equivalents

In the Cash Flow Statement cash (represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours) and cash equivalents (investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value) are shown net of bank overdrafts that are repayable on demand.

c) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, amortisation, revaluation or impairment losses but is required to make an annual contribution from revenue equal to loans fund principal charges (Scotland). The General Fund is balanced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

d) Contingent Assets

Where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority, a contingent asset is disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential but not recognised in the Balance Sheet.

e) Contingent Liabilities

Contingent liabilities are disclosed in note 34 to the accounts but not recognised in the Balance Sheet, in such circumstances where:

- an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority;
- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

f) Employee Benefits

(1) Accumulated Absences

The Accumulated Absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

(2) Benefits Payable During Employment

Short-term employee benefits (i.e. those due to be settled within 12 months of the year-end) such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees are recognised as an expense for services in the year in which employees render service to the authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

(3) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

(4) Post Employment Benefits

Employees of the authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government;
- The Local Government Pension Scheme, administered by Shetland Islands Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the authority. The arrangements for the teachers' scheme however mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

(5) The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of Shetland Islands Council's pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, projections of earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate of 5.5% which is equivalent to the gross redemption yield on the iBoxx Sterling Corporate AA bonds over 15 years index at the valuation date but with the removal of recently re-rated bonds from the index.

- The pension fund assets attributable to the authority are included in the Balance Sheet at their fair value:

  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price;

- The change in the net pensions liability is analysed into seven components:

  - **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

  - **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **expected return on assets** – the annual investment return on the fund assets attributable to the authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **gains or losses on settlements and curtailments** – the result of actions to relieve the authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement;

- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the Movement in Reserves Statement.

This treatment requires appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

(6) Discretionary Benefits

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

g) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period whereby the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period whereby the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

h) Exceptional Items and Prior Period Adjustments

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Prior period adjustments that arise as a result of a change in accounting policies or to correct a material error are applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

i) Financial Instruments

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-Sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

(1) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For this authority it means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

On an annual basis loans and receivables are assessed for impairment. Events that provide objective evidence of impairment include significant financial difficulties of the counterparty or a breach of contract. Impairment losses and gains or losses on derecognition are taken to the Surplus or Deficit on the provision of services.

(2) Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument which initially is measured and carried at fair value.

Available-for-Sale financial assets are shown in the Balance Sheet at fair value which is based on the unit price provided by the Council's external fund providers. The fund providers use the following principles when determining the unit price:

- Instruments with quoted market prices – the market price;
- Investments with no quoted market prices – probable realisation value based on recent market transactions, reference to transactions that are substantially the same and discounted cash flows.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instrument Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Upon derecognition, any balance on the Available-for-Sale Financial Instruments Reserve in relation to the assets sold are recycled through the Surplus or Deficit on the Provision of Services. To ensure there is no mismatch between Other Comprehensive Income and Expenditure and the Movement in Reserves Statement, recycled amounts are also deducted as an additional item from the Other Comprehensive Income and Expenditure to avoid overstating gains for the year.

Where assets are identified as impaired because there is a significant or prolonged decline in the fair value below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

There were gains on revaluation of £19.382m as at 31 March 2011 (2010: £43.410 m) and therefore no impairment has been identified and the Council did not carry out an impairment review.

j) Foreign Currency Translation

Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March 2011. Resulting gains or losses are recognised in the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

k) Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the authority and hence credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that the authority will comply with any conditions attached to payment of the grants.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised nor expenditure on the development of websites if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion and they are therefore held at cost less accumulated amortisation. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The useful life and amortisation rate used in the calculation of amortisation is 1 – 8 years.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

m) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula, except for fuel which is calculated on a First in First Out (FIFO) basis.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

n) Landfill Allowances Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA), are recognised as current assets and are initially measured at fair value. The scheme has been placed under review in Scotland since 2008/09 as a result of the absence of an active market for the allowance and hence assets and liabilities are measured at nil in 2010/11. Due to the inactive market, penalties have been suspended but not cancelled. As the authority has not exceeded its allowance (regulation 19 of the landfill allowance scheme) there is no potential contingent liability.

o) Leases

Operating Leases

(1) The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(2) The Authority as Lessor

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance Leases

The Council recognises a finance lease when the risks and rewards of the asset substantially lie with the Authority. The accounting treatment of finance leases is to recognise the asset on the Council's Balance Sheet as well as a liability to represent future principal repayments. A depreciation charge is recognised in the Comprehensive Income and Expenditure Statement as well as an interest charge.

None of the authority's existing leases meet the definition of a finance lease.

p) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

q) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

(1) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

(2) Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure - held at Depreciated Historical Cost (DHC);
- community assets and assets under construction are held at Historical Cost.
- dwellings – fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
- all other assets – fair value, determined as the amount that would be paid for the asset in its Existing Use Value (EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

(3) Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement;

- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

(4) Depreciation

Depreciation is provided for all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The following useful lives and depreciation rates have been used in the calculation of depreciation (Straight Line method):

• Council Dwellings:	30 - 50 years
• Other Land and Buildings:	7 - 120 years
• Vehicles, Plant, Furniture and Equipment:	1 - 50 years
• Infrastructure:	5 - 60 years

The straight-line method referred to above has been used, until an asset is either revalued or there are additions to the asset, at which point depreciation is then calculated over the remaining outstanding life.

Surplus assets are depreciated on a straight-line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

(5) Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and are valued at the lower of their carrying amount before they were classified as Held for Sale. They are adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and adjusted for their recoverable amount at the date of the decision not to sell (assets to be abandoned or scrapped are not reclassified as Assets Held for Sale).

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

r) Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The authority has entered into a low minimal risk financial guarantee for £1.831m, which is classified as a contingent liability and hence not recognised within the financial statements. This risk was quantified when determining the level of the General Fund Balance.

s) Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

t) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

u) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards Issued, not Adopted

As a consequence of FRS 30 relating to heritage assets the Code has introduced a change in accounting policy to be adopted for 2011/12 and onwards. FRS 30 requires heritage assets to be measured at valuation and disclosed as a separate classification on the face of the Balance Sheet. Depreciation is not required on heritage assets, which have indefinite lives but their carrying amount should be reviewed where there is evidence of impairment. Heritage assets that are used by the authority for other activities or to provide other services are operational assets and should be accounted for as Property, Plant and Equipment.

The Code states that valuations of heritage assets may be made by any method that is appropriate and relevant but where it is not practicable to obtain a fair value, such assets should be measured at historical cost (Audit Scotland technical bulletin published 23/03/11, local authority chapter). The Code gives authorities the discretion to elect to treat community assets in the same way as heritage assets should it believe that valuation is a better measurement of their economic benefits and service potential, however, this authority does not intend to take up this option in the near future.

The treatment of heritage assets represents a change in accounting policy which would require retrospective application for 2011/12. The authority currently classifies two heritage museum buildings, the Croft House Museum and Bod of Gremista, as operational buildings under Property, Plant and Equipment; these buildings will be re-classified in 2011/12. The museums were revalued in 2010/11 and their total carrying amount in the Balance Sheet is £1.451m. Due to the recent revaluation it is estimated that this change in accounting policy will have no significant impact on the 2011/12 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

a) There is a high degree of uncertainty about future levels of funding for local government in general. This Council, like others, continues to face significant financial pressures related to the general economic climate and faces specific demographic pressures related to its unique geographical location. Despite the recession, the Council was successful in securing a new income stream from the new gas processing plant, based at Sullom Voe.

b) For resource planning and allocation purposes the Council has had to make critical judgments about (a) the growing need for community care and services for people with learning disabilities, (b) the impact on the transport system from increases in fuel costs, (c) the risk of severe weather resulting in increases to the winter maintenance service and (d) meeting the challenges of implementing the “Blueprint for Education” and “Ports for the Future”.

c) Had current levels of spend been continued into next year the authority would have been facing a budget gap of around £25 million; however, early arrangements have been put in place to tackle this potential budget deficit. It is envisaged that a process of staff and community engagement, working alongside a “scenario planning” initiative, will help councillors make difficult choices regarding the services to be provided over the medium to longer term time-frame; however, there is insufficient evidence at this time to indicate that the assets of the authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

d) One area where a long-standing issue remains unresolved is the relationship between the Council and the Shetland Charitable Trust. The Council continues to work closely with the Trust to resolve any issues whereby the Council could be deemed to have the ability to control the Trust even though it does not exert actual control. It is anticipated that the qualification issue will not be resolved before the 2012/13 accounts.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors; however, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) Property, Plant and Equipment

The Council's policy states that for componentisation to occur, an individual component of an asset must exceed 25% of the overall cost of the asset and have a different useful life. The policy states that all assets with a Net Book Value in excess of £1 million which were acquired, re-valued or enhanced during the year were to be reviewed.

Of the nine assets identified for review, three were found to have the same useful life as their individual components and the remaining six were found not to contain any individual components in excess of 25% of the value of the asset. A test of these remaining assets was carried out to ascertain the level of componentisation had the policy required a value in excess of 20%, 15% and 10%. The result of this testing was that four assets would have been identified at 20% and an additional asset would have been identified at 10%.

The net effect of a change in policy to 10% would be to increase the depreciation charge by 0.66% and decrease the total Net Book Value of assets by 0.57%, which would not be considered material for the accounts.

b) Provisions

The authority reviewed its "Equal Pay" provision based on the number of claims settled to date. One claim remained outstanding at the end of 2009/10 and one was received during 2010/11. The Council does not envisage any further claims arising as a result of precedents being set by other authorities at some time in the future. The authority believes that the two remaining cases will be resolved during 2011/12 and has increased its provision to £10,000 based on an average settlement rate of £5,000 per case.

c) Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £32.823m however the assumptions interact in complex ways. During 2010/11, the authority's actuaries advised that the net pensions liability had decreased by £56.056m largely as a result of estimated future payments being linked to CPI rather than RPI.

d) Arrears

At 31 March 2011, the authority had a balance on sundry debtors of £2.410m within short term debtors for Other Entities and Individuals. A review of significant balances suggested that an impairment of doubtful debts of 8% (£201,000) is appropriate in the current economic climate.

Council Tax collection does not impose a significant impairment risk as historically only 0.38% of charges levied is ever written off. It is estimated that no more than £30,000 will eventually be written off from Council Tax charges of £7.878m levied during 2010/11.

e) Reserves

A sensitivity analysis of the Council's General Fund usable reserves demonstrates that £3 million is sufficient to mitigate unanticipated expenditure or reduced income in the current financial climate. An estimated contingent liability of £11.4m has been recorded for a number of outstanding legal cases and a guarantee to Viking Energy.

5. Material Items of Income

The Council received £1.572m in capital receipts during 2010/11. This was comprised of 50 social housing dwellings for £0.810m in total and a vessel for £0.762m.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 26 July 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2010/11	Usable Reserves				Movement Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(11,598)	(1,532)	0	0	13,130
Revaluation losses on Property Plant and Equipment	(1,933)	(10,986)	0	0	12,919
Amortisation of intangible assets	(525)	0	0	0	525
Capital grants and contributions applied	4,486	0	0	0	(4,486)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(335)	(909)	0	0	1,244
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	635	1,969	0	0	(2,604)
Capital expenditure charged against the General Fund and HRA balances	618	1,195	0	0	(1,813)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	171	0	0	(171)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	764	808	(1,572)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,572	0	(1,572)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	13,961	0	0	0	(13,961)
Employer's pensions contributions and direct payments to pensioners payable in the year	10,583	1	0	0	(10,584)
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(82)	0	0	0	82
Total Adjustments	**16,745**	**(9,454)**	**0**	**(171)**	**(7,120)**

2009/10 Comparative Figures	Usable Reserves General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(12,099)	(1,693)	0	0	13,792
Revaluation losses on Property Plant and Equipment	(4,620)	0	0	0	4,620
Amortisation of intangible assets	(489)	0	0	0	489
Capital grants and contributions applied	4,371	0	0	0	(4,371)
Revenue expenditure funded from capital under statute	(567)	0	0	0	567
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(902)	0	0	0	902
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	120	1,947	0	0	(2,067)
Capital expenditure charged against the General Fund and HRA balances	1,445	494	0	0	(1,939)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0
Adjustments primarily involving the Capital Receipts' Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	926	20	(946)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	946	0	(946)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(12,211)	(124)	0	0	12,335
Employer's pensions contributions and direct payments to pensioners payable in the year	9,389	111	0	0	(9,500)
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(25)	0	0	0	25
Total Adjustments	**(14,662)**	**755**	**0**	**0**	**13,907**

8. Transfers to/(from) other Statutory Reserves

This note sets out the amounts transferred to and from General Fund and HRA balances and other statutory reserves to provide financing for current and future expenditure plans.

	Transfers out 2009/10	Transfers in 2009/10	Net transfers to/(from) other statutory funds 31 Mar 2010	Transfers out 2010/11	Transfers in 2010/11	Net transfers to/(from) other statutory funds 31 Mar 2011
	£000	£000	£000	£000	£000	£000
General Fund:						
General Fund	6,782	(27,070)	**(20,288)**	26,408	(26,426)	**(18)**
Hansel	0	(83)	**(83)**	0	(7)	**(7)**
Central Efficiency	0	(7)	**(7)**	25	0	**25**
Total	**6,782**	**(27,160)**	**(20,378)**	**26,433**	**(26,433)**	**0**
Capital:						
Capital Fund	1,351	(5,600)	**(4,249)**	12,351	(3,129)	**9,222**
Capital Efficiency/Spend to Save Reserve	0	0	**0**	0	(5,000)	**(5,000)**
Pilot Boat Renewal Fund	0	(24)	**(24)**	14	(12)	**2**
Usable Capital Receipts	0	0	**0**	1,572	(1,572)	**0**
Elimination of inter Capital Fund transfers	0	0	**0**	(6,587)	6,587	**0**
Total	**1,351**	**(5,624)**	**(4,273)**	**7,350**	**(3,126)**	**4,224**
Other Revenue Statutory Funds:						
Revenue Efficiency/Spend to Save Reserve	0	0	**0**	0	(500)	**(500)**
Marine Fund	85	(32)	**53**	621	(229)	**392**
Reserve Fund	18,808	(1,196)	**17,612**	27,529	(22,398)	**5,131**
Repairs & Renewals Fund	9,688	(2,049)	**7,639**	25,046	(13,628)	**11,418**
Quarry Repairs & Renewals Fund	0	0	**0**	0	0	**0**
Housing Repairs & Renewals Account	308	(273)	**35**	489	(1,947)	**(1,458)**
Insurance Fund	0	(35)	**(35)**	66	(34)	**32**
Potential Contingent Liabilities	0	0	**0**	0	(11,400)	**(11,400)**
Elimination of inter Revenue Fund transfers	0	0	**0**	(26,829)	26,829	**0**
Total	**28,889**	**(3,585)**	**25,304**	**26,922**	**(23,307)**	**3,615**
Balance at 31 March	**37,022**	**(36,369)**	**653**	**60,705**	**(52,866)**	**7,839**
Capital Grants Unapplied	0	0	**0**	0	0	**0**
Usable Capital Receipts	0	(297)	**(297)**	0	(489)	**(489)**
Total Usable Reserves	**37,022**	**(36,666)**	**356**	**60,705**	**(53,355)**	**7,350**

a) Reserves Held for Revenue Purposes

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

The Revenue Efficiency/Spend to Save Reserve is an earmarked general fund reserve established at the end of 2010/11. This fund was established to facilitate the costs associated with implementing future revenue savings plans.

The Marine 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 £0.621m to the Harbour Account 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 that is solely in the interest of the County and its inhabitants.

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.

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.

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.

The Potential Contingent Liabilities Fund is an earmarked general fund reserve established at the end of 2010/11. The purpose of this fund is to set aside monies to meet the financial obligations that may arise if known contingent liabilities crystallise.

The Hansel Fund and the Central Efficiency Fund are earmarked general fund reserves that were established several years ago. The Central Efficiency Fund has been set up to fund the reduction in energy consumption and carbon emissions. The Hansel Funds are held for the benefit of residents in care establishments.

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund.

b) Reserves Held for Capital Purposes

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.

The Capital Efficiency/Spend to Save Reserve was established during 2010/11. It is a specific capital fund set aside for the purpose of financing energy related projects with a view to reducing energy costs to the General Fund.

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.

The Usable Capital Receipts Reserve and the Capital Grants Unapplied Account are also used for capital purposes. An analysis of the movement within these accounts is shown within disclosure note 21.

9. Other Operating Income

Gains and Losses on the disposal of non current assets.

31 March 2010 £000		31 March 2011 £000
0	Levies	0
(44)	Gains/losses on the disposal of non-current assets	(327)
(44)	**Total**	**(327)**

10. Financing and Investment Income and Expenditure

31 March 2010 £000		31 March 2011 £000
5,059	Pensions interest cost and expected return on pensions assets	3,383
(5,225)	Interest receivable and similar income	(2,291)
(2,618)	Other investment income	(986)
0	Realised gains in relation to Available for Sale assets	(23,156)
(2,784)	**Total**	**(23,050)**

11. Taxation and Non-Specific Grant Income

31 March 2010 £000		31 March 2011 £000
(8,497)	Council tax income	(8,629)
(9,189)	Non domestic rates	(8,672)
(84,325)	Non ring fenced government grants	(86,894)
(4,371)	Capital grants and contributions	(4,657)
(106,382)	**Total**	**(108,852)**

12. Property, Plant and Equipment

Movement in 2010/11	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Con-struction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2010	62,082	131,144	49,876	145,837	6,533	251	22,838	418,561
- additions	1,839	716	2,750	1,213	1	2	11,486	18,007
- donations	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,701	(119)	0	973	0	352	13,533
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)	0	0	0	(1,313)	(13,058)
derecognition – disposals	0	0	0	0	0	0	0	0
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	(212)	0	0	0	0	0	0	(212)
other movements in cost or valuation	(34)	8,783	1,428	146	0	442	(11,003)	(238)
At 31 March 2011	60,588	144,341	53,906	147,196	7,507	695	22,360	436,593
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(9,080)	(13,911)	(26,223)	(9)	(13)	0	(51,093)
depreciation charge	(1,579)	(3,979)	(4,169)	(3,341)	0	(62)	0	(13,130)
depreciation written out to the Revaluation Reserve	1,726	126	155	0	0	0	0	2,007
depreciation written out to the Surplus/Deficit on the Provision of Services	139	0	0	0	0	0	0	139
impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	0	0	0	0	0	0	0	0
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	6	0	0	0	0	0	0	6
other movements in depreciation and impairment	(6)	70	1	0	0	(58)	0	7
At 31 March 2011	(1,571)	(12,863)	(17,924)	(29,564)	(9)	(133)	0	(62,064)
Net Book Value								
at 31 March 2011	59,017	131,478	35,982	117,632	7,498	562	22,360	374,529
at 31 March 2010	60,225	122,064	35,965	119,614	6,524	238	22,838	367,468

Comparator Movement in 2009/10	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Con-struction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2009	60,599	121,625	48,684	138,331	5,893	250	23,323	398,705
- additions	1,674	299	2,711	3,073	42	0	17,116	24,915
- donations	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	(291)	5,644	(54)	0	0	0	226	5,525
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	(24)	(120)	(801)	(8)	0	0	(7,762)	(8,715)
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	(915)	0	(722)	0	0	0	(67)	(1,704)
other movements in cost or valuation	1,039	3,775	58	4,441	598		(9,998)	(87)
At 31 March 2010	62,082	131,223	49,876	145,837	6,533	250	22,838	418,639
Accumulated Depreciation and Impairment								
at 1 April 2009	(1,322)	(13,064)	(11,266)	(22,548)	(8)	(9)	0	(48,217)
depreciation charge	(757)	(5,446)	(3,908)	(3,676)	(1)	(4)	0	(13,792)
depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	0	0
depreciation written out to the Surplus/Deficit on the Provision of Services	217	9,342	49	0	0	0	0	9,608
impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	0	10	760	1	0	0	0	771
derecognition – other	0	0	0	0	0	0	0	0
Eliminated on reclassification to Asset Held for Sale	5	0	454	0	0	0	0	459
other movements in depreciation and impairment at 31 March 2010	0	0	0	0	0	0	0	0
at 31 March 2010	(1,857)	(9,158)	(13,911)	(26,223)	(9)	(13)	0	(51,171)
Net Book Value								
at 31 March 2010	60,225	122,065	35,965	119,614	6,524	237	22,838	367,468
at 31 March 2009	59,277	108,561	37,418	115,783	5,885	241	23,323	350,488

a) Capital Commitments

At 31 March 2011, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years, budgeted to cost £14.531m. Similar commitments at 31 March 2010 were £11.814m. The major commitments are:

- Scalloway dredging £2.873m
- Walls piers £2.751m
- Fetlar breakwater £2.246m
- Sellaness tugs £1.214m
- Fibre optic cable £1.029m

b) Revaluations

The authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset. The significant assumptions applied in estimating the fair values are:

- the properties are all freehold;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that the inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- that there are no outstanding Statutory Notices affecting any of the properties.

c) The total revalued amount analysed across each of the preceding financial years - rolling programme:

This statement shows the annual asset valuations within the rolling programme. The valuations for operational and non-operational assets are carried out by Alan Rolfe (MRICS) of the Asset and Properties Unit. Valuations are carried out as at 1 April of the respective year.

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

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Non-operational Assets £000	Total all Assets £000
2010/2011	59,842	8,183	330	10,434	78,789
2009/2010	8,562	72,391	0	1,578	82,531
2008/2009	532	17,605	0	77	18,214
2007/2008	60,321	8,448	0	1,380	70,149
2006/2007	40,783	25,114	0	775	66,672

13. Intangible Assets

The authority accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets represent purchased licenses. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority.

a) Useful lives assigned to the major software suites used by the authority are:

Years	Assets
3 years	Webroster
5 years	Financial Management Systems
5 years	Asset Management System
5 years	Payroll/HR/Pension Systems
5 years	COINS
5 years	Orchard Management System
5 years	SWIFT System
5 years	Libraries Systems
5 years	Planning Systems
5 years	Tranman
5 years	GIS Innogistic System
5 years	Intuit System
5 years	Symantec
5 years	Web Filtering Systems
5 years	Microsoft Licenses
5 years	Corporate Back Up Systems
5 years	Benefits Legislation Software
5 years	Risk Assessment Software
7 years	Housing Online Repairs System
10 years	None

b) The movement on Intangible Asset balances during the year is as follows:

31 March 2010 £000		31 March 2011 £000
	Balance at start of year:	
1,924	Gross carrying amounts	2,086
(908)	Accumulated amortisation	(1,397)
1,016	**Net carrying amount at start of year**	**689**
	Additions:	
0	Internal development	0
74	Purchases	41
0	Acquired through business combinations	0
0	Assets reclassified as held for sale	0
0	Other disposals	0
0	Revaluations increases or decreases	0
0	Impairment losses recognised or reversed directly in the Revaluation Reserve	0
0	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0
0	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0
(489)	Amortisation for the period	(525)
88	Other changes	231
689	**Net carrying amount at end of year**	**436**

There are no items of capitalised software that are individually material to the financial statements.

c) Intangible asset commitments

At 31 March 2011 the Council had only one commitment with regard to intangible assets. This was in relation to software for the Planning Department with a commitment totalling £0.078m.

14. Financial Instruments

a) Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Long-Term		Current			Long-Term	Current
31 March 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000		31 March 2011 £000	31 March 2011 £000
				Financial Assets:		
				Investments:		
0	0	0	0	Loans and receivables	0	0
199,744	218,959	0	0	Available for sale financial assets	222,739	0
199,744	**218,959**	**0**	**0**	**Total Investments**	**222,739**	**0**
				Debtors:		
3	2	0	0	Loans and receivables	1,051	271
15	11	0	0	Financial assets carried at contract amounts	15	1
0	0	0	0	Accured Interest Debtor	0	0
18	**13**	**0**	**0**	**Total Debtors**	**1,066**	**272**
				Financial Liabilties:		
				Other Long-Term Liabilities:		
0	0	0	0	PFI and finance lease liabilities	0	0
0	**0**	**0**	**0**	**Total Other Long-Term Liabilities**	**0**	**0**
				Creditors:		
0	0	0	0	Accured Interest liability	0	(119)
0	**0**	**0**	**0**	**Total Creditors**	**0**	**(119)**

b) Income, Expense, Gains and Losses

Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total		Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total
31 March 2009 £000			31 March 2010 £000				31 March 2011 £000		
0	24	**24**	0	11	**11**	Interest expense	0	25	**25**
0	0	**0**	0	0	**0**	Losses on de-recognition	0	0	**0**
0	0	**0**	0	0	**0**	Reduction in fair value	0	0	**0**
0	0	**0**	0	0	**0**	Impairment Losses	516	0	**516**
0	635	**635**	0	723	**723**	Fee expenses	0	957	**957**
0	**659**	**659**	**0**	**734**	**734**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**516**	**982**	**1,498**
0	(7,454)	**(7,454)**	(27)	(5,206)	**(5,233)**	Interest income	(54)	(4,259)	**(4,313)**
0	0	**0**	0	0	**0**	Interest income accrued on impaired financial assets	0	0	**0**
0	0	**0**	0	0	**0**	Increases in fair value	0	0	**0**
0	0	**0**	0	0	**0**	Gains on de-recognition	0	(23,156)	**(23,156)**
0	0	**0**	0	0	**0**	Fee income	0	0	**0**
0	**(7,454)**	**(7,454)**	**(27)**	**(5,206)**	**(5,233)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(54)**	**(27,415)**	**(27,469)**
0	0	**0**	0	(43,410)	**(43,410)**	Gains on revaluation	0	(19,382)	**(19,382)**
0	29,970	**29,970**	0	0	**0**	Losses on revaluation	0	0	**0**
0	**29,970**	**29,970**	**0**	**(43,410)**	**(43,410)**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&E**	**0**	**(19,382)**	**(19,382)**
0	**23,175**	**23,175**	**(27)**	**(47,882)**	**(47,909)**	**Net Gain/(Loss) for the Year**	**462**	**(45,815)**	**(45,353)**

c) Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans, receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised;
- where an instrument will mature in next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the assets is lower than the carrying amount because the authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates.

31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1301	1301	Loans and Receivables	1322	1322
20	20	Long-Term Debtors (mortgages)	16	16

Available-for-Sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

15. Inventories

	Ports & Harbours		Trading Operations		Infrastructure		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Balance outstanding at start of year	**2,383**	**2,110**	**752**	**909**	**474**	**447**	**3,609**	**3,466**
Purchases	960	883	1,752	1,100	1,419	1,107	4,131	3,090
Recognised as an expense in the year	(626)	(609)	(1,736)	(1,253)	(1,342)	(1,077)	(3,704)	(2,939)
Written off Balances	0	0	(13)	(4)	0	(4)	(13)	(8)
Reversals of write offs in previous years	0	0	0	0	0	0	0	0
Balance outstanding at year end	**2,717**	**2,384**	**755**	**752**	**551**	**473**	**4,023**	**3,609**

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale).

16. Short-Term Debtors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
2,239	2,179	Central Government Bodies	1,290
215	534	Other Local Authorities	389
824	95	NHS Bodies	67
80	124	Public Corporation and Trading Funds	106
8,445	7,417	Other Entities and Individuals	6,664
11,803	**10,349**	**Total**	**8,516**

a) Movements in Impairment Allowance

The Council has made allowance for the risk of incurring bad debts on its General Fund and Housing Revenue Account. The debtor figures in the Balance Sheet are shown net of this allowance and the movement between years is shown in the table below:

31 March 2010 £000		31 March 2011 £000
(379)	Opening balance-General Fund	(402)
77	Miscellaneous Invoices written off	108
44	Council Tax written off	24
(144)	(Charge)/Credit to General Fund for provision	(143)
(402)		(413)
(138)	Opening balance-Housing Revenue Account	(175)
5	Miscellaneous Invoices written off	2
54	Rents written off	38
(96)	(Charge)/Credit to HRA for provision	(20)
(175)		(155)

17. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
27	20	Cash held by the Authority	22
9,926	7,402	Bank current accounts	7,251
16,506	13,484	Short-term certificates of deposit	103
26,459	**20,906**	**Total**	**7,376**

18. Assets Held for Sale

31 March 2010 £000		31 March 2011 £000
654	**Balance outstanding at start of year**	1,245
	Assets newly classified as held for sale:	
1,245	Property, Plant and Equipment	206
0	Intangible Assets	0
	Assets declassified as held for sale:	
0	Property, Plant and Equipment	0
0	Intangible Assets	0
(654)	Assets sold	(1,245)
1,245	**Balance outstanding at year-end**	**206**

19. Short-Term Creditors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
2,326	2,159	Central Government Bodies	3,252
17	129	Other Local Authorities	277
675	59	NHS Bodies	33
323	334	Public Corporations and Trading Funds	344
14,477	12,715	Bodies External to General Government	10,012
0	0	Financial Instruments Accrued Interest Expense	119
17,818	**15,396**	**Total**	**14,037**

20. Provisions

The council has provided £10,000 for two "Equal Pay" claims that were outstanding at 31 March 2011. Further details of the provision can be found in disclosure note 4.

31 March 2010 £000		31 March 2011 £000
(53)	**Balance at 1 April**	**(4)**
0	Additional provisions made	(6)
0	Amounts used	0
49	Unused amounts reversed	0
0	Unwinding of discounting	0
(4)	**Balance at 31 March**	**(10)**

21. Usable Reserves

The movements in the authority's usable and unusable reserves are detailed in disclosure note 7.

Reconciliation of Usable Funds to the balance sheet

31 March 2010 £000	Description	31 March 2011 £000
(273,754)	General Fund and Other Funds (See Note 8)	(268,898)
(13)	Usable Capital Receipts Reserve	(13)
0	Capital Grants Unapplied Account	(171)
(273,767)	**Total balance of usable reserves at 31 March**	**(269,082)**

Usable Capital Receipts Reserve

The Capital Receipts Reserve was established for the purpose of financing capital expenditure. Returns in the year are credited to the General Fund. The source of funding is capital receipts not applied during the year.

31 March 2010 £000		31 March 2011 £000
(18)	**Balance at 1 April**	**(13)**
(941)	Sales income from fixed assets	(1,572)
946	Application	1,572
(13)	**Balance at 31 March**	**(13)**

Capital Grants Unapplied Account

Under IFRS, grants and contributions unapplied at the balance sheet date are reviewed to ascertain whether there are any conditions attached to the grant or contribution. Where there is no such condition, the grant or contribution is recognised in the Comprehensive Income and Expenditure Account and transferred to the Capital Grants Unapplied Account, where it will remain until the associated expenditure is incurred. The Capital Grants Unapplied Account reflects the capital resource from grants and contributions that is available to finance expenditure.

31 March 2010 £000		31 March 2011 £000
0	**Balance at 1 April**	**0**
0	Capital Grant and Contributions unapplied during the year	(171)
0	Application of grants to capital financing transferred to the capital adjustment account	0
0	**Balance at 31 March**	**(171)**

22. Unusable Reserves

Reconciliation of Unusable Funds to the balance sheet

31 March 2010 £000	Description	31 March 2011 £000
(53,504)	Revaluation Reserve	(64,271)
(23,148)	Available-for-Sale Financial Instruments Reserve	(19,376)
(258,783)	Capital Adjustment Account	(253,562)
147,169	Pensions Reserve	91,113
1,365	Accumulated Absences Account	1,447
(186,901)	**Total balance of unusable reserves at 31 March**	**(244,649)**

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2010 £000		31 March 2011 £000	£000
(33,946)	**Balance at 1 April**		**(53,504)**
(19,914)	Upward revaluation of assets	(29,007)	
198	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	13,467	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(15,540)
1,615	Difference between fair value depreciation and historical cost depreciation	1,636	
231	Accumulated gains on assets sold or scrapped	404	
0	Investment asset gains	0	
0	Prior year difference between ledger and asset register	2,733	
(1,688)	Amount written off to the Capital Adustment Account		4,773
(53,504)	**Balance at 31 March**		**(64,271)**

b) Available-for-Sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- disposed of and the gains are realised.

31 March 2010 £000		31 March 2011 £000
22,145	**Balance at 1 April**	**(23,148)**
(43,786)	Upward revaluation of assets	0
0	Removal of previously unrealised gains in relation to assets sold	23,155
(1,507)	Unrealised revaluation gains to Other Comprehensive Income and Expenditure	(19,383)
(23,148)	**Balance at 31 March**	**(19,376)**

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2010 £000		31 March 2011 £000
58,979	**Balance at 1 April**	**147,169**
85,355	Actuarial (gains) and losses on pensions assets and liabilities	(31,511)
12,335	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(13,961)
(9,500)	Employer's pensions contributions and direct payments to pensioners payable in the year	(10,584)
147,169	**Balance at 31 March**	**91,113**

d) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is:

- debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis) credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The Account contains:

- accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority;
- revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

31 March 2010 £000		31 March 2011 £000	31 March 2011 £000
(270,608)	**Balance at 1 April**		**(258,782)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
13,792	Charges for depreciation and impairment of Non-Current assets	13,130	
4,620	Revaluation losses on Property, Plant and Equipment	12,919	
489	Amortisation of Intangible assets	525	
0	Revenue expenditure funded from capital under statute	0	
902	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,244	27,818
0	Adjustment amounts written out of the Revaluation Reserve		(4,773)
0	Net written out amount of the cost of Non-Current assets consumed in the year		0
	Capital financing applied in the year:		
(947)	Use of the Capital Receipts Reserve to finance new capital expenditure		(1,572)
(4,371)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		(4,486)
0	Application of grants to capital financing from the Capital Grants Unapplied Account		0
(2,067)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances		(2,604)
(1,939)	Capital expenditure charged against the General Fund and HRA balances (CFCR)		(1,813)
1,347	Reverse 2009/10 credit from General Fund Appropriation		0
0	Capital Fund Reserve		(7,350)
(258,782)	**Balance at 31 March**		**(253,562)**

e) Accumulated Compensated Absences Account

The Accumulated Compensated Absences Account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2011. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

31 March 2010 £000		31 March 2010 £000
1,340	**Balance at 1 April**	**1,365**
0	Settlement or cancellation of accrual made at the end of the preceding year	0
25	Amounts accrued at the end of the current year	82
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
1,365	**Balance at 31 March**	**1,447**

23. Segmental Reporting

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice.

Decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Funds. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is held centrally.

The authority's principal funds as recorded in the budget reports for the year are as follows:

Income and Expenditure Analysis 2010/11	Support Services £000	Recharged Services £000	General Fund £000	Reserve Fund £000	Housing Revenue Account £000	Harbour Account £000	Total £000
Fees, charges and other service income	648	1,301	18,549	3,249	6,666	15,563	45,976
Total Income	**648**	**1,301**	**18,549**	**3,249**	**6,666**	**15,563**	**45,976**
Employee expenses	19,710	3,666	66,157	816	3	7,861	98,213
Operating costs	6,287	5,811	28,768	2,129	2,004	4,079	49,078
Transfer Payments	(19)	0	8,694	9,289	14	92	18,070
Financing Costs	0	0	0	0	0	0	0
Support service recharges	0	0	0	0	0	0	0
Total expenditure	**25,978**	**9,477**	**103,619**	**12,234**	**2,021**	**12,032**	**165,361**
Net expenditure	**25,330**	**8,176**	**85,070**	**8,985**	**(4,645)**	**(3,531)**	**119,385**

Income and Expenditure Analysis Comparative Figures 2009/10	Support Services £000	Recharged Services £000	General Fund £000	Reserve Fund £000	Housing Revenue Account £000	Harbour Account £000	Total £000
Fees, charges and other service income	981	1,313	20,594	1,816	6,031	15,140	45,875
Total Income	**981**	**1,313**	**20,594**	**1,816**	**6,031**	**15,140**	**45,875**
Employee expenses	18,589	3,497	61,317	97	(5)	6,446	89,941
Operating costs	6,047	5,234	26,816	2,946	2,120	3,966	47,129
Transfer Payments	(35)	0	8,558	9,070	32	105	17,730
Financing Costs	0	0	0	0	0	0	0
Support service recharges	0	0	0	0	0	0	0
Total expenditure	**24,601**	**8,731**	**96,691**	**12,113**	**2,147**	**10,517**	**154,800**
Net expenditure	**23,620**	**7,418**	**76,097**	**10,297**	**(3,884)**	**(4,623)**	**108,925**

31 March 2010 £000	Summary reconcilation between Budget reported and Comprehensive Income and Expenditure State	31 March 2011 £000
108,925	Net expenditure in the Income and Expenditure Analysis	119,385
8,669	Net expenditure of services and support services not included in the Analysis and not reported to management for decision making	5,846
26,107	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the	(2,787)
143,701	**Cost of Services in Comprehensive Income and Expenditure Statement**	**122,444**

Detailed reconciliation between budget reports and Comprehensive Income and Expenditure Statement

2010/11	Income and Expenditure Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts included in I&E but not reported to management for decision making £000	Total £000
Fees, charges & other service income	42,620	2,181	60	14,802	59,663
Interest and investment income	179	(125)	0	0	54
Income from council tax	9	0	0	0	9
Government grants and contributions	3,168	2,081	0	0	5,249
Total Income	**45,976**	**4,137**	**60**	**14,802**	**64,975**
Employee expenses	98,213	4,552	0	(18,241)	84,524
Other service expenses	67,148	5,176	5	0	72,329
Depreciation, amortisation and impairment & interest	0	0	0	26,574	26,574
Interest Payments	0	0	0	0	0
Precepts & Levies	0	0	310	3,682	3,992
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0
Total expenditure	**165,361**	**9,728**	**315**	**12,015**	**187,419**
Cost of Services	**119,385**	**5,591**	**255**	**(2,787)**	**122,444**

Comparative Figures 2009/10	Income and Expenditure Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts included in I&E but not reported to management for decision making £000	Total £000
Fees, charges & other service income	39,694	1,297	3	13,605	54,599
Interest and investment income	116	0	0	0	116
Income from council tax	5	0	0	0	5
Government grants and contributions	6,060	2,155	0	(4,371)	3,844
Total Income	**45,875**	**3,452**	**3**	**9,234**	**58,564**
Employee expenses	89,941	2,382	0	2,844	95,167
Other service expenses	64,859	9,459	(8)	1,153	75,463
Depreciation, amortisation and impairment & interest	0	0	0	26,901	26,901
Interest Payments	0	0	0	0	0
Precepts & Levies	0	0	291	4,443	4,734
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0
Total expenditure	**154,800**	**11,841**	**283**	**35,341**	**202,265**
Cost of services	**108,925**	**8,389**	**280**	**26,107**	**143,701**

24. Statutory Trading Operations (STO)

The authority has established two trading units where the service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the authority or other organisations. Details of those units with a turnover of greater than 2.5% of the Council's revenue budget in 2010/11 are as follows:

	2008/09		2009/10		2010/11	
	£000	£000	£000	£000	£000	£000
The authority has deemed its Highways construction and repair undertaking as a trading operation. The trading objective is to break even over a 3 year rolling period.						
Turnover	(6,776)		(6,518)		(7,760)	
Expenditure	6,930		6,188		7,562	
Surplus		154		(330)		(198)
Cumulative surplus - over last three financial years		(129)		(240)		(374)
The authority has deemed its Building Maintenance undertaking concerned with the repair and maintenance of council houses, schools and public buildings as a trading operation. The trading objective is to break even over a 3 year rolling period.						
Turnover	(4,606)		(4,880)		(4,713)	
Expenditure	4,826		4,595		4,588	
Surplus		220		(285)		(125)
Cumulative surplus - over last three financial years		(81)		(148)		(190)
Net (surplus)/deficit on trading operations		**374**		**(615)**		**(323)**

The table above is presented exclusively to show whether each STO met its statutory financial target. The figures for 2008/09 and 2009/10 are based on UK GAAP in line with the legislative requirement for those years. The 2010/11 figures are based on IFRS as specified in the Code of Practice on Local Authority Accounting. For this reason the figures quoted as not regarded as suitable for trend analysis.

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the authority's services to the public (e.g. refuse collection), whilst others are support services to the authority's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. The allocation of this expenditure is as follows:

31 March 2010 £000		31 March 2011 £000
(285)	Net Surplus on trading operations	(125)
24	Services to the public included in Expenditure of Continuing Operations	35
(752)	Support services allocated to Expenditure of Continuing Operations	(830)
(1,013)	**Net Surplus credited to Costs of Services**	**(920)**

25. Agency Services

The authority is required by legislation to provide a collection service for Scottish Water, involving the collection of around £2.7 million of Scottish Water charges. The legislation stipulates a minimum amount Scottish Water must pay in commission for this service.

31 March 2010 £000		31 March 2011 £000
33	Expenditure incurred in collection service for Scottish Water	33
(61)	Commission payable by Scottish Water	(62)
(28)	**Net surplus arising on the agency arrangement**	**(29)**

26. External Audit Costs

The authority has incurred the following costs in respect of external audit services provided by Audit Scotland in accordance with the Code of Audit Practice:

31 March 2010 £000		31 March 2011 £000
263	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	242
0	Fees payable in respect of other services provided by Audit Scotland during the year (related to IFRS - prior year restatement)	5
263	**Total**	**247**

27. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

31 March 2010 £000		31 March 2011 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,497)	Council tax income	(8,629)
(9,189)	Non-domestic rates	(8,672)
(84,325)	Non ring-fenced government grants	(86,894)
(4,371)	Capital grants and contributions	(4,657)
(106,382)	**Total**	**(108,852)**
	Credited to Services	
(1,932)	NHS	(178)
(792)	Council Tax Benefits Subsidy	(788)
(2,708)	Housing Benefit Subsidy	(2,855)
(1,512)	Housing Support Grant	(1,233)
(10)	ERDF & ESF	(42)
(142)	Training Grants	(319)
(713)	Shetland Development Trust	0
(94)	Central - Government Grants	(69)
(266)	Cultural - Government Grants	(206)
1,600	Education - Government Grants	(2,824)
(149)	Environment - Government Grants	(126)
(926)	Housing - Government Grants	0
(780)	Planning & Development - Government Grants	(136)
(261)	Roads & Transport - Government Grants	(477)
(401)	Social Work - Government Grants	(468)
(9,086)	**Total**	**(9,721)**

There are a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the grant is not fully spent on the specified project.

31 March 2010 £000		31 March 2011 £000
	Capital Grant Receipts in Advance	
0	NHS - Joint Therapy Unit/Eric Gray Resource Centre	89
0	Government Grant - Low Carbon Vehicle Procurement Support Scheme	82
0	**Total**	**171**

28. Related Parties

The authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

a) Central Government and Other Public Bodies

Central government has effective control over the general operations of the authority – it is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Details of all grants received from central government and other public bodies can be found in note 27.

b) Members

Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, open to public inspection at the Town Hall during office hours. The Register details the bodies where members are represented or for which they have declared an interest. The Council made payments totalling £7.529m (£7.529m in 2009/10) to these bodies.

c) Officers

All service managers and above were required to disclose any involvement with related parties of the Council.

The manager for sport and leisure is responsible for the grant payable to Shetland Golf Club under a three-year service level agreement and is also a member of the golf club. In order to ensure that no undue influence has occurred with regard to the transaction, the assessment is undertaken by another member of staff and the Executive Director presented the report for consideration by Council Members.

29. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed.

31 March 2010 £000		31 March 2011 £000
	Capital Investment:	
24,915	Property, Plant and Equipment	18,007
74	Intangible Assets	41
0	Revenue Expenditure Funded from Capital under Statute	0
24,989	**Total Capital Investment**	**18,048**
	Sources of Finance:	
947	Capital Receipts	1,572
4,721	Government Grants and Other Contributions	4,486
	Sums set aside from Revenue:	
8,066	Direct Revenue Contributions and Application of Reserves	9,163
11,229	Loans Fund Principal	2,827
24,963	**Total Capital Financing**	**18,048**
	Explanation of Movements in Year:	
9,162	Increase in underlying need to borrow	223
9,162	Increase in Capital Financing Requirement	223

30. Operating Leases

a) The Authority as a Lessee

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
272	Not later than one year	173
150	Later than one year and not later than five years	638
996	Later than five years	852
1,418	**Total**	**1,663**

31 March 2010 £000		31 March 2011 £000
1,418	Minimum lease payments	1,663
0	Contingent rents	0
(289)	Sub-lease payments receivable	(245)
1,129	**Total**	**1,418**

The above table shows lease payments for the year.

b) The Authority as a Lessor

The authority leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
40	Not later than one year	45
42	Later than one year and not later than five years	228
239	Later than five years	58
321	**Total**	**331**

No contingent rents were recognised in the period (2009/10: £nil).

During 2010/11 the Council did not have any finance leases (2009/10: £nil).

31. Termination Benefits

The Council terminated 36 employee contracts in 2010/11, incurring liabilities of £1.480m (£0.018m in 2009/10). Of the 36 contracts, 15 formed part of the Blueprint for Education review and 12 were part of the Ports of the Future project.

32. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). The Scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. It is administered separately by the SPPA. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The reason why sufficient information is not available to determine the Council's share of the scheme is because it has always been accounted for nationally with no detailed records for each local authority member.

In 2010/11, the Council paid £2.618m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2009/10 were £2.518m and 14.9%. There were no contributions remaining payable at the year-end. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2010/11 these amounted to £0.740m (£0.720m for 2009/10), representing 4.21% of teachers pensionable pay (4.23% for 2009/10. These costs are accounted for on a defined benefit basis.

33. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. The authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Shetland Islands Council is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made; however, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

b) Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

The charge required to be made against Council Tax, however, is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	11,561	5,554
Past service cost	(30,072)	1,722
Settlements and curtailments	1,167	0
Financing and Investment Income and Expenditure:		
Interest cost	17,900	14,125
Expected return on scheme assets	(14,517)	(9,066)
Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(13,961)**	**12,335**
Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	31,511	(85,355)
Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**17,550**	**(73,020)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(13,961)	12,335
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	9,134	8,284
Retirement benefits payable to pensioners	1,450	1,216

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a loss of £70.720m.

c) Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Total Liabilities: Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Opening balance at 1 April	342,879	193,332
Current service cost	11,561	5,554
Interest Cost	17,900	14,125
Contributions by scheme participants	3,593	3,447
Actuarial gains and losses	(33,309)	131,475
Benefits paid	(7,721)	(6,776)
Past service costs	(30,072)	1,722
Entity combinations	0	0
Curtailments	1,167	0
Settlements	0	0
Closing balance at 31 March	**305,998**	**342,879**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Opening balance at 1 April	195,710	134,353
Expected rate of return	14,517	9,066
Actuarial gains and losses	(1,798)	46,120
Employer contributions	10,584	9,500
Contributions by scheme participants	3,593	3,447
Benefits paid	(7,721)	(6,776)
Entity combinations	0	0
Settlements	0	0
Closing balance at 31 March	**214,885**	**195,710**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £12.756m (2009/10 £55.235m).

d) Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities:					
Local Government Pension Scheme	223,057	197,917	193,332	342,879	305,998
Discretionary Benefits	0	0	0	0	0
Fair value of assets in the Local Government Pension Scheme	**187,924**	**179,810**	**134,353**	**195,710**	**214,885**
Surplus/(Deficit) in the scheme:	**(35,133)**	**(18,107)**	**(58,979)**	**(147,169)**	**(91,113)**
Local Government Pension Scheme	(14,449)	1,208	(40,844)	(122,943)	(68,445)
Discretionary Benefits	(20,684)	(19,315)	(18,135)	(24,226)	(22,668)
Total	**(35,133)**	**(18,107)**	**(58,979)**	**(147,169)**	**(91,113)**

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £306 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £91 million. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £10.2 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.5 million.

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed both the Local Government Pension Scheme and Discretionary Benefits liabilities. Estimates for the Shetland Island Council's Pension Fund are based on the latest full valuation of the scheme as at 1 April 2011.

The inflation measure for determining the minimum pension increases in 2010/11 is the Consumer Price Index (CPI), compared to the Retail Price Index (RPI) in 2009/10.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the authority's liabilities in the Shetland Island Council Pension Fund by £56.056m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund or Housing Revenue Account.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	31 March 2011	31 March 2010
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.5%	7.8%
Bonds	4.9%	5.0%
Other	5.2%	5.4%
Mortality Assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5	21.5
Women	24.9	24.9
Longevity at 65 for future pensioners:		
Men	23.5	23.5
Women	27.0	27.0
Rate of inflation	2.8%	3.8%
Rate of increase in salaries	5.1%	5.3%
Rate of increase in pensions	2.8%	3.8%
Rate for discounting scheme liabilities	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	70%	85%

The Discretionary Benefits arrangement has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011 %	31 March 2010 %
Equity investments	80	80
Debt instruments	9	8
Other assets	11	12

f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Differences between the expected and actual return on assets	(0.51)	(15.60)	(47.60)	23.57	(0.84)
Experience gains and losses on liabilities	0.94	0.06	(4.19)	1.85	(0.13)

The actuarial present value of promised retirement benefits calculated similarly to the defined benefit obligation under IAS19, is shown in the table below:

	31 March 2011 £000	31 March 2010 £000
Present Value of Promised Retirement Benefits	299,000	345,000

34. Contingent Liabilities

At 31 March 2011, the authority had contingent liabilities of £11.4 million.

The Council has provided security cover, in the form of a irrevocable letter of credit for £1.896m, 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. As it is uncertain whether Viking Energy would withdraw from the project and the timing of such an event is unknown the authority has included the security cover as a contingent liability, in line with the Code.

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 31 March 2011 indicated a funding shortfall of £8.091m. The Council will review the position once the outcome of the 2011 triennial valuation is completed in December 2011.

There are a number of other projects, regarding which the Council is currently in legal dispute. These claims are being contested and are at present unresolved and not admitted and therefore the potential financial impact has not been disclosed.

35. Nature and Extent of 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 Investment Strategy Statement.

a) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet one of the following categories:

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

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

The authority has a policy of not lending more than £3 million of its surplus balances to any single organisation at any one time, apart from the Council's own bank; no deposits were placed with any financial institutions during the financial year 2010/11.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2011, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Amount at 31 March 2011	Historical experience of default (expressed as % of A)	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability at 31 March 2011	Estimated maximum exposure at 31 March 2010
	A	B	C	A*C	
	£000	%	%	£000	£000
Deposits with Banks	8,500	0	0	0	0
Customers	102	25	25	26	173

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and local authorities.

The authority does not generally allow credit for customers, such that £0.447m of the £2 million balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2010 £000		31 March 2011 £000
69	Less than three months	36
276	Three to six months	143
200	Six months to one year	104
316	More than one year	164
861	**Total**	**447**

b) Liquidity Risk

The authority has external investments with fund managers amounting to £223 million at 31 March 2011. The authority has ready access to these funds to ensure that cash is available as needed, so there is no significant risk that it will be unable to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to sell external investments at a time of unfavourable market conditions.

There are no current external capital borrowings and there is no requirement for external capital borrowings during 2011/12. All creditors are due to be paid in less than one year.

c) Market Risk

(1) Interest rate risk

The authority's investment strategy aims to manage interest rate risk within the Council's investments by having various investment portfolios managed by external fund managers. The investment portfolios are also separated into different asset classes to minimise the overall exposure to interest rate movements. The entire investment portfolio is held in unitised funds. As at 31 March 2011 the composition of these funds has been diversified between the following asset classes:

- UK Equities - 37%
- Overseas Equities - 38%
- UK Government Bonds - 20%
- Other Bonds - 5%

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

The Council at present has no external variable or fixed rate borrowing and is therefore not exposed to increased charges from movements in the interest rate. A risk has been identified that not all of the general fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but, over time, if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The treasury management team actively assesses interest rate exposure to determine the impact on the authority's financial reserves strategy and hence medium to longer-term financial strategy, which in turn informs the annual budget setting process.

According to this risk assessment, a general shift of +/- 1% in the UK Stock Market, which is the market with the largest investment exposure, would result in a gain or loss in the region of £0.800m for 2011/12.

(2) Price risk

The authority had £223 million of investments as at 31 March 2011 in the form of equity shares and bonds held within unitised products. The authority is consequently exposed to losses arising from movement in the price of the shares and bonds.

The authority's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external fund managers, asset classes, investment guidelines and benchmarks.

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 in the Comprehensive Income and Expenditure Statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £8.376m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2010/11.

(3) Foreign exchange risk

The authority has £85.930m invested in overseas equities and bonds held within unitised products, 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.

Housing Revenue Account (HRA)

a) Introduction and Statutory Background

The Housing (Scotland) Act 1987 provides the statutory framework for the housing accounts of Scottish local authorities. Part X of the 1987 Act requires a local authority to keep a Housing Revenue Account (HRA) of the income and expenditure for each year in respect of the houses, buildings and land specified in Part I of Schedule 15.

Part X of the 1987 Act and Schedule 15 thereto make significant provisions relevant to the preparation of the financial statements:

- Section 203(1) – housing authorities have a duty to keep a HRA.
- Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions.
- Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA.
- Schedule 15 – Housing authorities have a duty to avoid a deficit in the HRA – if there is a deficit a General Fund contribution must be made equal to the deficit.
- Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA.
- Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA.
- Schedule 15 – the Scottish Government may direct rectification of the Account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

The operation of the HRA in terms of statutory debits and credits is governed by Part II of Schedule 15 of the 1987 Act and will include income, i.e. dwelling rents, services and other charges, Housing Support Grant and expenditure, i.e. repairs, maintenance and management, capital financing costs, bad debts and voids.

Paralleling the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement;
- the Movement on the HRA Statement.

As the Movement on the HRA Statement incorporates the surplus or deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the Statement of Accounts.

b) The HRA Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with appropriate accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account Income and Expenditure Statement

2009/10 £000		2010/11 £000	£000
	Expenditure		
2,324	Repairs and maintenance	2,317	
563	Supervision and management	529	
1,679	Depreciation and impairment of non-current assets	12,518	
96	Movement in the allowance for bad debts	20	
136	Other expenditure	194	
4,798	**Total expenditure**		**15,578**
	Income		
(5,145)	Dwelling rents	(5,411)	
(195)	Non-Dwelling rents	(116)	
(1,512)	Housing Support Grant	(1,233)	
(5)	Other Income	2	
(6,857)	**Total income**		**(6,758)**
(2,059)	**HRA share of other amounts included in the whole authority Net Cost of Services but not allocated for specific services**		**8,820**
	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
106	HRA services' share of Corporate and Democratic Core		125
(1,953)	**Net Cost/(Income) of HRA Services**		**8,945**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(20)	(Gain) or loss on sale of HRA non-current assets		100
1,456	Interest payable and similar charges		901
0	Interest and investment income		(4)
59	Pension interest cost & expected return on pension assets		1
1,495	Net HRA share of operating expenditure		998
(458)	(Surplus) or deficit for the year on HRA services		**9,943**

c) Movement on the Housing Revenue Account Statement

2009/10 £000		2010/11 £000
0	Balance on the HRA at the end of the previous year	0
(458)	Surplus or (deficit) on the HRA Income and Expenditure Statement	9,943
755	Adjustment between accounting basis and funding basis under statute	(9,454)
297	Net increase or (decrease) before transfers to or from reserves	489
(297)	Net Transfers to or (from) reserves	(489)
0	Increase or (decrease) in year on the HRA	0
0	Balance on the HRA at the end of the current reporting year	0

The adjustments between accounting basis and funding basis under regulations are shown within disclosure note 7 and transfers to or from other Statutory Reserves are shown within disclosure note 8.

d) Notes to the Housing Revenue Account

(1) Number and Types of Dwellings

The following table shows the stock movements by apartment size. In 2010/11 a number of properties were identified as HRA properties that had previously been counted under general housing stock.

31 March 2010 Number	Housing Stock	31 March 2011 Number
88	1 Apartment	95
406	2 Apartment	417
550	3 Apartment	564
696	4 Apartment	678
39	5 Apartment	39
0	6 Apartment	0
2	8 Apartment	2
1,781		1,795

(2) Amount of Rent Arrears

The table below summarises the rent arrears position for the HRA dwellings. The trend shown below is of a decrease in the number of properties in arrears, but the amount of arrears has increased per property.

31 March 2010 £000		31 March 2011 £000
125	Rent Arrears	119
374	Number of properties in arrears (Number)	325
21.0	Properties in arrears as share of total stock (%)	18.1
334	Average amount per property in arrears (£)	366

(3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2010/11:

2009/10 £000		2010/11 £000	2010/11 £000
(138)	Balance as at 1st April		(175)
	Bad rent debt written off		
41	Over £1,000 (Council approved)	27	
13	Under £1,000 (delegated authority)	11	
54			38
5	Miscellaneous bad debt written off		2
(79)			(135)
(96)	Contribution to/(from) Housing Revenue Account		(20)
(175)	Balance as at 31st March		(155)

(4) Void Rents

The following table summarises the income lost due to voids in 2010/11. These amounts are included in the "Other expenditure" line of the Housing Revenue Account Income and Expenditure Statement

2009/10 £000		2010/11 £000
4	Ladies Drive Void Rents and Charges	2
84	General Needs Void Rents and Charges	67
31	Sheltered Housing Void Rents and Charges	36
1	Refurbishment Properties Void Rents and Charges	20
120		**125**

(5) Depreciation and Impairment of Non-Current Assets

The depreciation and impairment charge to the Housing Revenue Account increased significantly from £1.679m in 2009/10 to £12.518m in 2010/11. The main reason for this increase was a revaluation of council dwellings resulting in a reassessment of the split in the value of the assets between land and buildings. This resulted in an impairment charge of £10.986m on the land and there was a subsequent upward revaluation of buildings totalling £10.351m reflected in the revaluation reserve.

Council Tax Income Account

a) Statutory Background

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Account.

Council Tax is payable on any dwelling which is not an exempt dwelling (prescribed by an order made by the Scottish Government). The amount of Council Tax payable depends on the valuation band of the dwelling.

Council Tax Income Account

2009/10 £000		2010/11 £000
(9,729)	Gross Council Tax levied and contributions in lieu	(9,847)
(9,729)		(9,847)
(4)	Council Tax benefits (net of Government grant)	(3)
1,156	Other discounts and reductions	1,162
60	Write-offs of uncollectable debts and allowance for impairment	34
20	Adjustment to previous years' community charge and council tax	25
(8,497)	Transfer to General Fund	(8,629)

(1) Council Tax base

Overleaf is the analysis of the Council Tax base used to set the 2010/11 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, although 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 being students, student nurses, apprentices, Youth Training 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 2010/11

	BAND A	BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H	TOTAL
	Subject to Disabled Relief	£0 to £26,999.99	£27,000.00 to £34,999.99	£35,000.00 to £44,999.99	£45,000.00 to £57,999.99	£58,000.00 to £79,999.99	£80,000.00 to £105,999.99	£106,000.00 to £211,999.99	Over £212,000.00	
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)		3,073	1,782	2,587	1,661	1,153	214	51	1	**10,522**
Gross Tax Base (Properties x Weighting)		18,438	12,474	20,696	14,949	12,683	2,782	765	18	**82,805**
Adjusted Properties (Band D Equivalents)		2,049	1,386	2,300	1,661	1,409	309	85	2	**9,201**
Vacant Properties (Number.):										
Mandatory Standard Exemptions		(176)	(57)	(67)	(47)	(10)	(3)	(2)	(1)	**(363)**
Chargeable Dwellings subject to Disabled Reduction (Number)		(12)	(6)	(13)	(11)	(5)	0	(1)	0	**(48)**
Dwellings Effectively Subject to Tax by Virtue of :										
Disabled Relief (Number)	12	6	13	11	5	0	1	0	0	**48**
Class 18 (MoD) Dwellings (Number)	0	0	0	0	0	1	0	0	0	**1**
Revised Total Properties (Number)	12	2,891	1,732	2,518	1,608	1,139	212	48	0	**10,160**
Types of Property (Number):										
Single Discount (25%)	4	1,259	715	947	351	170	19	9	0	**3,474**
Double Discount (50%)	0	290	107	69	34	21	4	0	0	**525**
No Discount (0%)	8	1,342	910	1,502	1,223	948	189	39	0	**6,161**
	12	2,891	1,732	2,518	1,608	1,139	212	48	0	**10,160**
Properties Subject to Council Tax (Number)	11	2,431	1,500	2,247	1,503	1,086	205	46	0	**9,029**
Net Tax Base (Properties x Weighting)	55	14,586	10,500	17,976	13,527	11,946	2,665	690	0	**71,945**
Adjusted Properties (Band D Equivalents)	6	1,621	1,167	1,997	1,503	1,327	296	77	0	**7,994**
COUNCIL TAX 2010/11:										
General Fund Charge										
Tax Yield (£)	7,722	1,706,738	1,228,295	2,102,958	1,582,922	1,397,682	312,185	80,291	0	**8,418,793**
Charge per Property (£)	**702**	**702**	**819**	**936**	**1,053**	**1,287**	**1,521**	**1,755**	**2,106**	**10,881**

Non-Domestic Rate Income Account

a) Statutory Background

Occupiers of non-domestic property pay rates based on the valuation of property within the valuation roll for the area. The non-domestic rate poundage is determined by the Scottish Government.

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

Non-Domestic Rate Income Account

2009/10 £000		2010/11 £000
(15,520)	Gross rates levied and contributions in lieu	(17,912)
(15,520)		(17,912)
3,196	Reliefs and other deductions (net)	3,751
11	Payment of interest	0
38	Write-offs of uncollectable debts and allowance for impairment	4
156	Adjustments to previous years' national non-domestic rates	83
(12,119)	Contribution to national non-domestic rates pool	(14,074)

(1) Analysis of Rateable Values

The table below sets out the number of subjects liable for general rates and the rateable values at the 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 2010/11 is 40.7p (down from 48.1p) with a large business supplement of 0.7p for all subjects with a rateable value above £29,000. The aim of the reduction in poundage is to offset the increase in rateable values in Scotland due to the 2010 rateable value revaluation.

The Small Business Bonus Scheme was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme and applies to properties with a rateable value of £18,000 or less. 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. For 2010/11 this supplement is 0.7p (0.4p in 2009/10) on the rate poundage of all properties with a rateable value above £29,000, therefore the rate is 41.4p in the pound.

Category	Number of Subjects	Rateable Value £000
Commercial	561	6,447
Industrial	487	24,450
Other	857	12,171
TOTAL	**1905**	**43,068**

Trust Funds Administered by the Council

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

Fund Balance 31 March 2010 £000		Fund Balance 31 March 2010 £000
(16,910)	Shetland Development Trust	(16,855)
(647)	Zetland Educational Trust	(649)
(52)	Gilbertson Trust	(52)
(3)	William Strong Bequest	0
(2)	Samuel Mullay Bequest	(3)
(5)	Other	(5)
(17,619)	**Total**	**(17,564)**

The Zetland Educational Trust, with an income of £14,461 and expenditure of £12,464, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £941, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £100. 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.

The Office of the Scottish Charity Regulator gave consent for the William Strong Bequest to be wound up; the Trustees donated the closing balance of £3,262 to Crossreach, the social care arm of the Church of Scotland. Confirmation was received on 15 February 2011, from the Office of the Scottish Charity Regulator, that the William Strong Bequest had been removed from the Scottish Charity Register.

Details of the Shetland Development Trust can be found in the notes to the Group Accounts.

Group Accounts

a) Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2011 requires the Council to prepare group accounts where the authority has interests in subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality.

With regard to the position of Shetland Charitable Trust, Shetland Islands Council recognises the need to resolve the issue of grouping of accounts with Shetland Charitable Trust. However, it has not been possible to include the results of the Shetland Charitable Trust in the 2010/11 Group Accounts and the Council regrets that the qualification is likely to continue into a fifth year.

The Council is, however working to resolve the situation. The Shetland Charitable Trust is in the process of reviewing the composition of the Trust and when that work is complete it will be possible to reassess the relationship between the Council and the Trust for accounting purposes. It is envisaged that this work will be completed in time for the preparation of the 2012/13 Final Accounts.

b) Statement of Group Accounting Policies

The accounting policies of the Group Accounts are the same as those for the Council's single entity accounts. Where component bodies of the group prepare their financial statements on a different basis to that of Shetland Islands Council, appropriate accounting adjustments will be made, where they would have a material impact, to ensure that accounting treatments are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011.

(1) Group Boundary

Shetland Islands Council considers all entities in which it has an interest for consolidation into the Group Accounts. The following criteria are used for determining whether an entity falls within the Group Accounts and if so, on what grounds:

Materiality

Where the financial impact of omitting an entity from the group accounts would not cause a user of the accounts to form a different view on the accounts, the council has opted not to include these entities within the group boundary. Shetland Islands Council has therefore not included the Trust Funds (detailed in Note 38), with the exception of the Shetland Development Trust on the grounds that they are immaterial in relation to the group accounts.

Subsidiary

The Code defines a subsidiary as an entity which the authority controls through the power to govern their financial and operating policies so as to obtain benefits from the entity's activities. Control is usually presumed where an authority owns more than half the voting power of the entity.

The Council has identified two entities which fall under the criteria of subsidiaries:

- Shetland Towage; and
- 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 and is therefore not material.

Associates

The Code defines an associate as an entity for which the authority is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified four entities that meet the definition of an associate and, as such, both have been included in the Group Accounts as associates. These are;

- Northern Joint Police Board;
- Highlands and Islands Fire Board;
- Orkney and Shetland Valuation Joint Board; and
- Zetland Transport Partnership.

(2) Method of Consolidation

In accordance with the Code, the subsidiary Shetland Development Trust, has been fully consolidated. The Shetland Development Trust has a financial year-end of 31 March 2011. This means that the financial statements of the subsidiary are consolidated by adding like items of assets, liabilities, reserves, income and expenses together line by line to those of the Council's financial statements. All intra-group balances and transactions are eliminated upon consolidation.

The four associates have been consolidated at their financial year-ends of 31 March 2011 using the equity method, which is in compliance with the Code. This approach involves consolidating the Council's share of the net surplus or deficit for the year, as well as a share of the net assets of the entities. These results are expressed as a separate line within the Group Comprehensive Income and Expenditure Account and Group Balance Sheet. The Council's share of the results is deemed to be equal to the share of the funding that the Council contributed to each entity. In 2010/11 that was as follows –

- Northern Joint Police Board – In 2010/11 the Council contributed 6.15% of the Board's operating costs (6.42% in 2009/10);
- Highlands and Islands Fire Board – In 2010/11 the Council contributed 10.08% of the Board's operating costs (9.36% in 2009/10);
- Orkney and Shetland Valuation Joint Board – The Council contributed 51.7% of the Board's operating costs (51.8% in 2009/10); and

- Zetland Transport Partnership – In 2010/11 the Council contributed 100% of the partnership's operating costs (100% in 2009/10).

With the exception of the Shetland Development Trust, all group entities prepared their financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011. The Shetland Development Trust's accounts have been converted to a Code compliant basis where material (except as detailed below).

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.

Pensions Accounting

Pension assets and liabilities have been included in the accounts on the basis of IAS 19. The Shetland Development Trust is exempt from IAS 19 and no adjustment has been made in the Trust's accounts for it.

Group Movement in Reserves Statement 2010/11

	General Fund Balance £000	HRA £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share in Reserves of subsidiaries and associates £000	Total Group Reserves £000
Balance as at 31 March 2010	**(161)**	**0**	**(118,581)**	**0**	**(155,025)**	**(273,767)**	**(186,902)**	**(460,669)**	**18,335**	**(442,334)**
Movement in Reserves during 2010/11										
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	**(9,785)**	0	**(9,785)**	737	**(9,048)**
Other Comprehensive Income and Expenditure	0	0	**0**	**0**	0	**0**	(43,277)	**(43,277)**	(10,990)	**(54,267)**
Total Comprehensive Income and Expenditure	**(19,728)**	**9,943**	**0**	**0**	**0**	**(9,785)**	**(43,277)**	**(53,062)**	**(10,253)**	**(63,315)**
Adjustments between accounting basis and funding basis under regulations	16,745	(9,454)	0	(171)	0	**7,120**	(7,120)	**0**	0	**0**
Adjustment for a change in the authority's share of equity in its associates (See Note 10)	0	0	0	0	0	**0**	0	**0**	(620)	**(620)**
Net (Increase)/Decrease before Transfers to Statutory Reserves	**(2,983)**	**489**	**0**	**(171)**	**0**	**(2,665)**	**(50,397)**	**(53,062)**	**(10,873)**	**(63,935)**
Net Transfers to/(from) Other Statutory Reserves	0	(489)	4,224	0	3,615	**7,350**	**(7,350)**	**0**	0	**0**
(Increase)/Decrease in 2010/11	**(2,983)**	**0**	**4,224**	**(171)**	**3,615**	**4,685**	**(57,747)**	**(53,062)**	**(10,873)**	**(63,935)**
Balance as at 31 March 2011	**(3,144)**	**0**	**(114,357)**	**(171)**	**(151,410)**	**(269,082)**	**(244,649)**	**(513,731)**	**7,462**	**(506,269)**

Group Movement in Reserves Statement 2009/10

	General Fund Balance £000	HRA £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share in Reserves of subsidiaries and associates £000	Total Group Reserves £000
Balance as at 31 March 2009	**(70)**	**0**	**(114,308)**	**0**	**(180,329)**	**(294,707)**	**(222,090)**	**(516,797)**	**3,592**	**(513,205)**
Movement in Reserves during 2009/10										
(Surplus) or deficit on the provision of services	34,949	(458)	0	0	0	**34,491**	0	**34,491**	2,485	**36,976**
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	21,637	**21,637**	12,661	**34,298**
Total Comprehensive Income and Expenditure	**34,949**	**(458)**	**0**	**0**	**0**	**34,491**	**21,637**	**56,128**	**15,146**	**71,274**
Adjustments between accounting basis and funding basis under regulations	(14,662)	755	0	0	0	**(13,907)**	13,907	**0**	0	**0**
Adjustment for a change in the authority's share of equity in its associates (See Note 10)	0	0	0	0	0	0	0	0	(403)	**(403)**
Net (Increase)/Decrease before Transfers to Statutory Reserves	**20,287**	**297**	**0**	**0**	**0**	**20,584**	**35,544**	**56,128**	**14,743**	**70,871**
Net Transfers to/(from) Other Statutory Reserves	(20,378)	(297)	(4,274)	0	25,304	**355**	(355)	**0**	0	**0**
(Increase)/Decrease in 2009/10	**(91)**	**0**	**(4,274)**	**0**	**25,304**	**20,939**	**35,189**	**56,128**	**14,743**	**70,871**
Balance at 31 March 2010	**(161)**	**0**	**(118,582)**	**0**	**(155,025)**	**(273,768)**	**(186,901)**	**(460,669)**	**18,335**	**(442,334)**

Group Comprehensive Income and Expenditure Account for year ended 31 March 2011

2009/10 Net Expenditure £000		2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
50,933	Education Services	56,104	(8,304)	47,800
1,523	Housing Services	8,779	(5,677)	3,102
(2,059)	Housing Revenue Account	15,578	(6,758)	8,820
6,915	Cultural and Related Services	7,706	(877)	6,829
8,551	Environmental Services	9,094	(2,681)	6,413
2,196	Fire Services	2,197	0	2,197
13,321	Roads and Transport Services	21,394	(9,847)	11,547
11,847	Trading Services	28,272	(17,341)	10,931
1,972	Police Services	1,461	0	1,461
9,739	Planning and Development Services	14,838	(5,457)	9,381
26,744	Social Work	40,887	(8,384)	32,503
2,370	Central Services to the Public	2,436	(310)	2,126
6,649	Corporate and Democratic Core	7,572	0	7,572
2,268	Non Distributed Costs	(28,826)	0	(28,826)
1,529	Associates and Joint Ventures accounted for on an equity Basis	6,795	(8,121)	(1,326)
144,498	**Cost of Services**	**194,287**	**(73,757)**	**120,530**
(44)	Other operating income			(327)
(1,489)	Financing and investment income and expenditure			(21,252)
(106,382)	Taxation and non-specific grant income			(108,852)
393	Tax expenses			853
36,976	**(Surplus) or deficit on Provision of Services**			**(9,048)**
(20,308)	(Surplus) on revaluation of Property, Plant and Equipment assets			(15,540)
(43,410)	(Surplus) on revaluation of Available-for-Sale financial assets			(19,383)
0	Amounts recycled from the Available-for-Sale Financial Instrument Reserve upon derecognition			23,156
85,355	Actuarial (gains)/losses on pension assets/liablilities			(31,511)
12,661	Share of other comprehensive income and expenditure of Associates and Joint Ventures			(10,989)
34,298	**Other Comprehensive Income and Expenditure**			**(54,267)**
71,274	**Total Comprehensive Income and Expenditure**			**(63,315)**

Group Balance Sheet as at 31 March 2011

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
350,508	367,478	Property, Plant and Equipment		374,529
12,080	10,807	Intangible Assets	4	9,608
200,593	219,498	Long-term Investments	5	223,169
4,047	3,296	Long-term Debtors	5	3,495
567,228	**601,079**	**Long-Term Assets**		**610,801**
3,465	3,609	Inventories		4,023
11,896	10,468	Short-term Debtors	6	9,004
29,075	24,841	Cash and Cash Equivalents	7	10,972
654	1,245	Assets Held for Sale		206
45,090	**40,163**	**Current Assets**		**24,205**
(18,773)	(16,640)	Short-Term Creditors	8	(15,454)
(18,773)	**(16,640)**	**Current Liabilities**		**(15,454)**
(53)	(4)	Provisions		(10)
(58,979)	(147,169)	Other Long-Term Liabilities		(91,113)
(21,308)	(35,095)	Liabilities in Associates/Joint Ventures		(22,160)
(80,340)	**(182,268)**	**Long-Term Liabilities**		**(113,283)**
513,205	**442,334**	**Net Assets**		**506,269**
(294,707)	(273,767)	Usable Reserves		(269,082)
(222,090)	(186,902)	Unusable Reserves		(244,649)
3,592	18,335	Group Reserves		7,462
(513,205)	**(442,334)**	**Total Reserves**		**(506,269)**

Group Cash Flow Statement for the year ended 31 March 2011

2009/10 £000		2010/11 £000	2010/11 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(99,109)	Cash paid to and on behalf of employees	(102,976)	
(76,347)	Other operating cash payments	(88,879)	
(4,168)	Precepts paid	(3,407)	
(312)	Taxation	(642)	
(179,936)			(195,904)
	Cash Inflows		
3,706	Housing Rents	2,711	
0	Trading	551	
84,694	RSG	86,894	
676	DWP Grants	769	
30,286	Sales of goods and services	40,511	
10,256	Other operating cash receipts	3,575	
13,679	Other Government Grant	12,220	
7,857	Council Tax income	8,647	
9,189	NDR Income	8,672	
160,343			164,550
	Movement of working capital		
(145)	(Increase)/Decrease in Stock	(414)	
1,428	(Increase)/Decrease in Debtors	1,464	
(2,133)	Increase/(Decrease) in Creditors	(1,186)	
(850)			(136)
(20,443)	**Net Cash Outflow from Operating Activities**		(31,490)
	INVESTING ACTIVITIES		
	Cash Outflows		
(24,676)	Purchase of Fixed Assets	(18,048)	
(171,430)	Purchase of Long Term Investments	(238,884)	
(195,438)	Purchase of Short Term Investments	(107,900)	
(391,544)			(364,832)
	Cash Inflows		
932	Sale of Fixed Assets	1,572	
197,259	Sale of Long Term Investments	253,383	
199,444	Sale of Short term investments	119,300	
4,371	Capital Grant receipts	4,657	
5,747	Interest Received & Dividends	3,541	
407,753			382,453
16,209	**Net Cash Inflow from Investing Activities**		17,621
	FINANCING ACTIVITIES		
0	Cash Outflows	0	
0	Cash Inflows	0	
0	**Net Cash Flow from Financing Activities**		0
(4,234)	**NET INCREASE/(DECREASE) IN CASH**		**(13,869)**
29,075	Cash and Cash Equivalents at 1 April		24,841
(4,234)	Net movement of Cash and Cash Equivalents during the year		(13,869)
24,841	Cash & Cash Equivalents at 31 March		10,972

c) Notes to the Group Accounts

(1) Subsidiaries

The Group Accounts include the consolidation of the accounts of Shetland Development Trust (SDT) as a subsidiary of the Council.

(a) Shetland Development Trust (SDT)

The SDT is a public non-charitable trust and duly registered by Deed of Trust on 8 January 1996. The function of SDT is to assist local businesses by providing loan finance or by purchasing equity or leasing assets. The Council exercises 100% of the Trust's voting rights.

(2) Associates

The Group financial statements include the consolidation of the investments in Northern Joint Police Board (NJPB), Highland and Islands Fire Board (HIFB), Zetland Transport Partnership (ZetTrans) and Orkney and Shetland Valuation Joint Board (O&SVJB) as associates.

(a) Northern Joint Police Board (NJPB)

The NJPB was established at local government re-organisation in 1975 and provides policing services to the Highlands and Islands. In 2010/11 the Council contributed 6.15% of NJPB operating costs (6.42% in 2009/10) and its share of the year-end net liability of £17.750m (£28.704m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of NJPB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(4,757)	(4,573)
Gross Expenditure	3,966	5,855
Net (Surplus)/Deficit	**(791)**	**1,282**
Non-Current Assets	2,855	3,017
Current Assets	931	874
Current Liabilities	(443)	(495)
Non-Current Liabilities	(21,093)	(32,100)
Capital and Reserves	17,750	28,704

(b) Highland and Islands Fire Board (HIFB)

The HIFB was established at local government re-organisation in 1975 and provides fire services to Councils in the Highlands and Islands.

In 2010/11 the Council contributed 10.08% of HIFB operating costs (9.36% in 2009/10) and its share of the year-end net liability of £4.146m (£5.862m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of HIFB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(3,058)	(2,587)
Gross Expenditure	2,639	2,818
Net (Surplus)/Deficit	**(419)**	**231**
Non-Current Assets	4,714	4,265
Current Assets	486	382
Current Liabilities	(432)	(329)
Non-Current Liabilities	(8,914)	(10,180)
Capital and Reserves	4,146	5,862

Neither of the associates disclosed a value for contingent liabilities as the financial impact was unknown. The authority therefore cannot disclose its share of these contingent liabilities.

(c) Zetland Transport Partnership (ZetTrans)

ZetTrans was formed in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005.

The table below details Shetland Islands Council's share of ZetTrans' financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(1,708)	(1,579)
Gross Expenditure	1,708	1,579
Net (Surplus)/Deficit	**0**	**0**
Non-Current Assets	0	0
Current Assets	1,593	1,511
Current Liabilities	(1,593)	(1,511)
Non-Current Liabilities	0	0
Capital and Reserves	0	0

(d) Orkney and Shetland Valuation Joint Board (O&SVJB)

The O&SVJB provides the valuation service for Orkney and Shetland and is funded by both Councils.

The Council provides six members of the Board out of twelve and contributed 51.7% of the Board's operating costs (51.8% in 2009/10) and its share of the year-end net liability of £0.264m (£0.529m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of O&SVJB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(307)	(290)
Gross Expenditure	190	306
Net (Surplus)/Deficit	**(117)**	**16**
Non-Current Assets	0	0
Current Assets	12	11
Current Liabilities	(18)	(15)
Non-Current Liabilities	(258)	(525)
Capital and Reserves	264	529

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2011 (2010: nil).

(4) Group Intangible Assets

Group 31 March 2010 £000		Group 31 March 2011 £000
	Balance at start of year:	
20,483	Gross carrying amounts	20,645
(8,403)	Accumulated amortisation	(9,838)
12,080	**Net carrying amount at start of year**	**10,807**
	Additions:	
0	Internal development	0
74	Purchases	41
0	Acquired through business combinations	0
0	Assets reclassified as held for sale	0
0	Other disposals	0
0	Revaluations increases or decreases	0
0	Impairment losses recognised or reversed directly in the Revaluation Reserve	0
0	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0
0	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0
(1,435)	Amortisation for the period	(1,471)
88	Other changes	231
10,807	**Net carrying amount at end of year**	**9,608**

Included in the group intangible assets is a Fish Quota for £8.817m and a Fishing Boat Licence for £0.355m, both relating to Shetland Development Trust. The costs of these assets are amortised over a period of 20 years, being their estimated useful lives.

(5) Group Financial Assets

The following categories of financial instrument are carried in the Balance Sheet:

Group Long-Term 31 March 2009 £000	Group Long-Term 31 March 2010 £000	Group Current 31 March 2009 £000	Group Current 31 March 2010 £000		Group Long-Term 31 March 2011 £000	Group Current 31 March 2011 £000
				Financial Assets:		
				Investments:		
200,593	219,498	0	0	Available for sale financial assets	223,169	0
200,593	**219,498**	**0**	**0**	**Total Investments**	**223,169**	**0**
				Debtors:		
3	2	0	0	Loans and receivables	1,051	271
4,029	3,283			Loans and receivables - Shetland Development Trust	2,429	
15	11	0	0	Financial assets carried at contract amounts	15	1
4,047	**3,296**	**0**	**0**	**Total Debtors**	**3,495**	**272**
				Financial Liabilities:		
				Creditors:		
0	0	0	0	Accrued Interest Liability	0	(119)
0	**0**	**0**	**0**	**Total Creditors**	**0**	**(119)**

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

	Equity Investments £000	Loans and Receivables £000
Cost at 31/03/2011	7,681	10,045
Provisions		
At beginning of year	7157	8,923
Provided during year	94	
Released during the year		(1,307)
Total provided at 31/03/2011	**7,251**	**7,616**
Value net of provisions	**430**	**2,429**

(6) Group Short-Term Debtors

Group 31 March 2009 £000	Group 31 March 2010 £000		Group 31 March 2011 £000
2,239	2,179	Central Government Bodies	1,290
215	534	Other Local Authorities	389
824	95	NHS Bodies	67
80	124	Public Corporation and Trading Funds	106
8,445	7,417	Other Entities and Individuals	6,664
93	119	Trade Debtors of Subsidiaries	488
11,896	**10,468**	**Total**	**9,004**

(7) Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

Group 31 March 2009 £000	Group 31 March 2010 £000		Group 31 March 2011 £000
27	20	Cash held by the authority	22
2,616	3,935	Cash held by subsidiaries	3,596
9,926	7,402	Bank current accounts	7,251
16,506	13,484	Short-term certificates of deposit	103
29,075	**24,841**	**Total**	**10,972**

(8) Group Short-Term Creditors

Group 31 March 2009 £000	Group 31 March 2010 £000		Group 31 March 2011 £000
2,482	2,208	Central Government Bodies	3,512
17	129	Other Local Authorities	277
675	59	NHS Bodies	33
1,071	1,313	Public Corporations, Trading Funds and Charities	1,438
14,477	12,715	Bodies External to General Government	10,012
51	216	Accruals and Deferred Income	182
18,773	**16,640**	**Total**	**15,454**

(9) Financial Impact

The inclusion of the five organisations (subsidiary and associates) changes the net worth of the Group from the figure shown in the Council's own Balance Sheet.

The Group net worth at £506.269m is a reduction of £7.462m from the Council's Group's net worth of £513.731m. This as in previous years, reflects the downward impact on net worth from the pension liabilities of the Police and Fire Boards. This was partially offset by the surpluses of the Shetland Development Trust.

(10) Adjustment for a change in the authority's share of equity in its associates

The Group Movement in Reserve Statement contains a credit of £0.620m (£0.403m 2009/10) which reflects the changes in Shetland Islands Council's equity share in its associates. This has largely resulted from Shetland Islands Council's share of equity in Northern Joint Police Board (NJPB) decreasing from 6.42% in 2009/10 to 6.15% in 2010/11.

(11) Remuneration Report

No remuneration report has been compiled for the Group as the Shetland Development Trust does not have any senior employees nor makes payments to senior councillors.

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 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, and the Non-domestic Rate Account, the Trust Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of 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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 33, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

The Code 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 transactions of the Shetland Charitable Trust and its subsidiaries. In my opinion, the substance of the council's relationship with the trust gives it the power to control the trust's activities. As a result, the omission of the trust 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 deficit position of approximately £5 million to the Group Comprehensive Income and Expenditure Account (resulting from income of £10 million and expenditure of £15 million)

- net assets of approximately £217 million to the Group Balance Sheet (resulting from fixed assets of £30 million, investments of £183 million, net current assets of £7 million and long term liabilities of £3 million.)

Qualified opinion

In my opinion, except for the omission of the results of Shetland Charitable Trust from the group accounts, the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and of the local government body as at 31 March 2011 and of the income and expenditure of the group and the local government body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement and Statement on the System of Internal Financial Control does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

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

30th September 2011

Glossary of Terms

Much of the terminology used in this report is intended to be self-explanatory, however, the following definitions and interpretations of terms may be helpful:

1. Employee Expenses

This includes salaries, wages, overtime, bonus enhancements (if any), employer's pension and national insurance, travelling and subsistence expenses and other staff allowances.

2. Corporate and Democratic Core

Corporate and Democratic Core costs include the costs of policy-making and all other member based activities together with costs that relate to the general running of the Council. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the total cost relating to service activity.

3. Non-Distributed Costs

Non-Distributed Costs represent costs that cannot be allocated to specific services. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the total cost relating to service activity.

4. Transfer Payments

Transfer payments are made to agencies where no goods or services are received in return. For example, the cost of providing footwear and clothing grants for school children and students.

5. Precepts and Levies

Requisition payments made to associates and joint ventures.

6. Usable Reserves

Reserves that can be used to fund expenditure or to reduce local taxation.

7. Unusable Reserves

Those reserves kept only to manage the accounting processes for non-current assets, financial instruments and retirement benefits.

8. Capital Expenditure

This is expenditure incurred in creating, acquiring or improving assets. Borrowing, income from the sale of existing assets, revenue funds or external grants and contributions normally finances capital expenditure.

9. Void Rents

This refers to instances whereby the Council has forgone the opportunity to collect rental income on a property as a result of it being unoccupied.

Shetland Islands Council

Annual report on the 2010/11 audit

AUDIT SCOTLAND

Prepared for Members of Shetland Islands Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2010/11

This report summarises the key findings from the 2010/11 audit of Shetland Islands Council.

The acting chief executive is working with officers and elected members to drive the council's improvement framework. In November 2010, the council prepared an improvement plan to address the findings reported following the Accounts Commission hearing in June 2010. We have monitored the council's progress against the improvement plan throughout the year. The findings from this work will be included in a report which will be presented by the Controller of Audit to the Accounts Commission in December 2011. To avoid duplication therefore we have only made brief comments in this report in some governance and performance areas. More detailed comment will be included in the Controller of Audit's progress report.

The council's financial statements are an essential part of accounting for the stewardship of its resources. For the fifth consecutive year, we have given a qualified opinion on the financial statements of the council. The qualification relates to the fact that the council has not included the results of the Shetland Charitable Trust (SCT) in its 2010/11 group financial statements. We have not received any further evidence from the council to support the view that the SCT should not be included within the council's group. It remains our view, therefore, that the omission of the SCT and its subsidiaries from the council's group financial statements is not in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), and represents a material mis-statement of the group figures.

As has been reported in previous years, there were significant problems with the council's preparation and submission of the financial statements. The number of errors and omissions in the 2010/11 financial statements submitted for audit was unacceptable. The number of revisions to these statements has increased substantially the amount of work for both the council's finance staff and the audit team to conclude the audit this year. A greater concern is that the council advertised for public inspection a set of financial statements that were not Code compliant and have now been changed substantially. More rigorous review processes need to be put in place so that the 2011/12 unaudited financial statements comply with the Code and present a true and fair view of the council's position.

The significant problems identified during the audit have highlighted that there is a need to adequately resource the finance department to ensure it has the capacity to deliver Code compliant financial statements. The recruitment of an Executive Manager for Finance, who will be the replacement Section 95 finance officer, should be advanced as soon as possible. The council should ensure that the new Section 95 officer has adequate authority, profile and opportunity to challenge directors of services on budgetary matters, during times when choices will need to be made on where resources are to be spent.

The council continues to provide a range of high quality services, however the cost of providing these is leading to the council using substantial amounts of reserves each year which cannot be sustained over the longer term. All scrutiny agencies agree that the council needs to demonstrate that it delivers services in a way which delivers best value.

In 2010/11, Shetland Islands Council spent £187 million on the provision of public services. The council's net operating expenditure in 2010/11 was £122 million. This was met by central government and local taxation of £109 million, giving a deficit of £13 million, 11% of net expenditure for the year (27% in 2009/10). Investment income of £23 million was received during the year which created an overall surplus of £10 million.

The net operating expenditure includes a one off credit of £31.5 million in respect of the savings caused by a change in the basis for uprating pensions from the retail prices index to the consumer prices index. For comparison purposes, if this amount was removed, there would have been an increase in the cost of services for 2010/11 of £10.2 million (7%) when compared with 2009/10. Due to the pension adjustment and favourable stock market conditions, the council achieved its financial strategy of maintaining a £250 million reserves threshold and, at 31 March 2011, the council had total funds of £268.9 million. This is a decrease of £4.9 million from the previous year.

The council's long-term aim remains reducing the demand on reserves so that the draw on reserves will be zero in 2012/13. The economic climate and the outturn reports prepared by the council during 2011/12 indicate that the council may not achieve this.

The council still needs to demonstrate that it is able to collectively take the difficult decisions to reduce the draw on reserves to the level that will allow them to maintain the £250 million reserves strategy. To support members with these decisions, it is essential that an effective budget monitoring reporting process is in place. The format of budget monitoring reports to members has recently been revised and more detailed information on budgets and the use of reserves was presented to the Executive Committee in October 2011 than in previous years. However, in our opinion, the clarity of the members financial monitoring reports could be improved further, to clearly demonstrate the reason for financial pressures in the council and how corporate savings are to be delivered to reduce the draw on reserves.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recent Scottish Government's Spending Review confirms that significant budget reductions will be required in these years.

In addition, the Audit Scotland Report "*Scotland's public finances: responding to challenges*" contained a number of key messages for councils to consider given the financial constraints being faced.

The council is currently preparing a long term financial plan for 2012/13 onwards with the focus on an outcome based approach to service delivery. Continuing to deliver high quality public services with a reducing budget will be a significant challenge for the council.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Shetland Islands Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of Shetland Islands Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.

4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit and Standards Committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be made available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview report on local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

    - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
    - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. For the fifth year we have given a qualified opinion on the financial statements of Shetland Islands Council. The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) requires local authorities with interests in subsidiaries, associates and/or joint ventures to prepare group accounts in addition to their single entity financial statements, unless their interest is considered not material. Whilst the council has prepared group financial statements for 2010/11, it has not included the results of the Shetland Charitable Trust (SCT) in its group. 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 SCT and its subsidiaries would add a deficit of £5 million to the group comprehensive income and expenditure account and £217 million to the group balance sheet. This issue is discussed further at paragraph 17.

Refer Action Plan No. 1

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the head of finance has confirmed that, to the best of her 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. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual governance statement

12. We are satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement reflects the fact that the council has developed an improvement plan and that progress against this is due to be reported to the Accounts Commission.

Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). We are satisfied that the final version of the 2010/11 financial statements prepared by the council at the end of September, and on which the audit opinion is based, is in accordance with the Code with the exception of the exclusion of the SCT results from the group accounts which is a material departure from the Code.

Group accounts

15. 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 interests in one operational subsidiary and four associates and has included them in its group accounts in accordance with the Code. All four associates are audited by Audit Scotland and audit assurance has been taken from this work. The auditor of the subsidiary body, Shetland Development Trust (SDT), is KPMG who provided us with appropriate audit assurances.

16. We would like to highlight the following issues:

- With the exception of the SDT, all group entities prepared their financial statements in accordance with the Code. The SDT's figures used for inclusion in the council's group have been converted to a Code compliant basis where differences in treatment are material with the exception of financial assets and pensions. In relation to financial assets, all investments in the group accounts 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 SDT. These are valued at cost less provision for impairment where evidence exists. Pension assets and liabilities have been included in the council's accounts on the basis of International Accounting Standard (IAS) 19. The SDT is exempt from IAS 19 and no adjustment has been made in the trust's accounts for it. We have raised no objections to this treatment given the level of disclosure that has been made in relation to it.
- All bodies within the group received unqualified audit opinions from their auditors.

Group accounts audit qualification

17. 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 Code. The accounting treatment of the Shetland Charitable Trust (SCT) has resulted in the qualification of the council's group financial statements for the sixth consecutive year (five years by Audit Scotland, one by PricewaterhouseCoopers). 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 Code and represents a material mis-statement of the group accounts.

18. The qualification of the council's financial statements has led to a number of Section 102 reports being made by the Controller of Audit and contributed to a public hearing by the Accounts Commission. The Accounts Commission findings which were published following the public hearing in June 2010, stated that no reason had been heard which would lead to disagreement with the appointed auditor on this matter.

19. Our concerns about the SCT have always related 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 Code. We acknowledge 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 reported above the Code requires that local authorities should include interests in subsidiaries, associates and/or joint ventures in their group accounts. In our opinion, the following factors support our view that the council has an interest in the SCT and its results should be included in the council's group accounts.

20. **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 decided to stand down as a trustee due to a declared conflict of interest. In our opinion, this structure means that the council has the power to govern the financial and operational policies of the trust.

21. The relationship between the council and the trust has also been reported elsewhere. Following the public hearing in June 2010, the Accounts Commission issued findings stating that, in relation to the SCT, "councillors refused to acknowledge the possibility of conflicts of interest in relation to council business". In July 2010, 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 encouraged the trust to "move forward to adopt different, less high risk and more appropriate governance arrangements". In 2011, the SCT formed a Governance Review Group, which was a working group of trustees, to develop a set of proposals which it believes will ensure the trust's long-term future. The Group recommended that the SCT should change its structure so that it is governed by a body of 15

trustees, seven of whom will be councillors and the remaining 8 being members of the Shetland public. A change in the structure of the SCT has also been recommended by the QC appointed jointly by the trust and the council in 2011. The QC's opinion was that "the constitution of the Trust requires to be changed. This is because in a situation where the interests of the Trust and the interests of the council may be said either to be in potential conflict, or where the provision of a service by one may be to the potential advantage to the other, the trustees who are councillors will have a conflict of interest". Despite these recommendations in September 2011, the trustees voted against the proposals to reform the trust and have resolved to hold a referendum to decide on the future structure of the SCT.

22. **Purpose of the 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 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. The council is, therefore, obtaining benefits from the trust's activities. Specific examples of this are as follows:

- 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 that 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 residents in Shetland receive a high level of service in excess of that due to be provided by the council as part of its statutory responsibilities. Without consolidation of SCT results, 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.

23. **Financial relationships:** the SCT was created by the council to receive the oil disturbance payments (until 1 September 2000) which otherwise may have been received by the council. Total disturbance payments to the 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 council's interest in the council and its inclusion of the trust in the council's group accounts:

- The Shetland Development Trust, a subsidiary of the council, agreed in September 2010 to donate its current and future undistributed surpluses to the SCT. It was estimated that this would be in the region of £0.8 million per annum. This arrangement was revoked in September 2011.

- The SCT owns 90% of the share capital of one of its subsidiaries, Viking Energy. The council has provided security cover in the form of an irrevocable letter of credit for £1.896 million to National Grid Electricity Transmission (NGET) plc in respect of the NGET's agreement with Viking Energy in relation to an inter-connector cable to Shetland. The head of finance has explained that this guarantee was part of the partnership arrangements between the council, the SCT, Viking Energy and Scottish and Southern Energy. It was provided by the council to ensure the continuation of the project and was aligned to the council's overall economic development objectives. The guarantee will be payable if Viking Energy withdraws from the windfarm project and therefore would not need a grid connection. The amount of £1.896 million has been disclosed in the council's accounts as a contingent liability.

24. In conclusion, in our opinion, the above factors demonstrate that the council has an interest in the SCT and its results should be included in the council's group accounts. The Code gives information on the required accounting treatment of the trust in the group accounts. The Code states that entities which the authority controls, through the power to govern their financial and operating policies so as to obtain benefits from the entities' activities should be treated as subsidiaries. The Code describes that control is presumed to exist where an organisation holds more than half of the voting power of an entity. As noted above, given the current structure of the trust, our view is that the council has control through its majority interest on the trust board. It is also our opinion that the council is benefitting from the trust's activities. In this situation the Code requires that the trust's activities should be treated as if it is a subsidiary of the council.

25. If the structure of the trust were changed in the future, the audit qualification would be reviewed by the auditor. The impact on the qualification would depend on the remaining level of control that the council has the power to exercise over the trust. This is dependent on the proportion of trustees that are council members. The level of control that remains with the council would influence the accounting requirements regarding the council’s relationship with SCT. It should be noted, however, that, as stated above, the structure of the trust is not the only factor relevant to our decision. The results of the SCT may still require to be included in the council’s group accounts, even with a reduced number of council trustees. However, it is likely that the proportion of the trust's financial results that would need to be consolidated to comply with the Code would change.

Group balances and going concern

26. Excluding SCT, the net effect of inclusion of all of the council's group entities on the group balance sheet is to reduce net assets by £7.5 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 the SCT were included within the group results this would contribute net assets of £217 million to the group balance sheet, based on prior year audited financial statements.

27. 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 2011 due to the accrual of pension liabilities. In total, these deficits amounted to £330.3 million (2009/10 £533.5 million), with the council's share being £22.2 million (2009/10 £48.9 million).

Accounts submission

28. On 27 September we reported to the Audit and Standards Committee that, as reported in previous years, there were significant problems with the preparation and submission of the financial statements.

29. Section 95 of the Local Government (Scotland) Act 1973 states that “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.” The council’s Section 95 officer with this responsibility is the head of finance who also has an obligation to ensure that the council’s accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). All councils are required to submit accounts to the Controller of Audit by 30 June, prior to them being audited by the appointed auditor’s team between 1 July and 30 September.

30. The Section 95 officer who was in post at the start of the financial year retired from the council on 31 March, together with the financial accountant. The current Section 95 officer was appointed in April 2011 on an interim basis. The changes in the finance section were progressed as part of a planned restructuring of council departments. It was recognised by the council that the scale of these changes was substantial at a key stage in preparing the council’s financial statements. The council, therefore, employed specialist external support to assist with the preparation of the statements. In the council's opinion this process was only partially successful. The Section 95 officer was responsible for ensuring that these arrangements were adequate for compiling the financial statements.

31. The council’s unaudited financial statements were submitted to the Controller of Audit on the deadline date of 30 June. This version of the statements is expected to be of appropriate quality to be advertised for public inspection. However, the statements submitted for audit did not comply with the Code as several sections were incomplete. In particular, the group accounts section of the l statements had not been prepared. Further to this, the council’s statements included the accounts of the Shetland Pension Fund which should have been submitted separately to the Controller of Audit on 30 June. The statements had also not been reviewed or discussed by council members prior to being submitted for audit as is considered good practice in other local authorities.

32. A second set of accounts was submitted for audit on 4 July but it still did not comply with the Code in several major areas. On the 18 July, the appointed auditor wrote to the head of finance to express her serious concerns on the quality of the accounts that had been submitted for audit and on the lack of working papers to support the figures in the financial

statements. The impact of the poor quality of the accounts and working papers was that the audit team could not progress the audit and there was a risk that the audit would not be concluded by the 30 September deadline.

33. In response, a third set of draft accounts was provided for audit on 26 July together with more detailed working papers. This set of financial statements was more complete than the previous versions, although the group accounts section was still incomplete. This version of the unaudited accounts was submitted to the Controller of Audit on the same day and was later advertised in the local press for public inspection.

34. The audit team began working on the revised version of the accounts on 26 July. The delay in submitting these accounts, and the fact that this was the third set of unaudited accounts prepared, led to a large amount of duplication in the audit process, which had originally started on 30 June, and additional work for the auditors and the finance section staff.

35. On 6 September the matters arising identified through the audit of these revised statements were discussed with the head of finance. As a consequence, a further version of the financial statements was provided to external audit on 12 September. This version reflected a number of the errors and amendments identified through the audit process. However, in our opinion, it did not incorporate all the amendments requested by us at the meeting of 6 September. Also, as late as 22 September, some supporting information requested relating to financial instruments and reserves was incomplete. When this information was received, significant errors in the accounts were identified which then had to be corrected.

36. A final set of updated financial statements including all agreed amendments was provided to us for checking on 30 September, being the final day of Audit Scotland's audit deadline. This is the version of the financial statements that contains the audit opinion.

37. In conclusion, the number of errors and omissions in the financial statements submitted for audit was unacceptable. The number of revisions to these accounts has increased substantially the amount of work for both finance staff and the audit team to conclude the audit this year. Of greater concern is that the council advertised for public inspection a set of financial statements that were not Code compliant and have now been changed substantially. More rigorous review processes need to be put in place so that the 2011/12 unaudited financial statements comply with the Code and present a true and fair view of the council's position.

38. The significant problems encountered during the audit of the financial statements has highlighted that there is a need to adequately resource the finance section , to ensure it has the capacity to deliver Code compliant financial statements by the required deadlines. The council has reviewed the structure of the finance function and is currently recruiting a Director of Corporate Services who will oversee the section.

Refer Action Plan No. 2

39. The current Section 95 officer is due to leave the council and the post of an Executive Manager for Finance has been advertised, who will take on this role. It is essential that recruitment to this position is advanced as soon as possible. It is considered good practice for

Section 95 officers to be a member of the senior management team. In the council's new structure this post will be an executive manager's role. The council should therefore ensure that the new Section 95 officer has adequate authority, profile and opportunity to challenge directors of services on budgetary matters, during times when choices will need to be made on where resources are to be spent.

Refer Action Plan No. 3

Prior year adjustments

40. The 2010/11 financial statements have been prepared in accordance with the Code which is based on International Financial Reporting Standards (IFRSs) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Principles (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of government grants, the inclusion of an accrual for employee benefits such as annual leave and accounting for assets held for sale. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £446.282 million to £460.669 million. However, the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Pension costs

41. At 31 March 2011 the pension fund had a net pension liability of £91.1 million, a significant reduction from the previous year's figure of £147.2 million. This arose mainly from upward movements in fund assets and the new way of linking future pension increases to CPI rather than RPI.

Pension fund accounting requirements

42. The council is responsible for the management and administration of Shetland Islands Council Pension Fund. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. The audit of the pension fund is ongoing and a separate annual report will be issued by us.

Whole of government accounts

43. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to the Scottish Government on 11 August, thereby missing the deadline date of 29 July. A revised WGA pack was prepared by the council and submitted for audit in October 2011. Due to this late submission, the deadline of 30 September to complete the audited return was not achieved. This is the second consecutive year that the deadline has been missed and the council should review its processes to ensure that the 2011/12 WGA dates are achieved.

Refer Action Plan No. 4

Trust funds

44. Shetland Islands Council administers, as sole trustee, 8 trust funds related to specific services. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.

45. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). The main factors considered by OSCR were compliance of the Trustees Annual Report, the layout and content of financial information and the move towards independent external scrutiny of the accounts. Shetland Islands Council was assessed in the "Below Average" category.

Refer Action Plan No. 5

Outlook

Carbon Trading

46. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is now required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council monitors energy consumption and receives all energy bills centrally. 2010/11 is the registration year and the council has informed us that the costs incurred are approximately £2,000 and that the costs in 2011/12 are expected to be at a similar level. The impact of this on the council will be kept under review.

Audit appointment for 2011/12

47. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Shetland Islands Council but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

48. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

49. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

50. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

51. In 2010/11, Shetland Islands Council spent £187 million on the provision of public services. The council's net operating expenditure in 2010/11 was £122 million. This was met by central government and local taxation of £109 million, giving a deficit of £13 million, 11% of net expenditure for the year (27% in 2009/10). Investment income of £23 million was received during the year which created an overall surplus of £10 million.

52. Net operating expenditure includes a one off credit of £31.5 million in respect of the savings caused by a change in the basis for uprating pensions from the retail prices index to the consumer prices index. For comparison purposes, if this amount was removed, there would have been an increase in the cost of services of 2010/11 of £10.2 million (7%) when compared with 2009/10.

53. The budget set for 2010/11 was based on a Band D council tax level of £1,053 with planned contributions from reserves of £40.37 million. Council decisions during the year revised the budgeted draw on reserves to £53.44 million.

54. After taking account of statutory adjustments, the actual draw on reserves was £31.27 million, a favourable variance of £22.17 million against the revised budget. The main reason for the variance against budget was a net underspend of £23.95 million on capital, of which £4.06 million was transferred to revenue, with the remainder being slippage or revisions to the programme. A net underspend of £0.33 million on the general fund and an £0.887 million overspend on the Housing Revenue Account were reported.

Financial position

55. Exhibit 1 shows the balances in the council's funds at 31 March 2011 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 assets. The council's funds at 31 March 2011 totalled £268.898 million, a decrease of £4.856 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010 £ million	31 March 2011 £ million
General Fund	0.000	3.000
Capital Fund	117.625	108.404
Repair and Renewal Fund	85.989	76.027
Reserve Fund	66.752	61.621
Insurance Fund	0.254	0.222
Capital Efficiency/ Spend to Save Reserve	0.000	5.000
Revenue Efficiency/Spend to Save Reserve	0.000	0.500
Potential Contingent Liability	0.000	11.400
Marine Superannuation Fund	2.974	2.582
Hansel Funds	0.083	0.090
Central Energy Efficiency Fund	0.077	0.052
Total	**273.754**	**268.898**

Source: Shetland Islands Council 2010/11 financial statements

56. The overall level of reserves of £268.898 million is in accordance with the long-term strategy for maintaining the financial reserves of the council. However, when the funds to be used for specific purposes are deducted, the level of reserves held for general use falls to £252.825 million, just above the financial policy floor of £250 million. With current levels of draws on reserves, there is a significant risk that the council's reserves will be fully used in a short period of time if expenditure levels continue to exceed income. The council took steps to address this risk by bringing forward the financial planning process for 2012/13 onwards to July 2011.

57. A report by the Head of Finance to the Executive Committee in October 2011 highlights that, if approved budgets for 2011/12 are achieved, the council's reserves will fall to £219 million.

The report states that "it is imperative that the council sets challenging and ambitious financial targets to get the draw on reserves back to a sustainable level." Another report at this time says that by the end of June 2011, £7 million out of the £9.4 million budget shortfall for 2011/12 has been identified as savings achieved. At the same time unallocated savings included in the budget, result in corporate savings still to be achieved in 2011/12 of £6.1 million. There is therefore a risk that the council's minimum floor level of £250 million of reserves will not be maintained beyond 2011/12 unless expenditure is further reduced. The council is now preparing for the 2012/13 budget-setting process with the knowledge that difficult decisions will have to be made to ensure that sufficient levels of reserves are maintained for future years.

58. On 3 October the Executive Committee approved a paper which detailed preliminary principles on the use of reserves for the 2012/13 budget strategy. This includes maintaining a reserves policy for the total of the general fund discretionary reserves (the reserve fund, the capital fund and the repairs and renewal fund) at no less than £250 million. The reserves policy is to be kept under review as part of the council's improvement action plan work on financial management. At the same meeting the Executive Committee also set out a three year Strategic Budget plan for the financial years 2012/13 onwards.

59. The council still needs to demonstrate that they are able to collectively take the difficult decisions to reduce the draw on reserves to the level that will allow them to maintain the £250 million reserves target. To support members in making these decisions, it is essential that a strong budget reporting process is in place. In our 2009/10 report to members we reported that there was scope for more clarity in the financial information that is presented to members.

60. In November 2010 the council approved an improvement plan which covered a wide range of activities across the council. One of the actions on the plan is to establish rigorous processes to ensure that its use of resources is on a footing consistent with implementing and sustaining its financial strategy. A financial planning and budgeting framework report was agreed by the Executive Committee in July 2011, and this has been further developed through the October report discussed above. The council has developed a timetable to review its reserves and charging policies and has implemented Spend to Save projects. The impact of these actions will be kept under review as part of the 2011/12 audit.

61. The budget setting processes have been reviewed and changes implemented. The format of financial monitoring reports to members has also been revised and more information on budgets and the use of reserves was presented to the Executive Committee in October 2011. However, in our opinion, the clarity of these reports could be improved further. For example, the report presented to members in October monitoring the overall financial performance of the council could contain more detail to more clearly demonstrate where and why the financial pressures in the council are occurring and how the corporate savings are to be delivered to reduce the draw on reserves. It is essential that budget monitoring reporting to members continues to develop to ensure they have a complete view of the financial challenges facing the council and the options that are available.

Refer Action Plan No. 6

62. External advice has also been obtained to maintain momentum on achieving efficiencies and savings for the period 2011/12 to 2013/14 and progress on this is monitored by the corporate management team. A timetable of activity has been developed to review high level cost changes and new cost pressures.

63. A suite of national financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the Executive Manager - Finance should consider reporting these indicators as part of the financial statements. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. The indicators will be issued to the council separately for consideration when they are available for all councils.

Capital investment and performance

64. In October 2010 the council approved a five year capital programme. The 2010/11 financial statements detail capital expenditure of £18 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. The general services programme includes investments on infrastructure assets and new tugs.

65. The planned capital expenditure for 2010/11 was originally £49.4 million, but this budget was revised to £27.7 million. There was slippage of £4.9 million and a further £4.8 million of expenditure incurred was transferred to revenue to comply with the Code. The level of slippage and delay in progressing capital projects is substantial. This has been carried forward into 2011/12 and 2012/13, the capital programme for 2011/12 has also been reduced by £5 million. Whilst the level of slippage was reported to the Executive Committee in July, the implications of the slippage on individual projects and the impact on service delivery were not included in this report.

Refer Action Plan No. 7

Treasury management

66. The current economic climate means that 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 £7.8 million in 2009/10 to £3.3 million in 2010/11 (£10.8 million and £13 million in 2008/09 and 2007/08 respectively). The council sold a large number of investments during the year and realised gains of £23 million were transferred to reserves. At March 2011 the council held cash of £7.3 million.

Resource Management

Asset management

67. A new Local Housing Strategy for 2011-16 was finalised by the council during the year and this sets the key housing priorities for Shetland for the next five years. The council's aims in the strategy are to increase the housing supply to meet the high levels of demand as well as improving the condition and sustainability of houses. The strategy was developed in partnership with the Housing Strategies Steering Group which is a multi-agency group which develops, implements and monitors the council's housing strategies.

68. The assets and properties service has experienced ongoing staffing issues which have resulted in delays in a number of projects over the last three years. The council had plans to complete a review of the non-housing estate by the end of March 2008 but, due to staffing shortages, this has still not been done. An asset strategy manager was appointed in April 2011 and a draft asset strategy and action plan is due to be completed by December 2011. The timing of the review of non-housing estate will be included in the action plan.

Procurement

69. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009, the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The AIP highlighted that the council's score in 2009 of 16% was significantly lower than the Scottish average and that actions across the organisation were required to improve this score. The council's score for 2010 had not improved from the 2009 level.

70. In 2010, the council established a new procurement section to offer support and guidance on procurement practices to officers. A procurement network was also set up to help progress procurement practices across the organisation.

71. In 2011 we performed a follow-up review of the actions taken by the council in response to the Audit Scotland report "Improving Public Sector Purchasing". At the time of our review, the council's procurement strategy had not been updated. A revised strategy was due to be approved by the end of October 2011. The council intends to use this revised strategy as the basis of an action plan for focussing on the high priority areas identified by the PCA.

Financial Regulations

72. The council's financial regulations govern the procurement of goods, work and services and there are standing orders in place covering tendering and contracts. As part of the council's improvement plan, these documents are currently being reviewed with a view to implementation before the end of the 2011/12 financial year.

People management

73. An interim chief executive has been in post since August 2010. He has worked with officers and elected member to drive the council's improvement plan. The plan includes the review of the council's officer structures. A review of the management structure of the council has now been completed and there are now five director posts. Four of these posts are filled but there is still a vacancy for a Director of Corporate Services. A further restructure has been done of senior manager posts with amalgamation of posts following the departure of some senior managers. The management review which was approved in 2011/12 has a target saving of 15 senior management posts equating to £1 million per annum.

74. A workforce efficiency strategy was developed as part of the response to the financial challenges being faced and progress on achieving it is reported to the Executive Committee. The most recent development in relation to this strategy is the implementation of an Efficiency Partnership Group (EPG). The aim of the EPG is to facilitate closer working on the major challenge of identifying efficiency saving and implementing efficiency programmes. The EPG will oversee the impact on staff of the changes and will be a sub-group of the Employee Joint Consultative Committee (EJCC).

75. A Vacancy Management Panel was introduced during the year to critically review the council's approach to recruitment to vacant posts. This system, alongside general budget pressures, has created a slowdown and stabilisation of overall staffing numbers and staffing costs. Reducing the council's overall staffing costs by a significant amount is a key part of the council's 2011/12 planned savings.

Outlook

2011/12 budget

76. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring. As noted above, there is a risk that the council's current minimum floor level of £250 million of reserves will be breached in 2011/12. In response to these challenges the council has agreed a revised financial planning and budgeting framework. The financial reserves strategy is also to be kept under review.

Financial forecasts beyond 2011/12

77. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recent Scottish Government's Spending Review confirms that significant budget reductions will be required in these years. The council is currently preparing a long term financial plan for 2012/13 onwards with the focus on an outcome based approach to service delivery. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 8

Governance and accountability

78. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

79. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

80. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

Corporate governance

81. 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
- Financial management
- Aspects of governance and accountability

The Controller of Audit's report of May 2010 concluded that the council needed to improve its governance and accountability arrangements.

82. 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.

83. In response, the interim 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". 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".

84. Since the September 2010 report, the audit team has continued to review developments made by the council. All of the issues raised by the Accounts Commission have been included within the improvement plan, approved by the council in November 2010 and workstreams are in place to ensure objectives are achieved. Progress on the improvement plan is reported to the council's Audit and Standards Committee. The audit team is currently working with colleagues to prepare a report for the Accounts Commission on the council's progress against its improvement plan. This report is due to be presented at the December 2011 Accounts Commission meeting. To avoid duplication, with the exception of financial management, detailed discussion of the progress on the areas raised by the Accounts Commission has not been included in this report.

Processes and committees

85. 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. During the year the council's political leadership, committee structure and decision making processes were significantly revised. In May, the council introduced a committee structure around four strategic groupings: Environment and Transport; Economic Development; Social Services; and Education and Families. A refreshed policy and performance framework underpins the new governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies.

86. The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with a new Executive Committee. The Executive Committee also has responsibility for overall financial planning arrangements, the reserves policies, budget setting and monitoring. The decision making process is supported through the Audit and Standards Committee which has a remit to oversee standards within the council.

87. As part of the annual audit process and in preparation for the 2011 report to the Accounts Commission, the audit team has attended a number of committee meetings to review the

revised structure. It is too early to judge how effective the changes have been, and the audit team will continue to attend committee meetings in 2011/12.

Internal control

88. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

89. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

90. As part of our work, we took assurance from key controls within the council's financial systems, with the controls of three key systems being tested by internal audit. The results of our review of key controls were reported to the Audit & Standards Committee in August 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements, resulting in additional audit testing of fixed assets. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.

Risk management

91. In our 2008/09 and 2009/10 reports we highlighted that the council was in the process of reviewing and updating the strategic and departmental risk registers to reflect the council's priorities. Due to the restructuring in the council, this work has not been progressed across all services. Risk management across the council is now re-assigned to the new business unit team leaders, who are currently being appointed. It is important that the business unit risk registers are progressed to ensure that the council is aware of the risks that it needs to manage effectively.

Refer Action Plan No. 9

ICT

92. The council has maintained good progress in providing a stable information management environment. This is being achieved through the implementation of policies, guidance, standards and training to meet the council's information governance requirements. The council recognised the need to maintain an information asset register (IAR) as part of good governance and the Information Technology Infrastructure Library (ITIL) compliance project included the creation of a system catalogue which was the basis for the IAR.

93. The council makes good use of ICT to support and deliver services. It also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. There is an ICT strategy in place covering the period 2007-2012 and there is an ICT infrastructure plan for the provision of corporate ICT infrastructure, education

infrastructure, corporate information security, mobile working and customer management investment.

94. ICT strategy has adopted the use of virtualisation technology to help manage information storage. This should achieve cost savings and improve operational efficiency. Currently, virtualisation technology is used for a Business Continuity/Disaster recovery (BC/DR) platform, the ICT helpdesk and the mobile telephone server. The nondomestic rates system is currently being upgraded to use the technology. When vendor support is assured and in-house knowledge is developed, the council is planning to initiate a full virtualisation project for all servers in 2013.

95. The council's business continuity planning (BCP) including the ICT plan was tested at the end of 2009. Since then, the council has implemented an ITIL service catalogue where every system/service has its business continuity arrangements reviewed at least annually.

Data handling and security

96. 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, 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. From April 2010 the Information Commissioner's office has been using new powers to fine organisations up to £500,000 for serious data protection breaches.

97. The work carried out to maintain progress with the council's information management plans include:

- The inclusion of information risks and data sharing risks as part of the standard risk register.
- The System Catalogue as part of ITIL includes a section to ensure 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 a part of staff induction training.
- An Information Officers group has been set up to improve awareness and understanding of information management and security in each service.

98. The Audit Scotland online survey YourBusiness@Risk (YB@R) was reissued in May 2011 to help assess the effectiveness of new and upgraded policies. This was issued to around 2,000 staff and helped raise awareness of ICT security issues and policy. In general, good and improving levels of awareness were evident in a number of areas surveyed. However, the survey identified areas where more progress is required, for example the number of people finding it necessary to write down passwords had increased. In response, best practice

guidelines are being developed and will be published on the council's intranet by the end of 2011.

99. The Government Secure Extranet (GSX) is a secure network that allows public sector organisations to interact and share data privately and securely. To be allowed access to the GSX, local government authorities must be in compliance with the Code of Connection (CoCo). As part of this, GSX email has been implemented and the council has been appropriately accredited following a compliance audit in August 2011.

100. Other data security initiatives by the council include the issue of encrypted memory sticks to all councillors and other users on demand. Laptops, including members' laptops have also been encrypted where this was deemed necessary because of the sensitive nature of the data.

Shared services

101. A major challenge facing councils is the need to achieve potential cost savings through opportunities for shared IT developments. In June 2011, a report on the review of ICT in the public sector in Scotland was published. The report describes a state of fragmentation in which organisations have local plans and strategies and the prevalent model is one of "stand alone self-sufficiency". The report recommends that this is no longer affordable and organisations should commit to an era of sharing in ICT that will offer better value while still meeting the needs of individual organisations and their customers.

102. The council's ICT Service provides services to most public sector partners in Shetland e.g. the Charitable Trust, Shetland Arts, the Assessor. Plans to provide ICT services to the Shetland Recreational Trust are well advanced and will be implemented by March 2012. In addition, the ICT Service provides the ICT Helpdesk service for NHS Shetland and also acts as a BC/DR site for them.

Prevention and detection of fraud and irregularities

103. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

104. Shetland Islands Council has appropriate 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 whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.

National Fraud Initiative in Scotland

105. 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 £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.

106. The 2009/10 NFI national annual report was published May 2010, which included Shetland as one of seven Scottish councils where improvement was required. The council was also criticised in our 2009/10 annual report for its level of engagement in the NFI process. In response the head of finance presented a report to the Audit and Scrutiny Committee on 27 September 2010. The council considers that it has, on the whole, delivered on the targets agreed, which were based on the milestone dates within the 2010-11 NFI handbook. The council has said that in its opinion all matches, or a reasonable sample of matches, have been investigated and reported with no intentional fraud discovered. However, the exercise highlighted a number of concessionary travel and disabled parking badges that had not been cancelled for deceased persons. The council consider that the 'Tell Us Once' project should reduce the risk of this issue arising in future. We will review the council's response to the NFI initiative as part of our ongoing audit work and the results will be included in a national report to be published in May 2012.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

107. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Shetland Islands Council are satisfactory and we are not aware of any specific issues that we need to report.

Roles and relationships

108. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. To assist in complying with the revised procedures for registering and declaring interests, the Standards Commission recently conducted a training session in the form of a roadshow for Shetland Islands Council. The event was led by the Standards Commission's Convenor and supported by a Senior Investigating Officer from the Office of the Public Standards Commissioner for Scotland. The occasion was well attended by the council leadership and members together with the Chief Executive, the Monitoring Officer and other council lawyers and committee officers all of whom received guidance on the operation of the new code of conduct.

109. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Public Standards Commissioner for Scotland who determines whether, in his view, there has been a breach. If no evidence is found, the matter is closed. However, if he concludes that there has been a breach of the Code, he reports to the Standards Commission which then decides whether to hold a hearing.

110. At the beginning of 2010/11, the council's Monitoring Officer was aware of outstanding complaints against four councillors. These complaints were investigated with the result that two of them were not upheld while the remaining two led to a report being submitted to the Standards Commission. Following a hearing, the Commission handed down a sanction of "censure" against two councillors and this was reported at a council meeting in October 2010. During 2010/11 there were three further complaints made to the Standards Commission against five councillors. All of these complaints were dismissed.

Best Value, use of resources and performance

111. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

112. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

113. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

114. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

115. During the course of their audit appointment, auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

Management arrangements

Vision and strategic direction

116. The council's corporate plan was agreed in 2008 and was refreshed in 2010 for several reasons including the need to include the impact of the economic downturn and the development of the Single Outcome Agreement (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 efficiently and effectively. The revision of the corporate plan was a positive step by the council and will help ensure that actions are planned to address current conditions. Progress on the corporate plan is reported to the council at 6-monthly intervals.

117. The Section 102 report prepared by the Controller of Audit in May 2010 stated that "the council has not demonstrated that it can set a clear strategic direction, backed by sound and

consistent decision making."   Since then, the improvement plan has been developed by the council to address the concerns expressed by the Accounts Commission. As noted previously, the council's progress against the plan will be reported to the Accounts Commission in December 2011.

Performance management

118. The council is continuing to develop its performance management system and this is a specific workstream on the council's improvement plan. The council was aiming to fully embed its Planning and Performance Management Framework (PPMF) by September 2011 but there has been some slippage and further work is still required. During the year, workshops were held to develop PPMF and its use and format was approved by the Executive Committee in July 2011. Covalent software was purchased during the year and a PPMF project team is established. More detail on the council's performance management arrangements will be included in the December progress report.

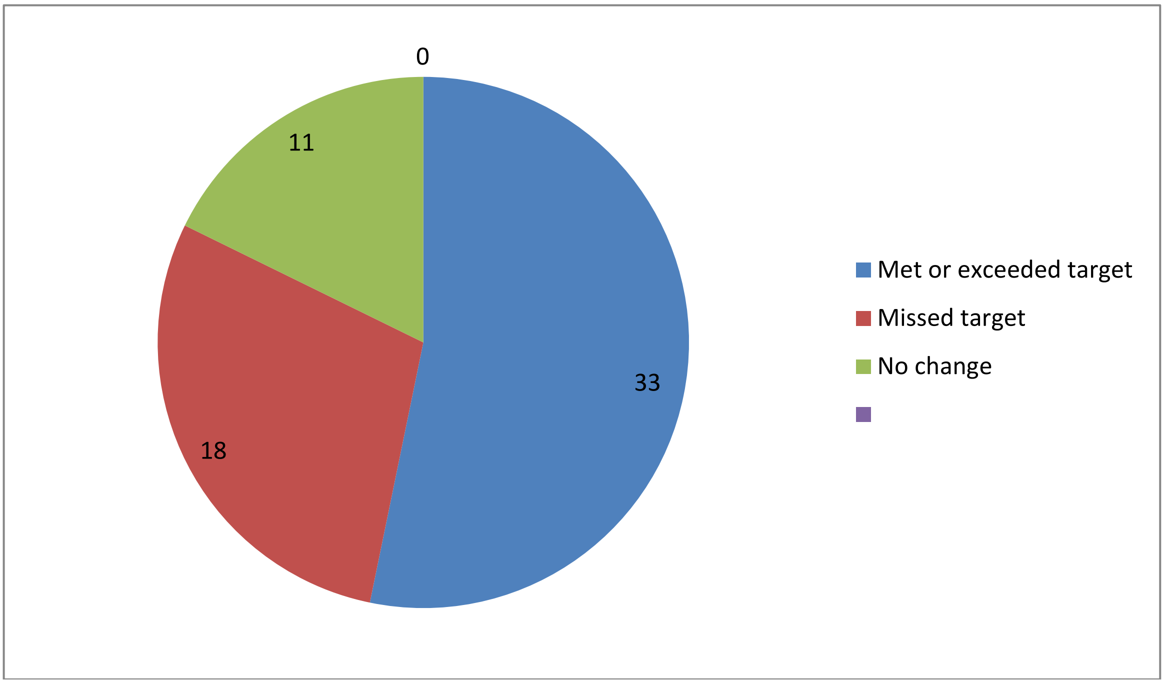
Overview of performance in 2010/11

119. 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 has led to the council using substantial amounts of its reserves on an annual basis. All scrutiny agencies agreed that the council is still not demonstrating that it delivers services in a way which demonstrates best value.

Statutory performance indicators

120. In 2010/11, a total of 62 Statutory Performance Indicators (SPIs) were required and these show that performance has continued to improve as illustrated in Exhibit 2 below.

Exhibit 2: Improvements demonstrated by SPIs



Source: Shetland Islands Council SPI data returns

121. Some of the improved areas in 2010/11 include***:***

- the levels of sickness absence recorded by teachers
- the cost of collecting council tax
- asset management - the proportion of operational buildings that are in satisfactory condition and are suitable for use
- the levels of home care delivered to clients aged over 65
- the number of attendances at sports facilities
- the average time taken to re-let housing in low demand.

122. Some of the areas which have worsened include:

- the number of planning applications dealt with in two months
- the percentage of invoices paid within two months
- the number of visits to libraries
- the percentage of homeless decision notifications which are issued within 28 days of presentation
- the cost of refuse collection per property.

National performance reports

123. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest to the council are detailed in Exhibit 3.

Exhibit 3: A selection of National performance reports 2010/11

- The cost of public sector pensions in Scotland
- How councils work: an improvement series for councillors and officers - Arms-length external organisations
- Scotland's public finances: responding to the challenges
- Maintaining Scotland's roads: a follow-up report
- Physical recreation services in local government
- An overview of local government in Scotland 2010
- Community Health Partnerships
- Improving energy efficiency: a follow-up report
- Transport for health and social care

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

124. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond2011/12, as they do not have a clear view of their budgets beyond this date. The Scottish Government plans to publish detailed spending plans for 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use for future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

125. As a reflection of the economic climate, budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring. As reported above, Shetland Islands Council recognise this and is now preparing for the 2012/13 budget-

setting process with the knowledge that difficult decisions will have to be made to ensure that sufficient levels of reserves are maintained for future years.

Progress against audit risks identified in the Shared Risk Assessment

126. The Shared Risk Assessment (SRA) includes areas of scrutiny uncertainty, where associated audit and scrutiny activity was identified. In the Assurance and Improvement Plan (AIP) update 2011 - 14 we said that we would monitor key service developments and further evidence of performance during the annual audit process and comment within this report. The following paragraphs note the position against the areas of uncertainty identified.

127. Areas of uncertainty continued to be identified in relation to the housing service in the AIP and this led to a review of risk areas by the Scottish Housing Regulator (SHR) in 2011. The SHR reported that a number of improvements had been made since their last inspection and that the council is acting to address the areas of risk identified in the 2011 AIP. The extent of the improvements will be reviewed by the LAN as part of the AIP update for 2012.

128. The AIP also highlighted the following areas of risk as having significant concerns and risks:

- Vision and strategic direction
- Governance and accountability
- Performance management
- Asset management & procurement
- People management
- Financial position.

These areas have been discussed earlier in this report and, where appropriate, risks have been included in the action plan. We will be reporting progress on several of these areas to the Accounts Commission in December 2011. Progress in these areas will be considered as part of the LAN's review of the AIP, to start soon.

Outlook

129. A Best Value 2 review of Shetland Islands Council is included in the AIP for 2012/13. The timing of this review will be kept under review by the LAN as part of the AIP process. In addition, the AIP includes the following planned activity by other scrutiny bodies over the next three years including:

- Care Inspectorate – Adoption and Fostering (2012/13)
- Care Inspectorate – Initial Scrutiny Level Assessment (ISLA) review (2011/12 to 2013/14)

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – Shetland Islands Council	1 February 2011	21 February 2011
Shared Risk Assessment / Assurance and Improvement Plan	1 April 2011	2 June 2011
Review of internal controls	28 June 2011	11 August 2011
Report to those charged with governance on the 2010/11 audit	22 September 2011	27 September 2011
Audit opinion on the 2010/11 financial statements	27 September 2011	27 September 2011

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	**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 2011/12 financial statements will not be compliant with the Code*.	The council is working towards resolution of the qualification for the 2012/13 accounts. The council is seeking updated legal advice. The council receives regular feedback from the trust's general manager on governance arrangements. The council's position with the trust will be reviewed if revised governance arrangements for SCT are implemented.	Chief Executive	September 2012
2	38	**Financial statements** The number of errors identified in the 2010/11 financial statements was unacceptable. The accounts preparation processes need to be reviewed. The finance section should be adequately resourced to ensure it has the capacity to deliver Code compliant financial statements. **Risk:** *the submission of Code compliant statements may not be*	Executive Manager - Finance post has been advertised, with a decision expected in November 2011. Team Leader - Accountancy Post to be filled thereafter. Post of Financial Accountant to be recruited, target date January 2012. Development work on core skills and competencies planned for October	Chief Executive (in absence of Director of Corporate Services) & Executive Manager - Finance	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		achieved for 30 June 2012.	2011. Six monthly accounts to September 2011 planned for November 2011. Critical path analysis and detailed timetable for 2011/12 accounts to be developed by December 2011.		
3	39	**Replacement Section 95 Officer** The Section 95 finance officer is to leave the council soon. **Risk:** *the management of the finance section and the council's ongoing budgetary position will not be effectively managed.*	Executive Manager - Finance post has been advertised, with a decision expected in November 2011. Suitable arrangements for hand-over and cover until appointment made are in hand.	Chief Executive	Recruitment decision November 2011
4	43	**Whole of Government Accounts (WGA)** Due to the council's late submission of the WGA return to the Scottish Government, the deadline of 30 September to complete the audited return was not achieved. **Risk:** *there is a risk that the council will not achieve future statutory deadlines if procedures are not improved within the finance section.*	Critical path analysis and detailed timetable for 2011/12 accounts to be developed by December 2011. Pro-active management of timetable and resources throughout the closedown and audit period.	Executive Manager - Finance	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	45	**Charity accounting requirements** Shetland Island Council was assessed in the "Below Average" category by OSCR. **Risk:** *the council's 2013/14 trust accounts will not be compliant with the Code.*	Identification of new reporting requirements to comply with OSCR by March 2011. Training needs analysis and development requirements identified by March 2011. Incorporated into critical path analysis by September 2012 for 2013/14 accounts.	Executive Manager - Finance	March 2012
6	61	**Budget reporting to members** There is a need for budget monitoring reports for members to be further developed to support them making decisions on the use of resources. **Risk:** *financial decisions may not be made on a sound basis if members do not properly understand their implications from the management information provided.*	Detailed management accounts to service committees by December 2011. All council decisions are to be accompanied by the overview of council's finance and the impact on financial plans and reserves of any decisions. Each cycle the Executive Committee to receive overview of Strategic Budget Plan, including corporate savings target delivery.	Executive Manager - Finance	December 2011
7	65	**Capital programme** There is substantial slippage on the capital	Capital programme reprioritised in October 2010 and as	Executive Manager - Capital	Completed February 2011 with

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		programme. The impact on service delivery is not clear in the capital monitoring reports to members. **Risk:** *delays in progressing capital projects could impact on service delivery.*	part of the budget reduction exercise in February 2011. This was done in consultation with affected services, to minimise adverse impact on service delivery. The result is a relatively even spend profile across the 5-year programme that takes account of resourcing and external constraints in order to minimise the likelihood of slippage in 2011/12 and beyond.	Programme	ongoing review
8	77	**Reserves** The overall level of reserves held for general use was £252.3 million which is close to the financial floor policy level of £250 million. The head of finance is forecasting that current levels of expenditure indicate that reserves will fall to £219 million by 31 March 2012. **Risk:** *the council's aim of reducing the draw on reserves to zero by 2012/13 will not be achieved.*	Deliver on the Strategic Budget Plan and Reserves Policy Principles by March 2013.	Executive Manager - Finance	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	91	**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 uncontrolled due to the lack of a comprehensive up to date risk register.*	After the imminent appointment of new team leader positions, the risks identified in the departmental and strategic risk registers will be re-assigned across the whole council to the new business units.	Executive Manager - Governance and Law	Sign off by CMF February 2012

Appendix 3

Finance Service: Performance and Improvement Plan

This Performance and Improvement Plan identifies the key improvement actions necessary to secure an efficient and effective Financial Services function across the Council. It includes all the recommended actions for improvement, identified by Audit Scotland and reported to Audit and Standards Committee and other Council committees.

The Plan has been categorised under the following headings:

- Strategic
- Accountancy
- Expenditure
- Revenue
- Pension Fund

Strategic Issues

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Group Accounts The council did not include the results of the charitable trust in the group accounts and an audit qualification was reported.	The council is working towards resolution of the qualification for the 2012/13 accounts. The council is seeking updated legal advice. The council receives regular feedback from the trust's general manager on governance arrangements. The council's position with the trust will be reviewed if revised governance arrangements for SCT are implemented.	Chief Executive	September 2012

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Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Replacement S95 Officer The S95 finance officer is to leave the council.	Executive Manager -Finance post has been advertised, with a decision expected in November 2011. Suitable arrangements for hand-over and cover until appointment made are in hand.	Chief Executive	Recruitment decision November 2011
Adequate Resourcing of the Finance Function For some years, the Council's external auditors have reported on their concerns over the adequacy of the Finance Function Risk highlighted in the Internal Control Report from Audit Scotland, August 2011	Executive Manager – Finance post advertised for recruitment. Financial Accountant – post advertised November 2011. Recruit to Team Leader posts – awaiting appointment of Executive Manager – Finance. Training Needs Analysis – by December 2011. Training and Development Plan – ongoing on an informal basis, formalised from April 2012.	Chief Executive and Executive Manager – Finance	By January 2012
Financial / HR / Administration Review Part of the Corporate Savings identified in the Strategic Budget Plan approved in October 2011.	The project objectives is to investigate the ways in which the business systems of the Council are carried out and put in place better arrangements to secure efficiencies, safeguard good internal control procedures, avoid error and waste and resource accordingly, across all Council services.	Head of Finance	From April 2012

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Performance Indicators / Accounting Ratios Indicators developed nationally to test the Council's sustainability and affordability of plans.	Develop the Performance Indicators agreed at a national level and provide a systematic mechanism for reporting on the performance of Finance Services to all stakeholders, including the formal reporting requirements for the 2011/12 Accounts.	Head of Finance	From April 2012
Financial Regulations Part of the Corporate Improvement Action Plan approved in November 2010	Update current Financial Regulations for new legislation, policy direction and best practice examples from elsewhere. Clear link to the Corporate Governance Framework and the Systems of Internal Control.	Head of Finance	December 2011
Long Term Financial Planning Policy A key aspect of the Corporate Improvement Action Plan, agreed in November 2010.	Preliminary Policy Principles agreed by Executive Committee October 2011 for General / Reserve Fund / Capital Fund activity. Update long term financial planning assumptions rate of return. Review baseline assumptions (book or market value). Housing Revenue Account Business Plan developed. Harbour Account Business Plan developed.	Head of Finance	By February 2012

Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Strategic Budgeting Aligned to the Long Term Financial Planning Policy, this is a key improvement action from the Corporate Improvement Action Plan agreed in November 2010.	Aligned to Corporate Priorities, balanced to agreed draw on reserves, robust and achievable , with services demonstrating best value. Revenue Account, by February 2012. Capital Programme, by March 2012.	Head of Finance	From April 2012
Insurance Fund Assessment of cost and impact of adjusting the self insurance level.	Develop options and levels of self insurance. Assess risks and potential costs. Undertake an actuarial review of the Insurance Fund to determine adequacy and future application.	Head of Finance and Executive Manager – Governance and Law	During 2012
Efficiency Plans Government return	Ensure that the arrangements for planning, reporting and monitoring efficiency savings across the Council are robust and linked to the overall budget process.	Head of Finance and Executive Manager – Performance and Improvement	From April 2012
Access and Authorisation Rights Risk highlighted in the Internal Control Report from Audit Scotland, August 2011	Part of Financial Regulations review, specifically: critically review the number and level of authorisation rights. Head of Finance to sign off new requests for authorisation rights. Systematic, 3 monthly review of current arrangements. Automated process for capturing new starts, changes and vacancies.	Head of Finance	By December 2011

Appendix 3

Accountancy

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Financial statements The number of errors identified in the 2010/11 financial statements was unacceptable. The accounts preparation processes need to be reviewed. The structure of the finance department should also be reviewed to ensure it has the capacity to deliver Code compliant financial statements.	Executive Manager -Finance post has been advertised, with a decision expected in November 2011. Team Leader -Accountancy Post to be filled thereafter. Post of Financial Accountant to be recruited, target date January 2012. Development work on core skills and competencies planned for October 2011. Six monthly accounts to September 2011 planned for November 2011. Critical path analysis and detailed timetable for 2011/12 accounts to be developed by December 2011.	Head of Finance	March 2012
Whole of Government Accounts (WGA) Due to the council's late submission of the WGA return to the Scottish Government, the deadline of 30 September to complete the audited return was not achieved.	Critical path analysis and detailed timetable for 2011/12 accounts to be developed by December 2011. Pro-active management of timetable and resources throughout the closedown and audit period.	Head of Finance	September 2012

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Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Charity accounting requirements Shetland Island Council was assessed in the "Below Average" category by OSCR.	Identification of new reporting requirements to comply with OSCR, by March 2012. Training needs analysis and training / development requirements, by March 2012. Incorporated into Critical Path Analysis by September 2012 for 2013/14 accounts.	Head of Finance	March 2012
Budget reporting There is a need for budget reporting to continue to develop to support members in making decisions on the use of resources.	Detailed Management Accounts to service committees by December 2011. All council decisions are to be accompanied by the overview of council's finance and the impact on financial plans and reserves of any decisions. Each cycle the Executive Committee to receive overview of Strategic Budget Plan, including corporate savings target delivery.	Head of Finance	December 2011
Reserves The overall level of reserves held for general use was £252.3 million which is close to the financial floor policy level of £250 million.	Deliver on the Strategic Budget Plan and Reserves Policy Principles, by March 2013.	Head of Finance	March 2012

Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
The head of finance is forecasting that current levels of expenditure indicate that reserves will fall to £219 million by 31 March 2012.			
Systems Review To undertake a review of the Financial Management Systems in use to maximise their potential in improving controls, securing efficiencies and avoiding waste.	Project Plan developed by end October 2011. Implementation / Action Plan agreed, by December 2011. Implementation from April 2012 for Integra, Seagate Reports, System Security, Budgeting, Interfaces, etc.	Service Manager – Accountancy	From April 2012
Budget Systems Development Implement the Council's policy and performance management framework in respect of the budgeting process.	Ensure budget process is fully aligned with corporate priorities, is zero based, based on service need, is focused on service outcomes, has been tested for "best value options" and compared with relevant benchmarking authorities.	Head of Finance	From April 2012
Shetland Development Trust accounts Completion and audit aligned to close down.	Ensure that the Shetland Development Trust accounts are completed in a timely manner and code compliant, for inclusion in the Council's group accounts.	Head of Finance and Director of Development	By April 2012

Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Capital Accounting System Risk highlighted in the Internal Control Report from Audit Scotland, August 2011	Revised Procedures and annual plan. Training and skills development. Computerised year end entries.	Head of Finance	Complete.

Expenditure

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Systems Review To undertake a review of the Financial Management Systems in use to maximise their potential in improving controls, securing efficiencies and avoiding waste. To undertake a review of the Financial Management Systems in use to maximise their potential in improving controls, securing efficiencies and avoiding waste.	Project Plan developed by end October 2011. Implementation / Action Plan agreed, by December 2011. Implementation from April 2012 for CHRIS upgrades and modules, including timesheets, expenses, requisitioning, etc. Project Plan developed by end October 2011. Implementation / Action Plan agreed, by December 2011. Implementation from April 2012 for Integra, Purchase Ordering and Purchase Ledger.	Service Manager - Expenditure	From April 2012

Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Payroll Documentation Risk highlighted in the Internal Control Report from Audit Scotland, August 2011	Part of the Financial/ HR / Administration Review to ensure robust processes, integrity of the data, appropriate authorisation.	All Directors, Executive Manager – Human Resources for Service Manager – Expenditure	By March 2012

Revenues

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Systems Review To undertake a review of the Financial Management Systems in use to maximise their potential in improving controls, securing efficiencies and avoiding waste.	Project Plan developed by end October 2011. Implementation / Action Plan agreed, by December 2011. Implementation from April 2012 for sales ledger.	Revenue Services Manager	From April 2012
Welfare Benefits Reform New legislation	Proactively manage the service choices and resources required to respond to new legislation on Welfare Benefits Reform.	Revenue Services Manager	Ongoing

Appendix 3

Pension Fund

Issue to Address	Planned Management Action	Responsible Officer	Target Date
AXISe – Member Data Inaccurate or out of date information - risk highlighted in Review of Internal Controls, August 2011.	Independently checked at year end.	Team Leader – Expenditure	Complete
Pension Fund Investments Compliance with legislation – risk highlighted in Review of Internal Controls, August 2011.	Investments now in unitised products, removing the risk of non-compliance with legislation.	Head of Finance	Complete.
Statement of Investment Principles Compliance with legislation – risk highlighted in Review of Internal Controls, August 2011.	Statement of Investment Principles to be reviewed.	Treasury Accountant	March 2012
Governance Arrangements Risk of inadequate governance arrangements – highlighted in Review of Internal Controls August 2011.	Assessment of current practice with SPPA guidance Circulate SPN/LG No 3/2011. Draft the Governance and Compliance Statement. Develop Action Plan for any areas of non-compliance with guidance. Report to Pension Fund Management Committee.	Head of Finance	September 2011, Complete

Appendix 3

Issue to Address	Planned Management Action	Responsible Officer	Target Date
Governance Compliance Statement Action Plan agreed September 2011.	Consider the representation arrangements generally for the consultative committee and specifically for deferred members.	Executive Manager – Finance	From May 2012
Governance Compliance Statement Action Plan agreed September 2011.	Formalise the skills and competency framework for panel/committee members involved in the Pension Fund, undertake training needs assessment and formalise training arrangements including where necessary mandatory training to fulfil the role.	Chief Executive, Executive Managers – Governance and Law and Finance	From May 2012
Governance Compliance Statement Action Plan agreed September 2011.	Regular financial and performance reporting established through the new decision making structure.	Executive Manager – Finance	From May 2012
Governance Compliance Statement Action Plan agreed September 2011.	Investment Strategy and objectives reviewed in light of recent and predicted equity / bond performance.	Treasury Accountant	December 2011
Governance Compliance Statement Action Plan agreed September 2011.	Communication and consultation arrangements enhanced through web-site and newsletters.	Executive Manager - Finance	From May 2012
Systems Development Shared procurement opportunity, approved September 2011.	Implement new system for Pensions Administration through collaborative tender process.	Service Manager – Expenditure	Ongoing

Issue to Address	Planned Management Action	Responsible Officer	Target Date
The Pensions Regulator Reforms Pensions Auto Enrolment.	Proactively manage the service choices and resources required to respond to new legislation.	Service Manager - Expenditure	Ongoing

Agenda Item
2

Shetland Islands Council

Pension Fund Management Consultative Committee — **(Date to be set)**
Executive Committee — **19 December 2011**
Audit and Standards Committee — **15 December 2011**

Pension Fund Final Audited Accounts 2010/11	
F-049-F	
Report Presented by Head of Finance	**Finance Service**

1.0 Summary

1.1 The purpose of this report is to present the final signed and audited Pension Fund accounts for 2010/11 for approval and to receive Audit Scotland's Annual Report on the 2010/11 Audit.

2.0 Decision Required

2.1 The Pension Fund Consultative Committee, the Executive Committee and the Audit and Standards Committee are asked to RECOMMEND to the Council:

a) approval of the final signed and audited Pension Fund accounts for 2010/11; and

b) note Audit Scotland's Annual Report on the 2010/11 Audit and approve the Action Plan.

3.0 Detail

3.1 The Annual Audit Plan requires the Council to receive the Annual Report and Certified Accounts of the Pension Fund by December 2011. These are included at Appendix 1.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The preparation and presentation of the Pension Fund Accounts is a key element of the Council's overall governance and reporting arrangements.

4.2 Community /Stakeholder Issues – NONE.

4.3 Policy And/Or Delegated Authority – The Pension Fund Management Consultative Committee has an overview of the management of the local government pension scheme. The Audit and Standards Committee remit includes consideration of all reports from the external auditors, including the External Auditor's Annual Report and to review the Council's financial performance as contained in the Annual Report. The Executive Committee's remit includes overseeing the financial affairs of the Council. Receiving the unaudited and audited accounts of the Council and related certificates and reports is a matter reserved by the Council

4.4 Risk Management – . The Annual Report is enclosed as Appendix 2 to this Report. There were 3 risk areas identified.

An Action Plan to address these issues has been drawn up and is included as Appendix B: Action Plan (part of Appendix 2). The Action Plan is realistic and achievable within the timeframe.

4.5 Equalities, Health And Human Rights – NONE.

4.6 Environmental – NONE.

Resources

4.7 Financial – NONE.

4.8 Legal – NONE.

4.9 Human Resources – NONE.

4.10 Assets And Property – NONE.

5.0 Conclusions

5.1 The Council is required to prepare and publish a set of Accounts in respect of the Pension Fund, within a set timescale. The accounts are then subject to external audit and currently Audit Scotland is the Council's nominated auditors. Audit Scotland have now certified the accounts as being a true and fair statement of the Pension Fund's financial position at 31 March 2011. Audit Scotland have provided an Annual Report of the 2010/11 accounts and have identified 3 risk areas. An Action Plan has been agreed to ensure that those risks are well managed and resolved, within a reasonable timeframe.

For further information please contact:
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Telephone: 01595 74 4607

2 December 2011

List of Appendices

Appendix 1: Pension Fund Final Audited and Certified Accounts 2010/11

Appendix 2: Pension Fund Annual Report on 2010/11 Accounts by Audit Scotland

Background documents:

NONE.

END

Shetland Islands Council
Pension Fund
Annual Report and Accounts
2010/11

Contents

Foreword by the Head of Finance

Welcome to the Annual Report for 2010/11 for the Shetland Islands Council Pension Fund, the first reported in this style.

The Local Government Pension Scheme (Scotland Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulations 2010) requires administering authorities to prepare a pension fund annual report for the year beginning 1 April 2010 and each subsequent year thereafter.

Explanatory Note

The principal financial statements are the fund account and the net asset statement as explained below:

The Fund Account – is the revenue account of the Pension Fund. The Fund Account discloses the size and type of financial additions to, withdrawals from and changes to the value of the fund during the accounting period. This covers dealings with members, employers and others directly involved with the scheme. Also incorporated here are returns on investments; which includes both investment income and gains and losses on investments.

The Net Assets Statement – discloses the size and type of net assets of the scheme at the end of the financial year.

These statements do not take account of the obligations to pay pensions and benefits, which fall due after the end of the year. The actuarial position of the Fund does take account of such obligations and is revealed in the Actuarial Statement section of this report. The financial statements should therefore be read in conjunction with that information. As required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to the Accounts.

At 31 March 2011, the value of the fund stands at £251m, supporting 5,531 members, an increase of £24m on the previous year, despite the volatile economic situation and market conditions.

The Council is updating all the planning assumptions for the Fund, through the tri-annual actuarial valuation by the Council's appointed actuaries, Hymans Robertson LLP. The results of the valuation as at 31 March 2011 will be implemented from 1 April 2012. Part of this work will address the issue of the transfer in valuation of staff previously employed by Shetland Towage, where the estimated gap between scheme benefits and the cash transfer in stands at £8m. The Pension Fund will need to ensure that the Council addresses this gap, over a reasonable timeframe.

The Scottish Government has supported a project to look at the possibility of shared services across the Local Government Pension Scheme (LGPS) in Scotland to extract efficiencies. At the time of writing, the recommendations support a set of collaborative improvements, across fund management, systems and procurement, which the Shetland Islands Council Pension Fund supports. The Council's stance throughout the project that there should not be a presumption that a centralised approach would yield efficiency benefits has been justified in the conclusions of the Report.

This year has seen the introduction of separate reporting and audit for LGPS funds in Scotland and the adoption of International Financial Reporting Standards. The new guidance requires Pension Funds to consider their governance and management arrangements as a service in its own right and to adopt systems which are in line with the Myners Principles of good governance. The elements include:

- effective decision-making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting

Part of the quality assurance process, in this first year, is for the Council to complete a Governance Compliance Statement against the tests of best practice. This has been done and is included at page 16.

The areas where the Shetland Islands Council Pension Fund could improve the current arrangements include:

- embedding the governance arrangements for the Pension Fund into the Council's new decision making structure
- improving the engagement of deferred members in the decision making process
- developing a competency based description of the role of committee members, with a focus on representing stakeholders
- induction and training for new representatives.

I take this opportunity to thank all the staff and advisers who contribute to the successful management of the Shetland Islands Council Pension Fund.

Hazel Sutherland CPFA
Head of Finance
25 August 2011

Funds and Governance Overview

Background

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (SSI 2008/228) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements.

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

How the Funds Work

Shetland Islands Council administers one Pension Fund, known as the Shetland Islands Council Pension Fund. The Fund is predominantly administered for staff currently or previously employed by Shetland Islands Council, who participated in the pension scheme. The fund is not open to teaching staff, as a national scheme exists.

The Pension Fund is also open to staff of the Orkney and Shetland Valuation Joint Board and eighteen Admitted Bodies. Admitted bodies are organisations which meet the criteria of being able to offer their staff the opportunity to take up the pension arrangements of the Fund, such as being a body, which provides a public service otherwise for the purposes of gain and which has sufficient links with the Scheme Employer for the Body and the Scheme Employer to be regarded as having a community of interest.

The scheduled bodies are:

- Shetland Islands Council
- Orkney and Shetland Valuation Joint Board

The admitted bodies are:

- ABA Services
- Advocacy Shetland
- Atlantic Ferries (closed Agreement)
- Community Alcohol & Drugs Services Shetland
- Crossroads Shetland Care Attendant Scheme (January 2011)
- Disability Shetland
- Lerwick Port Authority
- Shetland Amenity Trust
- Shetland Arts Development Agency
- Shetland Charitable Trust
- Shetland Development Trust (until 20 December 2009)
- Shetland Enterprise Company
- Shetland Fisheries Training Centre Trust
- Shetland Islands Tourism
- Shetland Recreational Trust
- Shetland Seafood Quality Control Ltd
- Shetland Voluntary Care Forum
- Shetland Youth Information Service

The Local Government Pension Scheme (LGPS) sets pension benefits and regulations for members and employers within local government and associated bodies. The LGPS builds up a fund from contributions made by employers, employees and investment returns. The money is invested to pay pensions, as they become due.

Every three years, a valuation is carried out by the Council's appointed actuaries, Hymans Robertson LLP, to work out the likely future pension liability for the fund. This work makes assumptions about likely retirement ages, longevity, long-term sickness trends and also what the likely returns from investments will be, given the economic climate. Depending on the likely gap between income and expenditure, in the longer term, recommendations will be made as to the amount each employer will have to make each year (as a percentage of staff costs).

The latest valuation, done in 2008, determined that the Pension Fund was 88% funded, which meant that the Fund's objective of holding sufficient assets to meet the estimated cost of providing members' past service benefits was not met at the 2008 Valuation date. The employers' average future service contribution rate as at 31 March 2008 (ignoring the past service shortfall) was 16.4% of pensionable pay. The next valuation date is 31 March 2011, with funding recommendations being implemented from 1 April 2012.

Decision Making

The ultimate responsibility for the governance of Shetland Islands Council Pension Fund rests with the full Council. The Council takes specific decisions regarding the investment strategies and major funding policy decisions.

The overview of the financial performance of the Pension Fund rests with the Executive Committee. The Executive Committee is made up of the Convener, the Political Leader, the Chairs and Vice Chairs of each of the main committees and an independent Member. The councillors involved are:

Councillor A J Cluness, Convener
Councillor J G Simpson, Political Leader
Councillor A T J Cooper, Chair of Development Committee
Councillor E J Fullerton, Chair of Education and Families Committee
Councillor I J Hawkins, Chair of Environment and Transport Committee
Councillor C Smith, Chair of Social Services Committee
Councillor A T Doull, Vice Chair of Development Committee
Councillor C H J Miller, Vice Chair of Education and Families Committee
Councillor A Wishart, Vice Chair of Environment and Transport Committee
Councillor A Duncan, Vice Chair of Social Services Committee
Councillor G Robinson.

The Council has in place a Pension Fund Management Consultative Committee, to ensure that stakeholders have a representative role in the arrangements for overseeing the management of the Pension Fund.

Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members. The purpose of the committee is to have stakeholder input in overseeing the proper management of the Pension Fund on behalf of contributors and beneficiaries, both employer and employee.

The members' knowledge is supplemented by professional advice from staff of the Council, professional advisers and external experts.

The Consultative Committee consists of:

Employers:
3 elected members of the Shetland Islands Council
1 representative of Admitted Bodies employers, who shall not be an SIC Member or an employee of an Admitted Body or the Council

Employees:
3 employees (including at least 1 Unison representative and up to 1 Admitted Body employee representative)
1 pensioner

The Chairman of the Consultative Committee is appointed by the Consultative Committee and shall alternate on an annual basis between Employer and Employee representatives.

The Head of Finance, Treasury Accountant, Expenditure Manager, Human Resources Manager, Legal Services Manager, Fund Managers, Independent Investment Consultant and the appointed Fund Actuary attend the Consultative Committee meetings as advisers.

The Consultative Committee meets at least twice a year. Additional meetings are called as appropriate.

The Audit and Standards Committee have a remit to provide assurance that the financial systems that the Council has in place are operating effectively, including having an oversight of the final accounts.

Staffing Arrangements

The Council's Head of Finance is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

She is responsible for:

a) the financial accounting of the Fund;

b) the preparation of the Pension Fund Annual Report; and

c) being the principal adviser on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is managed by the Treasury Section within Finance Service.

The day-to-day benefits administration for the Fund is managed by the Pensions and Payroll Sections within Finance Services.

Professional Advisers and External Service Providers

Hymans Robertson LLP has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.

Hymans Robertson LLP is also the Independent Investment Consultant employed by the Council to advise the Consultative Committee and the Council on the investment strategy and performance.

The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. The Pension Fund's investments are managed by Black Rock Investment Management (UK) Limited and Schroder Property Investment Management Limited.

Northern Trust Company is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

WM Company has been appointed as the independent performance services company for the Fund. They have responsibility for measuring and reporting on the performance of individual portfolios and the overall Fund.

Prudential and Equitable Life (Equitable Life is now closed to new members) are appointed as the Fund's In-House Additional Voluntary Contributions providers.

Funding Strategy Statement (FSS)

The Regulations on the management of the Pension Fund requires the administering authority to prepare, maintain and publish a written Funding Strategy Statement (the FSS). The FSS is normally reviewed every time the triennial actuarial valuation is undertaken. The next full review is due to be completed by 31 March 2012 and the current statement is available for viewing at Finance Services.

The purpose of the FSS is to:

- establish a clear and transparent fund-specific strategy which will identify how employers pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer term view of funding those liabilities,

The Statement of Investment Principles and Monitoring Arrangements

The investment strategy is based on taking a long-term investment horizon, as the Pension Fund is currently cash positive (employee and employer contributions are greater than benefits paid out). This enables the Pension Fund to invest a large percentage into equities (currently 80%) with 10% in Bonds and 10% in Property. The equities and bonds are passive investments, which is currently a holding position due to the uncertainty over the Scottish Government's pathfinder project. Risk is spread through asset type, mix of investment products, use of different fund managers and by taking a long-term investment view.

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 40%; Overseas Equities 40%; Bonds 10% and Property 10%.

The fund managers are:

- Black Rock Investment Management (UK) Limited – responsible for equities and bond investments, taking a passive approach; and
- Schroder Property Investment Management Limited – responsible for property investments, and taking an active approach.

The fund managers give an annual presentation to the Council and the Pension Fund Management Consultative Committee in May each year. This is a performance review meeting covering the previous financial year but allows the Council and Pension Committee to meet the fund managers, hear their presentations and ask them questions.

The Pension Fund Management Consultative Committee also receives a half yearly update on the Pension Fund investments. In future, that report will also be presented to the Executive Committee of the Council.

Visits are made every November to each fund manager to review the six monthly investment position. The Council also receive audited quarterly performance books from the fund managers, which are used to produce a quarterly performance review report. The fund managers also provide unaudited weekly fund values, which are used to inform Council officers, Councillors and the wider press of the general investment position.

Hymans Robertson LLP (investment consultants) continually monitor fund managers and report on key changes, which might impact the investment strategy, such as changes in key personnel or investment processes. Hymans Robertson LLP is consulted when reviewing fund managers, and is actively involved with investment strategy reviews.

WM Company are an external performance measurement company that the Pension Fund uses to analyse, check and report independently on fund managers performance and the Pension Fund's overall performance. They produce quarterly performance reviews and also attend the annual meeting in May each year where they report the fund managers' performance for the previous year to the Councillors and the Pension Fund Management Consultative Committee.

In 2010/11, the investment returns were as follows:

Black Rock – return 6.9% (benchmark return 7%)
Schroders – return 5.5% (benchmark return 8.8%)

The Statement of Investment Principles is available for viewing at Finance Services.

Administrative Arrangements

Communication

As well as reporting Scheme changes through the Pension Fund Management Consultative committee and the full Council, members of the scheme (active, deferred and pensioners) are kept up-to-date with changes through an annual Pensions Newsletter. The mail-shot also incorporates any other relevant information, for example, revised Pension Scheme booklets, Pension Fund Accounts, etc. Pension seminars, in conjunction with Prudential (the Council's in-house AVC provider) take place at least once a year. The Council's Corporate Induction training sessions ensure that new employees are aware of the benefits of the LGPS. The Council's later life training sessions are aimed at communicating the benefits of the scheme to members whose retirement is imminent.

Training

Induction training and ongoing training opportunities are available for members of the consultative and main committees. This will be strengthened in future through a formal skills and competency framework, supported by a training needs assessment and personal and professional development plans.

Risk Management

The Council has a risk management policy which has been adopted by Finance Services. This policy includes the maintenance and regular review of a risk register. The strategic and operational risks associated with the Pension Fund are included in the Finance Service Risk Register. The risks of the Pension Fund will be extracted and reported separately in future.

Risk awareness is embedded into the investment performance management process.

Access to Information

The Committee papers and minutes are available via the Council committee management system website http://www.shetland.gov.uk/coins/.

This Annual Report and Accounts is available via the Council's website http://www.shetland.gov.uk/council/. A hard copy of the full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.

Annual Governance Statement

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Shetland Islands Council.

Administering Authority

Shetland Islands Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Shetland Isles geographic area.

Regulatory Framework

The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with these regulations.

The LGPS scheme, administered by Shetland Islands Council, is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is shown at page 5.

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty partially directly and partially through the Executive Committee. For consultation purposes, the Council has in place 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 Committee is advised by relevant officers of the Council as appropriate and meets approximately twice a year.

The financial transactions are conducted in compliance with the Council's Financial Regulations.

The Funds are invested in compliance with the Council's Statement of Investment Principles.

Scope of Responsibility

The Council is responsible for ensuring that::

- the business is conducted in accordance with the law and appropriate standards;
- the funds are safeguarded and properly accounted for; and
- the funds are used economically, efficiently and effectively.

In discharging the responsibilities, council members and staff are responsible for implementing effective arrangements for governing the affairs of the Funds. The management of the Pension Fund should be seen to be a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the FSS and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the fund;
- performance management arrangements, especially for fund investments and customer responsiveness;
- good systems of internal control to safeguard assets and ensure best value;
- engagement with stakeholders and clear policy on representative roles and responsibilities;
- Governance Statement;
- Risk Register and Business Continuity Plans;
- support for Cash and Treasury Management;
- Training Plan; and
- independent and objective scrutiny.

To this end, the funds are managed within the overall governance arrangements of Shetland Islands Council. The Council has recently refreshed its decision-making arrangements and the governance of the Pension Fund is included within those arrangements. Following a period of operation, the Council intends to refresh the Code of Corporate Governance, to ensure compliance with best practice.

Governance Framework

The governance framework consists of the systems, processes, cultures and values by which the Funds are directed and controlled. It describes the way in which staff and representatives inform all the stakeholders and ask for their views on any key issues. It is important to monitor the achievements of the fund, particularly with regard to the long-term investment strategy. From a service point of view, as with other service areas, there is a need to ensure that the service is delivered efficiently and effectively and in line with all the characteristics of a best value service.

Critical to the success of a well managed Pension Fund is appropriate internal control arrangements. The systems of internal financial control are intended to ensure that:

- assets are safeguarded;
- transactions are authorised and properly recorded; and
- material errors or irregularities are either prevented or detected within a reasonable timescale.

The system is based on a framework of skilled staff who are aware of their responsibilities, good management information, financial regulations and effective systems and procedures.

Within Shetland Islands Council, there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund. The Pension Fund relies on the same systems of internal control as that which are in place for Shetland Islands Council (which have been assessed as fit for purpose).

The effective arrangements include:

- an appropriate level of knowledge for committee members to ensure that they have adequate under-pinning knowledge to oversee the governance of the Pension Fund business;
- clear objectives, good decision making at committee level, clear delegations to committee and staff, with appropriate, independent scrutiny of decision making and performance;
- a clear set of objectives for the Fund, as described in the FSS and Investment Principles;
- good performance monitoring arrangements, with committee members being able to directly question those responsible for all aspects of the business on a regular basis;
- a clear a statement of risk, combined with effective risk management arrangements;
- an annual review of compliance against regulation, guidance and best practice arrangements;
- The Monitoring Officer ensuring compliance with regulation and guidance;
- clear monitoring arrangements;
- compliance with LPGS Investment Regulations;
- compliance with the CiPFA / Myners investment principles;
- appropriate custodian arrangements for investments;
- codes of conduct to support good relationships between committee members and staff who support the work of the Pension Fund;
- a demonstrable best value service, including good use of benchmarking data on the cost and quality of service provided; and
- effective internal control arrangements.

The governance framework cannot eliminate all risks of failure to meet policy objectives. An effective framework can, however, provide a reasonable (but not absolute) assurance of effectiveness.

Review of Effectiveness

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by:

- direct feedback from stakeholders;
- effective performance reporting arrangements and management information;
- financial and budget monitoring reports;
- performance indicators and benchmarking data, on cost and quality of service;
- specific internal audit reviews;
- self assessment exercises against performance standards;
- the annual report and accounts; and
- external audit observations, comments and recommendations for improvement.

The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit and Standards Committee. The Internal Audit service operates in accordance with CIPFA's Code of Practice for Internal Audit and complies with the ISO 9001 / 2008 quality standard. The service works to an Annual Plan, based on the approved Audit Strategy and an annual assessment of the known and potential risks.

The Internal Audit service currently reports directly to the Council's Section 95 officer, the Head of Finance with direct access, as required, to the Chief Executive. In the new management arrangements, the Service Manager Internal Audit will report directly to the Chief Executive.

An audit of Treasury was done in 2010/11 and Payroll and Pensions in 2009/10. No key issues relating to the pension fund were identified from the work undertaken by Internal Audit.

The annual financial statement of the Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for. The deadline for submission of separate unaudited accounts at 30 June was not achieved.

Each year, the external auditors undertake an assessment of the internal controls in operation in the Council, to determine whether they can place reliance on them in the preparation of the final accounts. Audit Scotland's overall assessment is that, "the pension fund has adequate systems of internal control".

Audit Scotland has highlighted the following four areas of weakness. The first three of which the Head of Finance has assessed as requiring action.

- AXISe – Member Data

  There is a risk that members' information held on AXISe is inaccurate or out of date. This could potentially impact on members' benefit calculations.

- Statement of Investment Principles

  There is a risk that the council's statement of investment principles does not comply with the necessary legislation.

- Governance Arrangements

  There is a risk that the council has not given due consideration to the pension fund's required governance arrangements going forward.

- Pension Fund Investments

  There is a risk that fund managers are not complying with legislation.

An Action Plan has been developed to ensure that these weaknesses are addressed over the next six months.

It is the Head of Finance's view that reasonable assurance can be placed upon the effectiveness of governance arrangements, including internal controls, for the business transacted to 31 March 2011.

There is a need for improvements to be carried out in the following areas of activity:

- data accuracy;
- regular financial and performance reporting arrangements through the new decision making structures;
- competency framework, training needs assessment and systematic induction and ongoing training for new committee members;
- maintaining the long term investment objectives in times of economic uncertainty;
- responding to improvement actions around shared services and joint procurement, at a national level; and

- consider further the representation arrangements for the consultative committee.

Certification

It is our opinion that the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of the principal objectives of the Pension Fund will be identified and actions taken to avoid or mitigate their impact.

Hazel Sutherland	**Alistair Buchan**
Head of Finance	**Chief Executive**
Date	Date

Governance Compliance Statement

The Local Government Pension Scheme (LGPS) regulations require LGPS administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement. The regulations require that the first such statement must be published by 31 March 2011, but SPPA have agreed to change that date to 30 September 2011.

The Governance Compliance Statement set out below describes the extent to which the governance arrangements comply with best practice and any actions required to implement improvements.

Principle		Full Compliance	Comments and Action Plan
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Yes	The Council retains responsibility for strategic policy decision, including the Investment Strategy. The Executive Committee will oversee the financial and service performance of the Pension Fund and advise the Council on key policy matters. The consultative committee will focus on stakeholder representation, as well as overseeing the pension service as a whole on behalf of all current and future beneficiaries.
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	Fund Members and employers are represented on the consultative committee. **Area for Improvement:** consider the representation arrangements for deferred members (Timescale: from May 2012)
	That where a secondary committee or panel has been established, the structure ensures	Yes	3 Members of the Consultative Committee are also Members of the Executive Committee. The Council Members of the

	effective communication across both levels.		Consultative Committee sit at the Full Council and participate in strategic policy matters on behalf of the Pension Fund. The consultative committee members are invited to attend Council meetings, for fund management presentations.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Yes	3 Members of the Consultative Committee are also Members of the Executive Committee.
Committee Membership and Representation	All key stakeholders are afforded the opportunity to be represented. Within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	Yes	All key stakeholder groups are represented on the consultative committee. **Area for Improvement:** consider the representation arrangements for deferred members (Timescale: from May 2012).

	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the consultative committee are given parity of esteem, in terms of access to information, training, professional advisers and for voting rights (within the remit of the terms of reference of the panel). **Area for Improvement:** consider whether an independent professional adviser would add value to the current arrangements (timescale, from May 2012).
Selection and role of lay members	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	Induction and ongoing training available to all committee members. **Areas for Improvement:** Formalise skills and competency framework for panel/committee members, undertake training needs assessment and formalise training arrangements including, where necessary, mandatory training to fulfil the role. (Timescale: from May 2012)
	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of interests is now a standard item on all Shetland Islands Council agenda papers.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	The members of the consultative committee have parity of esteem in voting / decision making within the remit of the terms of reference.

Training/Facility time/Expenses	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	There are necessarily separate training policies in place for employer representatives and staff representatives.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	No	The policies for employer representatives and staff representatives are necessarily different and cannot be equally applied.
	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	No	The arrangements are present are ad-hoc. An area for improvement will be to develop much more systematic arrangements for training needs assessment, through to formalised training plans. **Area for Improvement:** Develop Annual Training Plans to identify personal and professional training needs, including mandatory training to fulfil role (Timescale: from May 2012).
Meetings (frequency/quorum)	That an administering authority's main committee or committees meet at least quarterly.	Yes	The Executive Committee meets at least six times per annum.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main	Yes	The consultative committee is scheduled to meet each year in May and September.

	committee sits.		
	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the councils' constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	All papers are circulated to all members of each committee. Reports to the Executive Committee and Full Council are available through the Council's agenda management system.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Council has recently revised its decision-making structures to clarify the roles and responsibilities and level of delegation to each decision-making forum.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	The Annual Newsletter is available to all Members. The Annual Report and Accounts will be made available on-line.

Statement of Responsibilities for the Statement of Accounts

The Administering Authority's Responsibility

The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs; in this Authority the proper officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- approve the Financial Statements within two months of receipt of the audit certificate.

The Head of Finances' Responsibilities

The Head of Finance is responsible for the preparation of the Pension Fund 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 Code).

It is the responsibility of the Head of Finance to sign, date and submit the un-audited statement of accounts to the authority and Controller of Audit by 30 June.

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 Code.

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 reporting date and its income and expenditure for the year ended 31 March 2011.

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Hazel Sutherland CPFA

Head of Finance

Pension Fund Account 2010/11

2009/10 £000		Notes	2010/11 £000	2010/11 £000
	Dealings with members, employers and others directly involved in the scheme			
	Contributions			
	From Employers			
(9,687)	Normal	6	(10,782)	
0	Augmentation		(740)	
(9,687)				(11,522)
	From Members			
(3,984)	Normal	6		(4,132)
	Transfers in			
(1,776)	Group transfers in from other schemes		0	
(1,330)	Individual transfers in from other schemes		(1,901)	
(3,106)				(1,901)
	Other income			
(26)	Other income			(26)
	Benefits Payable			
5,209	Pensions	6	5,371	
946	Commutation of pension and lump sum retirement benefit	6	2,766	
43	Lump sum death benefits	6	195	
6,198				8,332
	Payments to and on account of leavers			
25	Refunds of contributions		31	
18	State Scheme Premiums		40	
700	Individual transfer out to other schemes		175	
743				246
	Administrative expenses			
196	Administrative expenses	8		182
	Other Payments			
0	Audit Fees		35	
6	Tax on Refunds		8	
6				43
(9,660)	**NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS**			(8,778)

Pension Fund Account 2010/11

2009/10 £000		Notes	2010/11 £000	2010/11 £000
	RETURNS ON INVESTMENTS			
	Investment income			
(8)	Quoted UK - dividends from equities		0	
(218)	Unquoted UK - income from pooled investment vehicles		(405)	
(88)	Unquoted overseas - income pooled investment vehicles		(123)	
(132)	Interest on cash deposits		(105)	
(15)	Other		(36)	
(461)				(669)
(59,511)	**Change in market value of investments**			(14,921)
305	**Investment management expenses**	8		427
(59,667)	**Net returns on investments**			(15,163)
(69,327)	**Net (increase)/decrease in the fund during the year**			(23,941)
(158,100)	Add : Opening net assets of the scheme			(227,427)
(227,427)	**Closing net assets of the scheme**			(251,368)

Net Assets Statement as at 31 March 2011

2009/10 £000		Notes	2010/11 £000	2010/11 £000
	INVESTMENT ASSETS			
(193,666)	Pooled Investment Vehicles (Unit Trusts)		(221,745)	
(14,976)	Pooled Investment Vehicles (Property Unit Trusts)		(18,215)	
(7,383)	Cash Deposits		(9,361)	
(2,143)	Other investment		0	
(218,168)		5	(249,321)	
	Other investment balances			
(6)	Dividends receivable		0	
(148)	Tax recoverable		(24)	
			(24)	
(218,322)	Total investment assets			(249,345)
	Net current assets and liabilities			
(3,051)	Bank and cash - external		(1,273)	
(5,595)	Bank and cash - internal		(669)	
(1,167)	Debtors	10	(2,091)	
708	Creditors	11	2,010	
(9,105)	Net current assets			(2,023)
(227,427)	**Net Assets**			(251,368)

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.

The unaudited accounts were issued on 22 July 2011 and the audited accounts were authorised for issue on 30 November 2011.

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Hazel Sutherland CPFA

Head of Finance

Notes to the Accounts

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 3084 active members (2009/10 3,067) including 326 (2009/10 330) who are members of other admitted bodies and 10 (2009/10 11) who are members of a scheduled body, 890 (2009/10 832) pensioners, 162 (2009/10 159) dependants and 1221 (2009/10 1,177) deferred members. These figures do not include teachers, who are covered by the Scottish Public Pension Agency.

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

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 2011.

The custodian, the Northern Trust Company, has valued all investments at fair value. In accordance with the Code of Practice, valuations at 31 March 2011 are at bid market values. Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2011.

The Financial Statements summarise the transactions of the fund during the year and the net assets at the year-end.

IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed. The Council has chosen to represent this in the form of a report from the Council's actuaries, Hymans Robertson LLP and this included at page 31.

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.

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 2010/11, an additional 16.6% of pensionable pay with admitted bodies paying between 15.7% and 21.9% of pensionable pay.

The last actuarial valuation of the Fund carried out as at 31 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 LLP. 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 Black Rock Investment Management (UK) Limited and Schroder Property Investment Management Limited. The Shetland Islands Council Pension Fund terminated Record Currency Management's mandate during 2010/11 due to under performance. 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 40%; Overseas Equities 40%; Bonds 10% and Property 10%. The Fund also uses the services of a custodian, The Northern Trust Company.

a) The table below gives details of investments held:

Market Value at 31 March 2010 £000		Market Value at 31 March 2011 £000
	Pooled Investment Vehicles (Unit Trusts)	
(103,079)	Unquoted - UK	(121,558)
(90,587)	Unquoted - Overseas	(100,187)
	Pooled Investment Vehicles (PropertyUnit Trusts)	
(10,839)	Unquoted - UK	(14,195)
(4,137)	Unquoted - Overseas	(4,020)
	Cash Deposits	
(7,383)	UK	(9,361)
	Other Investments	
(2,143)	UK	0
(218,168)		(249,321)

b) The reconciliation below shows the opening and closing value of investments analysed by investment managers, as reported by the Fund's custodian at 31 March 2011:

	Black Rock £000	Schroders £000	Record £000	Total £000
Opening balance at 1 April 2010	**203,672**	**15,558**	**2,143**	**221,373**
Net Gain/(Loss) from short-term and long-term investments	1,324	197	(700)	821
Payment for investing activities	(158)	(190)	(26)	(374)
Withdrawals	0	0	(1,627)	(1,627)
Other receipts from investing activities	65	585	0	650
Injections	12,000	3,675		15,675
Unrealised Gain/(Loss) change	13,690	200	210	14,100
Closing balance at 31 March 2011	**230,593**	**20,025**	**0**	**250,618**

Figures include investment assets and external cash.

c) The following investments exceed 5% of the net assets available for investment:

	Share/ Par Value £000	Fair Value £000	%
Black Rock AM (IE) IDX Selection Euro EX UK AC	2,423	32,973	13.2
Black Rock AM (IE) Index Selection Japan IDX	3,560	20,313	8.1
Black Rock AM (IE) BGI North America IDXNAV	2,640	23,576	9.4
Black Rock AM (IE) BGI Pacific Rim Index Acc	929	23,324	9.3
Aquila Life UK Equity Index Fund Ser1	15,842	98,332	39.2

6. Contributions Receivable and Benefits Payable

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

	Administering Authority £000		Scheduled Body £000		Admitted Bodies £000		Total £000	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
Contributions Receivable:								
employers	(8,284)	(9,139)	(63)	(70)	(1,340)	(1,573)	(9,687)	(10,782)
members	(3,447)	(3,594)	(20)	(23)	(517)	(515)	(3,984)	(4,132)
Benefits payable:								
pensions	4,802	4,847	52	52	355	472	5,209	5,371
lump sums	891	2,740	0	0	55	26	946	2,766
lump sum death benefits	7	84	0	0	36	111	43	195

7. Purchases and Sales During the Year

The value of purchases and sales in 2010/11 £24.951m and £8.672m as compared to 2009/10 were £22.406m and £11.990m respectively.

	Purchases		Sales (incl Gains and Losses)	
	2009/10	2010/11	2009/10	2010/11
	£000	£000	£000	£000
Fixed interest securities - Govt				
Quoted - UK	0	0	0	0
Unit Trusts				
Unquoted - UK	2,392	3,340	0	0
Unquoted - Other	0	900	0	0
Equities				
Quoted - UK	0	0	0	0
Quoted - Other	0	0	10	0
Quoted Pref Shares - Other	0	0	0	0
Unit Trusts				
Unquoted - UK	3,895	8,343	5,137	3,050
Unquoted - Other	7,082	6,535	3,738	2,983
Unquoted - Property UK	4,764	3,855	751	1,012
Unquoted - Property Other	386	0	0	0
Currency - UK	2,354	0	2,354	1,627
Cash				
Deposits	1,533	1,978	0	0
TOTAL	**22,406**	**24,951**	**11,990**	**8,672**

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

8. Administrative and Investment Management Expenses

Includes an administration charge from the Council of £0.155m (2009/10 £0.174m). Which represents the time spent by staff of the Council (principally in Finance) in administering the Fund.

Management fees for Black Rock are £0.152m (2009/10 £0.133m), Record Currency Management Limited £0.026m (2009/10 £0.049) and for Schroders £0.031m (2009/10 £0.030m).

Schroders is a fund of funds and additional charges levied by Unit Trust managers amounted to £0.154m (2009/10 £0.038m).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2010/11 amounted to £0.027m (2009/10 £0.017m). This is calculated by a set minimum charge.

There are other miscellaneous costs of £0.064m (2009/10 £0.060m) charged to the Fund.

9. Investment Return

Black Rock achieved a return for 2010/11 of +6.9% versus the benchmark return of +7%. Schroders achieved a return of +5.5% versus the benchmark of +8.8%.

10. Debtors

The debtors figure includes employee contributions of £0.349m (2009/10 £0.324m) and employer contributions of £1.314 (2009/10 £0782m). These amounts contain Shetland Islands Council contributions of £0.304m (2009/10 £0.281m) and £1.193m (2009/10 £0.675m) respectively. Also enclosed in the debtors balance is £0.365 relating to transfers for retiring members from their AVC products, which increased their lump sum payments.

11. Creditors

The figure for creditors includes an amount due to Shetland Islands Council for administration recharge costs of £0.155m (2009/10 £0.097m), pensioners' payroll of £0.453m (2009/10 £0.480m) and there are unpaid lump sum payments of £1.250m (2009/10 £0.025m).

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 2011 was £4.624m (2009/10 £4.059m) and total purchases for 2010/11 were £0.752m (2009/10 £0.694m). 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. Risks

There is a financial risk to the Fund in respect of a liability to meet any funding shortfall arising from the transfer of pension benefits accruing until February 2006 to staff of Shetland Towage. The assets of Shetland Towage's Pension Scheme that were intended to fund these benefits were also transferred to the Fund.

The latest interim actuarial valuation provided by Hymans Robertson LLP to 31 March 2011 indicated a funding shortfall of £8.091m. The Council has agreed to fully fund this shortfall and will make specific and appropriate provision to meet its obligation in this regard after receiving the Fund Interim Valuation in the Autumn 2011. This provision will take full account of the scale and likely timing of the liability and will ensure relevant service accountability for this funding.

Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2010/11

Shetland Islands Council Pension Fund ("the Fund") Actuarial Statement for 2010/11

This statement has been prepared in accordance with Regulation 31A of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

The funding policy is set out in the Shetland Islands Council Funding Strategy Statement (FSS), dated 9 April 2009. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2008. This valuation revealed that the Fund's assets, which at 31 March 2008 were valued at £200 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2008 valuation was £26 million.

Individual employers' contributions for the period 1 April 2009 to 31 March 2012 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2008 valuation report and Funding Strategy Statement are available on request from Shetland Islands Council, administering authority to the Fund.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 10 February 2009.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2008 valuation were as follows:

Financial assumptions	31 March 2008	
	% p.a. Nominal	% p.a. Real
Discount rate	6.2%	2.6%
Pay increases *	5.1%	1.5%
Price inflation/Pension increases	3.6%	-

* plus an allowance for promotional pay increases

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PXA92 year of birth mortality tables. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.8 years
Future Pensioners	22.0 years	25.0 years

Experience over the 3 years since April 2008

Total investment returns have been significantly lower than the long term assumption made at the 2008 valuation. As a result, the value of assets will not have grown as anticipated. Liabilities will not have grown as anticipated following the Government announcement in June 2010 that increases to pensions in payment from 1 April 2011 will be linked to the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). This change will be formally adopted in the actuarial valuation at 31 March 2011 and will serve to increase the real discount rate, reducing the value placed on the liabilities. The net effect is likely to result in a slight reduction in the funding level.

The next actuarial valuation will be carried out as at 31 March 2011. The Funding Strategy Statement will also be reviewed at that time.

Bryan T Chalmers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 May 2011

Hymans Robertson LLP
20 Waterloo Street
Glasgow

Actuarial Present Value of Promised Retirement Benefits

Pension Fund Accounts Reporting Requirement

Introduction
CIPFA's Code of Practice on Local Authority Accounting 2010/11 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010/11.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit.
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

In order for the Administering Authority to comply, I have provided the information required below.

Assumptions
The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the Code of Practice. These can be found at the end of this report.

Balance sheet

Year ended	31 March 2011 £m	31 March 2010 £m
Present Value of Promised Retirement Benefits	299	345

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2008. I estimate this liability at 31 March 2011 comprises £203m in respect of employee members, £31m in respect of deferred pensioners and £65m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Financial assumptions

My recommended financial assumptions are summarised below:

Year Ended:	31 Mar 2011 % p.a.	31 Mar 2010 % p.a.
Inflation / Pension Increase Rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Discount Rate	5.5%	5.5%

Please note that the salary increase assumption for 31 March 2011 is 1.0% p.a. for the first 2 years.

Mortality

As discussed in the accompanying report, life expectancy is based on the PMA92/PFA92 year of birth tables, with improvements from 2007 in line with the medium cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.5 years	24.9 years
Future Pensioners	23.5 years	27.0 years

*Future pensioners are assumed to be currently aged 45

Historic mortality

Life expectancy for the below year ends is based on the PFA92 and PMA92 tables. The allowance for future life expectancy is shown in the table below.

Year Ended	Prospective Pensioners	Pensioners
31 March 2010	year of birth, medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007

Age ratings and loadings are applied to the above tables based on membership profile.

Commutation

An allowance is included for future retirements to elect to take 70% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 85% of the maximum tax-free cash 2009 service.

Professional Issues

This paper accompanies my covering report titled "Actuarial Valuation as at 31 March 2011 for the purposes of International Accounting Standard 19" dated June 2011. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the assumptions.

Douglas Green FFA
16 June 2011

Independent Auditor's Report

Independent auditor's report to the members of Shetland Islands Council as administering body for Shetland Islands Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Council Pension Fund for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of 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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 20, the Responsible Financial Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers

I have nothing to report in respect of these matters.

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

30 November 2011

Contact Details

For more information relating to this Report, please contact:

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Shetland Islands Council Pension Fund

Annual report on the 2010/11 audit

AUDIT SCOTLAND

Prepared for those charged with governance and the Controller of Audit

November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2010/11

This report covers the 2010/11 audit of the Shetland Islands Council Pension Fund. This is the first year in which Scottish Government regulations require local government pension funds to prepare an annual report separate from the administering authority's own statutory accounts. The report is required to include separate pension fund financial statements which require a separate audit certificate.

During 2010/11 we looked at the key strategic and financial risks faced by Shetland Islands Council Pension Fund ("the fund"). We audited the financial statements and looked at aspects of governance and use of resources. This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of Shetland Islands Council Pension Fund for 2010/11 give a true and fair view of the state of the affairs of the fund as at 31 March 2011 and of the income and expenditure for the year then ended.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging, while volatility on the financial markets continues to affect the value of fund assets.

The triennial funding valuation was carried out by the scheme actuaries as at March 2011 and the results of this are due to be published soon. The valuation establishes the extent to which, on future assumptions, the scheme assets currently meet the liabilities. Employer contribution rates will have to be reviewed when the valuation is completed.

The recent Scottish Spending Review has not compulsorily passed on the member contribution increases imposed in England and in other public sector pension schemes in Scotland such as police, fire and health. However, any shortfall in funding will have to be found by other means, if not by increased members' contributions.

The co-operation and assistance given to us by officers is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Shetland Islands Council Pension Fund. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (ie on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. Appendix A provides details of our reports issued during 2010/11. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the fund.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that those charged with governance understand the risks and have arrangements in place to manage these risks. The fund should ensure that those charged with governance are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to those charged with governance and the controller of audit. It should be made available to the public and other stakeholders. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by those charged with governance.

5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

7. Auditors are required to audit financial statements and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

8. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword and governance compliance statement. This section summarises the results of our audit of the financial statements.

Audit opinion

9. We have given an unqualified opinion that the financial statements of Shetland Islands Council Pension Fund for 2010/11 give a true and fair view of the state of the affairs of the fund as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

10. Through our planned audit work we consider the legality of the pension fund's financial transactions. In addition, the head of finance has confirmed that, to the best of her knowledge and belief, the financial transactions of the pension fund were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to the attention of those charged with governance.

Annual Governance Statement

11. We are satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the pension fund to obtain assurances on the system of internal control.

Governance Compliance Statement

12. We are satisfied that this statement covers the areas and levels of compliance required by the Scottish Government's guidance.

Annual Report

13. The Scottish Government Guidance requires that the annual report for the pension fund incorporates the following:
    - the annual accounts

- a report about the management and financial performance of the funds during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each fund, and a report of the arrangements made during the year for the administration of the funds
- a statement by the actuary of the level of funding disclosed by their valuation
- the governance compliance statement, funding strategy statement, and statement of investment principles (or details of where these statements may be obtained)
- the extent to which levels of performance set out in the pension administration strategy have been achieved
- any other material which the authority considers appropriate.

14. We are satisfied that the report incorporates the above sections and that the other sections are consistent with the audited accounts, with the exception that the Fund had no strategy regarding administration performance in place at the time of our audit. Although there is no statutory requirement for this, it is recognised as good practice. We understand that an administration strategy has now been compiled and is due to be presented for approval to the Pension Fund Management Consultative Committee and to the council.

Refer Action Plan no. 1

Accounting issues

15. Local authority bodies in Scotland are required to follow the 2010 Code of Practice on Local Authority Accounting in the United Kingdom (the 2010 Code), including for the first time in 2010/11 the application of International Financial Reporting Standards (IFRSs). We were satisfied that the pension fund prepared the accounts in accordance with the 2010 Code.

Accounts submission

16. The fund failed to submit separate 2010/11 financial statements to the Controller of Audit by 30 June 2011 and the fund's financial results were included within the council's unaudited accounts. Shetland Islands Council Pension Fund was the only pension fund in Scotland to miss the 30 June 2011 deadline. A separate set of financial statements was submitted for audit on 22 July 2011. This was disappointing as; in April 2011 we communicated the requirement for separate accounts in our annual audit plan for the fund. In addition, on 21 February 2011 the Audit and Scrutiny Committee considered Scottish Government guidance regarding separate pension fund accounts, annual report and audit arrangements.

17. We recommend that the arrangements for the 2011/12 accounts are reviewed and that robust procedures are developed to ensure that the annual report including the financial statements will be submitted for audit by 30 June 2012 as required by the regulations.

Refer Action Plan no. 2

18. The full Annual Report including a governance compliance statement was available from mid September. The annual report, incorporating the financial statements, is now available for presentation to members and for publication.

Presentational and monetary adjustments to the unaudited accounts

19. There were no material changes required to the figures in the financial statements as a result of our audit, other than corrections to typographical errors. A number of presentational changes were identified and corrected to ensure that the disclosures in the accounts complied with guidance.

Prior year adjustments

20. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRSs) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition did not require a prior year adjustment to the 2009/10 audited financial statements of Shetland Islands Council Pension Fund as none of the IFRS changes affected the preparation of its accounts.

Outlook

Audit appointment for 2011/12

21. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for the fund, but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

22. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

23. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

24. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

25. The pension fund does not set a budget for its activities or report on progress through the year. This has been mainly due to the fact that, for most of its activities (receiving contributions, paying pensions, investing activities); it does not have control over the value of the transactions at any one time. There are, however, some elements (administration costs, investment manager expenses and other overheads) where it does have some control and it would be helpful to set a budget for these elements, perhaps along with expected costs for the other items.

Financial position

26. The overall position at 31 March 2011 is that the fund has assets of £251 million. These are matched against an overall liability of £299 million, giving a net liability of £46 million. The liability is an estimate of the present value of the future liabilities of the fund, based on the fund actuary's assumptions regarding the future discount rate, longevity of members and rate of inflation.

Outlook

2011/12 budget

27. The triennial funding valuation was carried out by the scheme's actuaries as at March 2011. This establishes the extent to which, on future assumptions, the scheme assets currently meet the liabilities. This review will be important in determining future levels of employer

contributions and there is a risk that employers may be under pressure not to agree to contribution increases given the financial situation.

28. 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 31 March 2011 indicated a funding shortfall of £8.091 million. The Council will review the position when the outcome of the 2011 triennial valuation is completed.

Financial forecasts beyond 2011/12

29. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

Governance and accountability

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

31. Through its board, chief executive and/or accountable/proper officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

32. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

33. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

34. Shetland Islands Council Pension Fund's governance arrangements run alongside the governance structures of the administering authority, Shetland Islands Council. The current arrangements are that the full council deals with all pension fund issues. The overview of the pension fund performance rests with the Executive Committee which meets at least six times per annum.

35. The full Council considers the investment strategy and approach, reviews or terminates managers' mandates, agrees to admit new bodies to the fund and reviews the performance of fund managers.

36. There is also a Pension Fund Management Consultative Committee in place that meets approximately twice a year. The role of this committee is to involve a wider range of stakeholders in overseeing the pension services.

37. The pension fund does not have its own audit committee so, after discussion with officers, it was decided that for 2010/11 "those charged with governance" should be the council's audit and standards committee. The annual plan, governance report, ISA260 letter and draft audit certificate were all reported to members of this committee and this report is also being submitted to it. The governance arrangements of the fund were presented to, and discussed

at, a meeting of the council on 27 September 2011. We will continue to review these arrangements as part of the 2011/12 audit of the fund.

38. There was a new requirement in 2010/11 for pension funds to produce a governance compliance statement setting out the areas where it does/does not comply with guidance issued by the Scottish Government on committee governance arrangements. The guidance covers membership of the pension committee, frequency of meetings, training of members and several other areas.

39. The fund disclosed in its financial statements that it was not compliant in the following areas:

- training/facility time/expenses: the governance compliance statement disclosed that the fund's training policies did not apply. The pension fund's view was that "the policies for employer and staff representatives are necessarily different and cannot be equally applied."
- training/facility time/expenses: there were no annual training plans for committee members in place. The pension fund is planning to develop annual training plans to identify personal and professional training needs, including mandatory training, by May 2012 following the local government elections. We will review progress made in this area during 2012.

Internal control

40. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

41. The pension fund's financial systems run alongside those of the administering authority and its financial ledger and payroll system are used to process the transactions. There are specific systems and lines of responsibility for pension administration and for investment transactions. Our review of these financial systems did not identify any significant issues.

42. Our review of the fund's investments found that regulations limiting the type and percentage of permitted investments are only considered when an agreement is prepared between the council and a fund manager.

43. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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. Due to the nature of these investments, the pension fund does not know the composition of the unit trusts. There is a risk that fund managers are not complying with the legislation regarding the type and percentage of permitted investments.

Refer Action Plan no. 3

Use of resources and performance

44. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

45. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

46. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

47. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments

48. During the course of their audit appointment, auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

49. This section includes a commentary on the Best Value and performance management arrangements within the pension fund. We also note any headline performance measures used by members and comment on any relevant national reports.

Management arrangements

Best Value

50. The pension fund has not been subject to a Best Value review; however it is covered by the overall Best Value arrangements of the administering authority.

Investment Performance

51. The pension fund monitors the performance of its investments which are overseen by independent investment advisor (WM Company) and managed by two specialised fund managers. Performance against benchmark targets is reported at least annually to the Pension Fund Management Consultative Committee.

Administration Performance

52. The pension fund did not have an approved administration strategy in place at the time of the audit. Although there is no statutory requirement to have an administration strategy, it is regarded as good practice. We understand that an administration strategy has now been compiled and is due to be presented for approval to the Pension Fund Management Consultative Committee and to the council.

Refer Action Plan no. 1

Overview of performance in 2010/11

The fund's performance measurement outcomes

53. In 2010/11 the pension fund investments performed below the benchmark targets. Blackrock (passive investments manager) performed 0.1% below the benchmark return and Schroder's (property manager) performed 3.3% below the benchmark.

54. More detail on the performance of pension administration in the annual report would help to monitor performance and identify corrective action.

Outlook

55. The fund sets its investment performance targets based on advice from the investment advisor about market performance and standard industry benchmarks. The current volatility in the stock market makes it important for pension funds to have a wide range of investment vehicles including hedging against currency fluctuations. Due to poor performance, the fund terminated a currency manager mandate in December 2010.

56. A review of investment strategy has not been completed as the fund is waiting for the outcome of the Scottish Government review of the pension funds administration in Scotland (Pathfinder project). There remains a risk that the fund’s investment strategy is not appropriate to the current economic conditions.

National performance reports

57. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year which are of interest to the fund are detailed in Exhibit 1:

Exhibit 1: A selection of national performance reports 2010/11

- The cost of public sector pensions in Scotland
- Scotland's public finances: responding to the challenges
- An overview of local government in Scotland 2010

Source: www.audit-scotland.gov.uk

58. We suggest that officers review national performance reports as they become available and consider any findings which impact on the pension fund.

Appendix A: audit reports

External audit reports and audit opinions issued for 2020/11

Title of report or opinion	Date of issue	Date presented to Audit and Standards Committee
Annual audit plan	1 April 2011	2 June 2011
Review of the internal control system and governance	20 June 2011	11 August 2011
Report on financial statements to those charged with governance	November 2011	15 Dec 2011
Audit opinion on the 2010/11 financial statements	November 2011	15 Dec 2011

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	14, 52	There is no approved pension fund administration strategy in place. ***Risk:*** *There is a risk that performance issues are not identified timeously.*	Develop and implement an Administration Strategy	Expenditure Manager	March 2012
2	17	The pension fund failed to submit the financial element of the accounts by the statutory deadline of 30 June 2011. The fund should prepare and follow robust procedures to ensure that the 2011/12 deadlines are achieved. ***Risk:*** *There is a risk that the pension fund will not achieve required deadlines in 2012*	Resourcing the Financial Accounting function to be addressed. Critical Path analysis and detailed timetable for 2011/12 accounts to be developed.	Director of Corporate Services Head of Finance	January 2012 December 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	43	***Risk:*** *There is a risk that fund managers are not complying with the legislation.*	The council is accepting the risk that fund managers are not complying with legislation and is of the view that no action is required as the pension fund invested in unitised products in line with the investment regulations.	Head of Finance	Complete

Agenda Item

3

Shetland Islands Council

Audit and Standards Committee **15 December 2011**

INTERNAL AUDIT – Six-monthly Internal Audit Progress Report 2011/12	
Report No: F-050-F	
Report Presented by Executive Manager – Internal Audit	**Executive Services – Internal Audit**

1.0 Summary

1.1 This report is being presented to the Audit and Standards 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 2011/12. It also highlights the main issues identified during Internal Audit assignments (Appendix 1).

1.3 For information Members are also presented with the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) Annual Report for 2010 /11 (Appendix 2).

1.4 Members are also reminded that Internal Audit reports are published on the Council website following clearance for Freedom Of Information (FOI) and Data Protection purposes. Members can find information on issues identified, in addition to those deemed as key / main, within these reports. http://www.shetland.gov.uk/internalaudit/

2.0 Decision Required

2.1 Members are asked to consider the contents of this report and agree that the six monthly progress for Internal Audit in 2011/12 is satisfactory.

3.0 Detail

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.

<u>Progress Report 2011/12</u>

3.2 Appendix 1 details the Internal Audit activity for 2011/12 to date.

3.3 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 the financial year-end.

3.4 All draft reports have been issued within 14 days of completion of audit work.

3.5 Employee performance reviews in Internal Audit have either been undertaken or are scheduled.

3.6 A minor restructure has recently been undertaken to accommodate a request for flexible early retirement. This will come into effect from 4 January 2012.

<u>ISO Accreditation</u>

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

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

3.9 Due to budgetary constraints it is likely this will not be renewed in 2012. However, the same standards will continue to be adhered to.

<u>SLACIAG</u>

3.10 SLACIAG meets quarterly and in addition there is a Computer Audit Sub Group (CASG), which meets 3 times a year.

3.11 The Council's Principal Internal Auditor and I contribute to these groups and regularly attend meetings. Attendance may reduce in 2012/13 due to budgetary constraints.

3.12 Whilst it is not always easy to contribute to the workings of the groups due to geographical location, in the past I have co-ordinated the organisation of a training course for the group and the Principal Internal Auditor was Secretary for the Computer Audit Sub group during the past two years.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – 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

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/Or Delegated Authority – In accordance with Section 2.6.1 of the Council's Scheme of Delegations, the Audit and Standards Committee remit includes consideration of internal audit activity, and to oversee and review action on internal audit recommendations.

4.4 Risk Management – 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 agreed action plans to deal with issues identified by Internal Audit. Our work can also help to support the wider Risk Management efforts through the monitoring of other departments application of policy and procedure.

4.5 Equalities, Health And Human Rights – None

4.6 Environmental – None

Resources

4.7 Financial – None

4.8 Legal – None

4.9 Human Resources – None

4.10 Assets And Property – None

5.0 Conclusions

5.1 Satisfactory progress is being made against the Internal Audit Plan for 2011/12. Members are asked to note issues identified as a result of audit work undertaken. Satisfactory progress has been made in relation to follow up audits and management have given commitment to resolve issues identified as a result of our work in relation to audit assignments.

For further information please contact:

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crawford.mcintyre@shetland.gov.uk

2 December 2011

List of Appendices
Appendix 1 – Internal Audit activity for 2011/12 to date.

Background Documents
SLACIAG Annual Report for 2010/11
END

Audit	Auditee	Progress Report / Key Audit Issues
Community Care	Director – Community Care Services	The key audit issue raised during this audit concerned the culture and extensive usage of relief workers in Community Care. Best value is not being achieved with regard to the significant levels of engagement of relief workers, currently exceeding one million pounds each year. Regularity of usage far exceeds the description of real relief cover. Extensive patterns exist that would enable reliefs to claim that an implied contract has been formed and entire periods could be counted as continuous employment, which has leave, sickness, maternity and pension rights implications. A number of other issues were identified many of which were addressed during the audit with commitment given to address the rest.
Social Care – Children's Services	Director – Children's Services	Two key audit issues were identified. In relation to relief staff, patterns of regular relief existed that might enable relief workers to claim that an implied contract has been formed and entire periods could be counted as continuous employment. Lack of monitoring of relief staff could lead to issues with the Working Time Directive. In addition: Social Care's Staff Supervision and Support Policy and Procedure is not being consistently adhered to (predominantly in relation to Social Care Workers) and there appears to be no monitoring and recording procedure of staff supervision. A number of other issues were identified with an action plan in place.

Social Care – Criminal Justice	Executive Manager – Criminal Justice	No key audit issues were identified. An agreed action plan is in place for the two audit issues identified.
Housing	Executive Manager - Housing	Five audit issues were identified, one of which is regarded as key. This relates to overtime which is routinely worked without prior request/authorisation at a cost of approximately £100,000 per annum. Many of the issues have already been addressed and we have received assurances that all others will be dealt with.
Planning - Heritage	Executive Manager - Planning	This audit has been put on hold pending conclusion of the management restructure.
Finance – Benefits & Rents	Benefits Manager	Audit commenced. Due to be finalised December 2011.
Schools Service	Executive Manager - Schools	Scheduled for 4th quarter.

Follow up Audit	Auditee	Progress Report
Payroll & Pensions	Expenditure Manager	The majority of matters had been or were being addressed. Commitment was given to resolve all issues.
Finance – Local Taxation	Local Taxation Manager	All issues had been resolved.
Building Standards	Service Manager – Building Standards	The majority of matters had been or were being addressed. Commitment was given to resolve all issues.
Train Shetland – Short Courses	Short Courses Manager	All matters had been addressed.
Train Shetland – Vocational Training	Vocational Training Manager	All matters had been substantially addressed.
Development Plans	Service Manager – Development Management	This audit has been put on hold pending conclusion of the management restructure.
Laboratory	Laboratory Section Leader	All issues had been addressed.
Halls of Residence	Manager – Janet Courtney Halls of Residence	All matters had been or were in the process of being addressed.
Building Services	Acting Team Leader – Building Maintenance	Scheduled for 3^{rd} quarter.
Catering & Cleaning	Catering & Cleaning Manager	Scheduled for 4^{th} quarter.
Safety & Risk	Safety & Risk Manager	Scheduled for 4^{th} quarter.
Community Care	Director – Community Care Services	Scheduled for 4^{th} quarter.

Finance - Treasury	Treasury Accountant	Scheduled for 4th quarter.
Development Management	Service Manager – Development Management / Coastal Zone Manager	Scheduled for 4th quarter.
Flexitime Corporate Review	Council wide Corporate Review	Scheduled for 4th quarter.
Investigations / Reviews	**Requested by**	**Progress Report**
SUMS College	Director – Shetland College	Work undertaken and charged in accordance with SLA.
LEADER Funding	Executive Manager – Economic Development	Work undertaken and charged in accordance with SLA.
Hardship Fund	Director – Shetland College	To be undertaken prior to Xmas.
Corporate Improvement Plan	Strategic Audit Plan	Ongoing.
Performance Reviews	Strategic Audit Plan	The main findings were: • From a sample of 100 employees, for 65 employees there was no evidence that a performance review had been performed in the last year. • In 41 of these cases there was no evidence that a review had ever been undertaken. • Other lesser issues were also identified. This report was presented to CMT who have determined a course of action to address this situation.
Credit Cards / Cash Security	Strategic Audit Plan	The main findings were:

		From a sample of 15 Corporate Credit Cards reviewed: • In 2 cases they were being utilised in breach of the Bank of Scotland's credit card terms and conditions • VAT invoices were not always submitted, resulting in financial loss to the Council • Requisitions were not always raised From a sample of 21 Petty Cash imprests reviewed: • In 2 cases there were balancing discrepancies in excess of £40 It is pleasing to report, however, that in all cases where cash security was reviewed this was satisfactory.
Recruitment	Strategic Audit Plan	Commenced October 2011
Disclosures	Strategic Audit Plan	Significant improvements have been made in this area. However from a sample of 200 employees the main findings were: • In one case a Disclosure / Protecting Vulnerable Groups (PVG) Check was not in place where it should have been. • There is still evidence of employees being allowed to commence employment prior to cleared Disclosure / PVG. • This report was presented to CMT who have determined a course of action.
Purchasing / Invoice Payment	Strategic Audit Plan	Commenced November 2011.

Specific Capital Project – Walls Pier	Strategic Audit Plan	Scheduled for 4th quarter.
Software Asset Management	Strategic Audit Plan	A review was undertaken in conjunction with ICT to determine whether Microsoft Software Licensing requirements are adequately met. Shortfalls were identified in some cases. These were reported to a Project Board and are being addressed.
Media Handling	Strategic Audit Plan	Scheduled for 4th quarter.
Audit Logs	Strategic audit plan	Commenced November 2011.

Agenda Item

4

Shetland Islands Council

Audit & Standards Committee **15th December 2011**

Audit Scotland Reports	
IP-003-F	
Executive Manager	**Improvement and Performance**

1.0 Summary

1.1 This report contains links to reports produced by Audit Scotland since the last Audit & Standards meeting.

2.0 Decisions Required

2.1 The Audit and Standards Committee should consider the contents of this report and highlight any issues in the linked reports that they feel should be monitored or further addressed through this, other Committees or Council management.

3.0 Detail

3.1 Representatives of Audit Scotland are expected to be in attendance to provide further background or answer questions.

3.2

Date	**Report**	**Appropriate Body**
29th Nov 2011	Comhairle nan Eilean Siar Best Value Audit	Audit & Standards Committee / Chief Executive
28th Nov 2011	Priorities and Risks Framework for NHS in Scotland	Social Service Committee / Director Community Care / Executive Manager Improvement & Performance
11th Nov 2011	2010/11 Audit of Registers in Scotland	Director Corporate Services
10th Nov 2011	Stirling Council Best Value Audit	Audit & Standards Committee / Chief Executive
3rd Nov 2011	The role of Community Planning in Economic Development	Development Committee / Director Development
13th Oct	Telehealth in Scotland	Social Services Committee /

2011		Director Community Care
15th Sept 2011	Modernising Planning System	Planning Committee / Director Development
25th Aug 2011	Scotland Public Finances	Executive Committee / CMT
19th Aug 2011	Aberdeenshire Council – S.R. 2011/12	Audit & Standards Committee / Chief Executive
4th Aug 2011	Transport for Health & Social Care	Social Services Committee / Director Community Care

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – Improved external engagement and sharing best practice are both elements of the Councils Improvement Plan.

4.2 Community /Stakeholder Issues – NONE

4.2 Policy And/Or Delegated Authority – The Audit and Standards Committee remit includes consideration of reports from Audit Scotland.

4.3 Risk Management – Failure to deliver effective external engagement and lean from best practice elsewhere increases the risk of the Council working inefficiently.

4.4 Equalities, Health And Human Rights – NONE

4.5 Environmental – NONE

Resources

4.6 Financial – NONE

4.7 Legal – NONE.

4.8 Human Resources - NONE

4.9 Assets And Property – NONE

5.0 Conclusions

5.1 The attached reports provide valuable information for Committees and officers throughout the Council.

For further information please contact:
Jim MacLeod – Project Manager
01595 744672
James.macleod@shetland.gov.uk
28/07/11

Links to Background documents:

Comhairle nan Eilean Siar: the Audit of Best Value and Community Planning

29 November 2011 for the Accounts Commission

The council has put some of the basic building blocks in place for providing Best Value, but there remain significant aspects requiring more progress.

- Comhairle nan Eilean Siar (English) (PDF | 806 KB)
- Summary (PDF | 362 KB)
- Press release (PDF | 103 KB)

Priorities and Risks Framework: A national planning tool for 2011/12 NHS Scotland audits

28 November 2011 for Audit Scotland

The Priorities and Risks Framework (PRF) for the NHS (National Health Service) identifies the current national priorities and risks in the NHS in Scotland. The NHS PRF is a tool that auditors use to plan audits of NHS bodies. It helps ensure that audit work is properly focused and that it takes account of the national priorities and risks. The NHS PRF is updated annually.

- Priorities and Risks Framework 2011/12 (PDF | 528 KB)

The 2010/11 audit of Registers of Scotland

11 November 2011 for the Auditor General

- The 2010/11 audit of Registers of Scotland (PDF | 183 KB)

Stirling Council: the Audit of Best Value and Community Planning

10 November 2011 for the Accounts Commission

Stirling Council has strong leadership with a clear vision, and has made good progress in improving the performance of its services, its management of resources and partnership working, according to the Accounts Commission.

- Stirling Council: the Audit of Best Value and Community Planning (PDF | 729 KB)
- Summary - Stirling Council: the Audit of Best Value and Community Planning (PDF | 994 KB)
- Press release - Stirling Council: the Audit of Best Value and Community Planning (PDF | 104 KB)

The role of community planning partnerships in economic development

3 November 2011 for the Auditor General / Accounts Commission

Community planning partnerships need to build on their economic development activity to help meet local needs. Partnerships should also make better use of available information and improve their understanding of the costs involved in delivering local economic priorities.

- Community planning partnerships (PDF | 1.57MB)
- Main report - Black and white version (PDF | 1.02MB)
- Key messages - Community planning partnerships (PDF | 1.33MB)
- Report supplement - Community planning partnerships (PDF | 816 KB)
- Press release - Community planning partnerships (PDF | 96 KB)

A review of telehealth in Scotland

13 October 2011 for the Auditor General

The NHS in Scotland should do more to consider telehealth when introducing or redesigning services. It provides an opportunity to treat patients in new ways, and to help manage rising costs and demand.

- A review of telehealth in Scotland (PDF | 1.41MB)
- Main report - Black and white version (PDF | 657 KB)
- Key messages - A review of telehealth in Scotland (PDF | 505 KB)

- Key messages - Black and white version (PDF | 329 KB)
- Report supplement - A review of telehealth in Scotland (PDF | 283 KB)
- Report supplement - Modelling telehealth (PDF | 655 KB)
- Report supplement - Modelling A3 workbook (PDF | 453 KB)
- Press release - A review of telehealth in Scotland (PDF | 92 KB)

Modernising the planning system

15 September 2011 for the Auditor General / Accounts Commission

While public bodies involved in planning are now working better together, the time taken to decide planning applications is not reducing and the gap between the costs of processing applications and the income received from fees is widening and becoming unsustainable.

- Modernising the planning system (PDF | 3.11MB)
- Main report - Black and white version (PDF | 3.11MB)
- Key messages - Modernising the planning system (PDF | 533 KB)
- Key messages - Black and white version (PDF | 724 KB)
- Report supplement - Modernising the planning system (PDF | 1.34MB)
- Service users' views - Modernising the planning system (PDF | 609 KB)
- Press release - Modernising the planning system (PDF | 105 KB)

Scotland's public finances: addressing the challenges

25 August 2011 for the Auditor General / Accounts Commission

Scotland’s public sector is in the first year of major spending cuts and public bodies must focus on their long-term financial sustainability to ensure effective public services in the future.

- Scotland's public finances: addressing the challenges (PDF | 2.19MB)
- Press release - Scotland's public finances (PDF | 192 KB)

Aberdeenshire council - S.R. - 2011/2

19 August 2011 for the Accounts Commission

The council took insufficient action to address risks, with delays in implementing actions. It has improved but needs to do more to ensure robust arrangements and oversight and improved quality of service.

- Aberdeenshire council (PDF | 394 KB)
- Commission findings (PDF | 57 KB)
- Commission findings - Press release (PDF | 135 KB)

Transport for health and social care

4 August 2011 for the Auditor General / Accounts Commission

Greater coordination of transport for health and social care, which affects many people across Scotland, could lead to significant improvements and financial savings.

- Transport for health and social care (PDF | 913 KB)
- Main report - Black and white version (PDF | 567 KB)
- Key messages - Transport for health and social care (PDF | 512 KB)
- Supplement - Transport for health and social care (PDF | 871 KB)
- Press release - Transport for health and social care (PDF | 143 KB)

Agenda Item

5

Shetland Islands Council

Audit and Standards Committee **15 December 2011**
Executive Committee **19 December 2011**

Scrutiny and Performance Management Review	
IP-002-F	
Report Presented by Executive Manager	**Improvement & Performance**

1.0 Summary

1.1 This report describes managerial, committee and Council scrutiny and performance activity since the approval of the Councils new Governance structure and planning and performance management framework earlier this year.

2.0 Decision Required

2.1 The Audit and Standards Committee is asked to:

Comment on the scrutiny and performance management activity described in this report and RECOMMEND to Executive Committee that

1) All Committees receive a review of progress from relevant Directors in the next cycle against their PPMF work plan approved in June 2011, followed by a summary report by the Executive Manager – Improvement and Performance to the next Audit and Standards Committee meeting.

2) The Executive Manager – Improvement and Performance reports a detailed statement of managerial Performance Management activity to that same meeting.

3) The annual report from the Monitoring Officer reviewing the Council's Code of Corporate Governance is also reported to that same meeting.

2.2 The Executive Committee is asked to RESOLVE to:

Consider any recommendations from the Audit and Standards Committee and further comment on the scrutiny and performance management activity described in this report.

3.0 Detail

3.1 An Improvement Plan, agreed by Council in November 2010, contained a range of recommendations for improvement in decision making and other arrangements including scrutiny and performance management.

3.2 Between March and June 2011 the Council adopted and implemented revised governance arrangements which set out the roles of Council and Committees in scrutiny and performance management.

3.3 Each service committee considered service statements for their areas of responsibility in the June 2011 cycle of meetings, and approved those documents as the work plan to develop policy initiatives and manage performance over the next period.

3.4 In July 2011, the Council formally approved an updated Planning and Performance Management Framework (PPMF). It further defined arrangements and timetable for accountability and reporting on performance and service improvements.

3.5 From July to October 2011 the Council restructured its senior management arrangements with Director and Executive Manager appointments against revised job descriptions which among other changes contained an increased focus on performance management.

3.6 Appendix 1 is a review of overall managerial and Committee performance management and scrutiny activity as they relate to the Council's PPMF and other relevant policy frameworks.

3.7 The overall conclusion of this review is that there are a number of areas where systematic performance management activity has yet to become embedded and that close attention is required to ensure that the significant early improvements are sustained. A number of activities have been disrupted by management restructuring and it is important that any ground lost is quickly recovered.

3.8 Appendix 2 summarises the activity of the Audit and Standards Committee since the implementation of the Councils new governance arrangements and summaries the responsibilities delegated to the Audit and Standards Committee.

3.9 The activity of the Audit and Standards Committee since the introduction of new governance arrangements has been closely in line with its remit. It may now wish to consider how it develops it links further with other Committees to ensure that matters remitted to them are followed through and reported back to Audit and Standards Committee.

3.10 Appendix 3 reviews the Scrutiny and Performance Management activity of other main Council Committees over the same time frame and summaries the performance management responsibilities delegated to Council, Executive and functional Committees.

3.11 While all functional Committees have carried out some scrutiny and performance management activity, Audit and Standards Committee may now wish to consider a recommendation that all relevant Committees receive a review of progress in the next cycle against the PPMF work plan which each committee approved in June 2011.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – Councils are required to "demonstrate Best Value in all their activities". The inability of this Council to do that was at the core of the criticism of the Council by external scrutiny bodies. The governance, managerial and other systematic changes made by the Council during this year were intended to rectify this and are all underwritten by an effective Planning and Performance Management Framework and culture. Clear arrangements for scrutiny and performance management and their effective implementation were central to the Council's agreed Improvement plan.

4.2 Community /Stakeholder Issues – Consultation on further developments of the Council's Planning and Performance Management Framework and integration with partners arrangements through Community Plan/SOA are being progressed alongside community and partner consultation on finances .

4.3 Policy And/Or Delegated Authority –

4.3.1 Executive Committee Responsibilities - The Executive Committee has delegated authority to

- "Ensure the effectiveness of the Councils Planning and Performance Management Framework (PPMF)". (Scheme of Administration and Delegations 2.2.1(4)).

4.3.2 Audit and Standards Committee Responsibilities as set out in the Councils constitutional documents (Scheme of Administration and Delegations 2.6.3.) include;

- To promote good performance management practice within the Council;
- To assess the effectiveness of the Council's Performance Management System by reviewing outputs from the system and overview key performance indicators;
- To consider a selection of performance and inspection reports from internal audit, external audit and other relevant agencies;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To comment on the effectiveness of the planning and performance management framework (PPMF), systems and processes; and

- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans for performance work to be undertaken by both external and internal audit.

4.4 Risk Management

4.4.1 Effective performance management should include the Council's most significant strategic priorities and corporate risks.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial - None

4.8 Legal – NONE.

4.9 Human Resources – NONE.

4.10 Assets And Property – NONE.

5.0 Conclusions

5.1 This report describes scrutiny and performance management activity since Council governance arrangements were updated earlier this year.

5.2 It shows that significant progress is being made, but close attention is required to ensure that progress is sustained.

For further information please contact:
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10 November 2011

List of Appendices

Appendix 1: Overall Review of Performance Management Activity

Appendix 2: Review of Audit and Standards Activity

Appendix 3: Review of Committee PPMF Activity

Background documents:

Planning and Performance Management Framework
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=12295

END

Appendix 1 - Scrutiny and Performance Management Review - Overall Compliance with PPMF December 2011 Update

AREA	REQUIREMENT	TO BE REPORTED BY	TO BE REPORTED TO	ACTION TO DATE	NEXT ACTION
Community Plan / Single Outcome Agreement	Out-turn against last years Community Plan/Single Outcome Agreement each September to show performance against objectives and report to the Scottish Government / publication.	Each Partners Chief Executive Chief Executive	Community Planning Delivery Group Executive Committee	SOA outturn reported to Audit and Standards Committee in October 2011 and submitted to Scottish Government.	Issues to be followed up through functional Committees and fed through Executive into development of next years plan
Financial Planning	Budget Setting Process	Finance	Executive and Future Finance Working Group	Budget Framework Reported to Executive July 2011 Strategic Budget Plan Reported to Council Nov 2011 Budget Progress Reported to Executive Nov 2011	Progress Report each Cycle to Executive culminating in Budget Setting by Council Feb 2012
Community Plan / SOA / Corporate Plan	Annual Refresh of key overall vision, aims and priorities to inform next years budget preparation process.	Chief Executive (after discussion with CPDG)	Executive Committee	Refresh due in October still in progress due to restructuring of governance and management arrangements.	Consultation draft of Vision and Aims targeted for 21st December meeting of CPDG / Scenario Planning Steering Group then shared with partners for further consultation.
Community Plan / SOA	6 Month Progress Report in October on delivery of this year's plan to monitor implementation.	Each Partners Chief Executive	Community Planning Delivery Group	Six month progress report not produced. Review of Community Planning Governance and Performance Management arrangements ongoing.	Produce 12 months report and Complete review of Community Planning Governance and PPMF arrangements.
Corporate Performance	Quarterly progress reports on delivery of this year's plan to monitor implementation.	Chief Executive	Executive Committee	1st and 2nd Quarter progress reported to Executive Committee November 2011	Issues to be allocated to functional committees / Directors to follow up. 3rd Quarter to be reported to Executive Committee in Feb 2012

Appendix 1 - Scrutiny and Performance Management Review - Overall Compliance with PPMF December 2011 Update

AREA	REQUIREMENT	TO BE REPORTED BY	TO BE REPORTED TO	ACTION TO DATE	NEXT ACTION
Improvement Plan	At least Quarterly Progress Report to monitor implementation.	Chief Executive	Improvement Sounding Board – Executive	Reported at least each quarter to Improvement Sounding Board and Executive.	Issues to be allocated to Directors to follow up. 3rd Quarter to be reported to Executive Committee in Feb 2012
Service Performance	Quarterly Operational Service Performance Reports on delivery of this year's plan to monitor implementation.	Executive Managers Directors	*Directors* *Chief Executive*	No reporting on 1st Quarter and Partial reporting on 2nd Quarter in November 2011 due to management restructure and ongoing clarification of reporting arrangements and development support systems	3rd Quarter to be reported to Directors and Chief Executive in February 2012
Service Performance	Annual Report to Relevant Committee to show performance against objectives in last years plan and determine / confirm next years plans	Executive Managers Directors	*Relevant Committee*		Annual Reports Due April/May 2012
Service Performance	Periodic Service Performance Reporting to Relevant Committee to highlight delivery / issues.	Executive Managers Directors	*Relevant Committee*	Limited performance reporting to date at functional committees	Monitor next cycles activity
Revenue and Capital	Reporting on budget / actual performance each period to monitor spend / savings.	Finance to	Executive Manager / Director / CMT	Reported Overall and Service report for Quarter 1 to Executive as a trial for the new style of reporting.	For Quarter 2 the new style of reporting will be rolled out to all Committees.

Appendix 1 - Scrutiny and Performance Management Review - Overall Compliance with PPMF December 2011 Update

AREA	REQUIREMENT	TO BE REPORTED BY	TO BE REPORTED TO	ACTION TO DATE	NEXT ACTION
Revenue and Capital Accounting	Outturn and Final Accounts	Finance	Executive and Audit and Standards	Outturn Reported to Executive in June 2011 Draft Final Accounts Reported to Executive and Audit and Standards September 2011	Final Accounts Reported to Executive and Audit and Standards November / December 2011
Financial Management Improvement	ISA 260 – Audit Opinion Letter	Finance	Executive	ISA 260 received with final accounts Finance Improvement Plan Reported to Executive Nov 2011	Executive to monitor Finance Improvement Plan Implementation via Quarterly reports
Best Value / Service Improvement Reviews	Reporting requirements not defined in Planning and Performance Management Framework	Directors	Relevant Committee and Audit and Standards	Limited reporting this far	Monitor activity over next cycles
Community Engagement	Not defined in Planning and Performance Management Framework	Directors	Relevant Committee	Community Engagement on overall Council spending reported to Executive Nov 2011	Monitor activity over next cycles
Reporting to the Wider Community	Publication of Single Outcome Agreement Outturn in October Publication of Annual Accounts in October Publication of Public Performance Overview in November	*Chief Executive* *Finance* *Chief Executive*	Wider Community	Publication of Single Outcome Agreement Outturn in October Publication of Annual Accounts in October Publication of Public Performance Overview in November	Review actions in line with Communications and Community Engagement Strategies
Individual Employee Performance	Employee Performance Appraisal and Development	By each member of staff	Relevant Manager	Continuing uncertainty of complete coverage of reviews further disrupted by Management restructuring	Review this work stream within Improvement Action Plan

Appendix 1 - Scrutiny and Performance Management Review - Overall Compliance with PPMF December 2011 Update

AREA	REQUIREMENT	TO BE REPORTED BY	TO BE REPORTED TO	ACTION TO DATE	NEXT ACTION
External Scrutiny	Consider and action Audit Scotland Reports	Chief Executive / Director of Corporate Services	Audit and Standards / Executive / Relevant Council Committee	Audit and Standards have adopted standard arrangement for reporting Audit Scotland reports	Ensure allocation to relevant functional committee is effective and learning implemented
External Scrutiny	Consider and Action other Scrutiny Body Reports	Relevant Director	Relevant Council Committee	Work currently ongoing to understand arrangements across Committees and scrutiny bodies	Monitor progress

Appendix 2 - Scrutiny and Performance Management Review – Audit and Standards Activity December 2011 Update

	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP	TYPE
June 2nd	External Audit Progress Report	Head of Finance	Noted	Chief Executive commended the Head of Finance, her team in Finance Services and the external support on the improvements made	Final Accounts and any " ISA 260 Letter and Audit Opinion" recommendations with Executive	AUD
June 2nd	IFRS Progress Report	Head of Finance	Noted		Final Accounts and any " ISA 260 Letter and Audit Opinion" recommendations with Executive	AUD
June 2nd	Pension Fund: Annual Audit Plan	Head of Finance	Noted	Shetland Towage Pension n issue solutions to be included in the budget process.	Pension Fund Final Accounts with Executive	AUD
June 2nd	Internal Audit – Annual Report and Operational Plan	Internal Audit Manager	Noted	Noted with concern issues identified and agreed to record its appreciation for the work undertaken as part of the Annual Audit Plan 2010/11	6 month Internal Audit monitoring report	AUD
June 2nd	Improvement Plan Progress Report	Chief Executive	Noted	Chief Executive advised on improvement budget utilisation	Ongoing monitoring through Executive Committee and Accounts Commission follow up report	PM
June 2nd	Assurance and Improvement Plan	Chief Executive	Noted	Chief Executive acknowledged members concerns in relation to the lack of procurement savings.	Monitoring through Executive and AIP 2012 development	AUD
June 2nd	Matters Arising	Project Manager – Audit & Standards Support	Noted	Noted new remit of the Committee and Resolved to keep the "Matters Arising" report as a standard item on the Audit and Standards agenda	Standing Item	STD

Appendix 2 - Scrutiny and Performance Management Review – Audit and Standards Activity December 2011 Update

	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP	TYPE
Aug 11th	Matters Arising	Project Manager – Audit & Standards Support	Noted	Resolved that the work plan for the remainder of this Councils term be drawn up according to the new remit	Standing item	STD
Aug 11th	Audit Scotland Reports (Progress Report and 5 national reports)	Project Manager – Audit & Standards Support	Noted	Agreed that this format should be used for future reporting of Audit Scotland information	Develop arrangements to ensure relevant Committee considers / acts	PM
Aug 11th	Improvement Plan Progress Report	Chief Executive	Noted	Resolved that the Chief Executive be asked to provide an update on statutory and non-statutory duties to the next meeting of the Committee.	On-going monitoring through Executive	PM
Aug 11th	Review of Internal Controls 2010/11 and Action Plan	Head of Finance	Recommend Executive to	Approve the Action Plan	Implementation through Executive	ACC
Aug 11th	Review of Pension Fund Internal Controls 2010/11 and Action Plan	Head of Finance	Recommend Executive to	Approve the Action Plan	Implementation through Executive	ACC

Appendix 2 - Scrutiny and Performance Management Review – Audit and Standards Activity December 2011 Update

	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP	TYPE
Sept 27th	Single Outcome Agreement 2010/11 Outturn Report	Improvement and Performance Manager	Discussed and Noted	Members expressed concern that the Council was not meeting its targets in relation to Fuel Poverty Concerns regarding the number of enquiries through the business gateway Welcomed that the number of people from hard to reach groups accessing learning opportunities had risen. Concerns relating to the number of childminders in Shetland and childcare in Lerwick	Further develop arrangements to ensure relevant Committee considers / acts	PM
Sept 27th	Statutory Performance Indicators 2010/11	Improvement and Performance Manager	Discussed and highlighted areas for further investigation	Areas Highlighted; Sickness Absence Housing damage and income lost Road condition Refuse Recycling Benifits Administration clarification Time to process Householder Planning Applications	Further develop arrangements to ensure relevant Committee considers / acts	PM
Sept 27th	Draft Unaudited Pension Fund Accounts to 31 March 2011	Head of Finance	Recommend Executive to	Approve Annual Governance Statement Approve self assessment checklist Approve draft unaudited accounts	Implementation through Executive	ACC

Appendix 2 - Scrutiny and Performance Management Review – Audit and Standards Activity December 2011 Update

	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP	TYPE
Sept 27th	Final Accounts 2010/11	Head of Finance	Recommend Council to	Note the ISA 260 report and agree its recommended actions Approve the 2010/11 final accounts	Implementation through Executive	ACC
Sept 27th	Items for future discussion	Committee	Request for further information	Report on overtime for the next meeting A cost benefit analysis to be undertaken on the provision of electronic alternatives to paper agendas	Ensure relevant service / committee acts	STD

Type Abbreviations – Section of Audit & Standards Responsibilities relating to the item

AUD – Audit Activity
ACC – Accounts
PM – Performance Management

AUDIT & STANDARDS – SCRUITNY AND PERFORMANCE MANAGEMENT RESPONSIBILITIES

(Extract from Shetland Islands Council – Constitution Part C - SCHEME OF ADMINISTRATION AND DELEGATIONS May 2011 relating to Scrutiny and Performance Management)

2.6 Audit and Standards Committee

To promote good internal control, financial management, risk, governance and performance management, in order to provide reasonable assurance of effective and efficient operation, and compliance with laws and regulations,
including the Council's Code of Corporate Governance, Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

Specific terms of reference are –

2.6.1 **Audit Activity**

- To agree the internal audit strategic plan, oversee and review action taken on internal audit recommendations;
- To consider the annual report, opinion, and summary of Internal Audit activity (actual and proposed) including the level of assurance it can give over the Council's corporate governance arrangements and other specific internal audit reports;
- To consider the External Auditor's Annual Letter, relevant reports, and the report to those charged with governance and other specific External Audit reports;
- To comment on the scope and depth of External Audit work and to ensure it gives value for money;
- To consider the performance of Internal and External Audit;
- To facilitate training to support the role of Audit and Standards Committee Members;
- To develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- To promote good financial practice within the Council;
- To be consulted on the External Audit strategy and plan, review reports from the Council's External Advisors and review action on External Audit recommendations; and
- To review the Council's financial performance as contained in the Annual Report, and to report annually to the Council on the internal control environment.

2.6.2 **Regulatory Framework**

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, and financial regulations;
- To monitor the effective development and operation of risk management and corporate governance in the Council;
- To receive an annual report from the Monitoring Officer reviewing the Council's Code of Corporate Governance;
- To monitor the Anti fraud and corruption strategy and the Council's arrangements for dealing with any allegations of fraud or similar improper behaviour;
- To oversee the production of the Council's Statement on Internal Control; and
- To consider the Council's compliance with its own and other published standards and controls.

2.6.3 **Accounts**

- To examine the activities and accounts of the Council and exercise a governance role over management efforts to ensure that -

  - the expenditure approved by the Council has been incurred for the purposes intended;
  - services are being provided efficiently and effectively;
  - value for money is being obtained, all in accordance with Best Value requirements; and
  - the Council has appropriate information and advice available to it to make decisions
- To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts;

Performance Management

- To promote good performance management practice within the Council;
- To assess the effectiveness of the Council's Performance Management System by reviewing outputs from the system and overview key performance indicators;
- To consider a selection of performance and inspection reports from internal audit, external audit and other relevant agencies;
- To review Best Value arrangements and outcomes, with consideration of both external and internal Best Value reports, strategy/plans and outcomes from Best Value reviews;
- To comment on the effectiveness of the planning and performance management framework (PPMF), systems and processes; and
- To review the impact of national performance reports from external bodies such as Audit Scotland and consider their impact on future audit plans for performance work to be undertaken by both external and internal audit.

Appendix 3 - Scrutiny and Performance Management Review – Council & Committee Activity December 2011 Update

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Full Council July 6th	Planning and Performance Management Framework	Chief Executive	Resolved to	Approve the refreshed Planning and Performance Management Framework	Monitor implementation through Audit and Standards
Full Council July 6th	Capital Programme Outturn	Head of Finance	Noted / Approved	Note the contents of the report and approve the allocation of slippage	Final Accounts through Executive and Audit and Standards
Full Council July 6th	Draft Accounts	Head of Finance	Noted / Approved	Note the contents of the report	Final Accounts through Executive and Audit and Standards
Full Council July 6th	Financial Planning and Budgeting Framework	Head of Finance	Approved	Baseline reserves at £258.6 million Policy framework for Capital, R&R and Reserve Funds. Re-establish a General Fund revenue balance Develop charging policy Establish spend to save budgets Agree timetable of tasks and activity	Monitor through Budgeting process via Executive Committee
Full Council Sept 21st	Highlands and Islands Fire Board Performance	Chief Officer – H&I Fire & Rescue	Noted		
Full Council Sept 21st	Review of Community Health Partnerships by Audit Scotland	Social Services Chair	Resolved to	Approve delegated authority to the CHP Committee to undertake a project to identify how the Council and NHS Shetland can further the integration of Health and Social Care services and develop the governance and management arrangements.	CHP Committee to make recommendations to SIC and NHS Shetland by March 2012

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Full Council Sept 27th	Draft Unaudited Pension Fund Accounts 2010/11	Head of Finance	Resolved to	`Approve : (a) the Annual Governance Statement as being an accurate record of the arrangements in place for the Shetland Islands Council Pension Fund; (b) the self assessment checklist (Governance Compliance Statement) and recommended actions for improvement to meet best practice arrangements; and (c) the draft unaudited accounts to 31 March 2011.	
Full Council Nov 3rd	Strategic Budget Plan	Head of Finance	Resolved to	Approve the strategic budget plan	Final strategic policy decisions to Council in February/March 2012
Executive July 4th	Planning and Performance Management Framework	Chief Executive	Recommend to Council	to approve the refreshed Planning and Performance Management Framework	Monitor implementation through Audit and Standards
Executive July 4th	Capital Programme Outturn	Head of Finance	Recommend to Council	to note the contents of the report and approve the allocation of slippage	Final Accounts through Executive and Audit and Standards
Executive July 4th	2009/10 Provisional Financial Outturn	Head of Finance	Recommend to Council	To note the contents of the report	Final Accounts through Executive and Audit and Standards
Executive July 4th	Financial Planning and Budgeting Framework	Head of Finance	Recommend to Council	Approve the contents of the report	Monitor through Budgeting process via Executive Committee

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Executive July 4th	Workforce Efficiency Strategy – Overall Staff Numbers	Head of OD	Approved	The Committee discussed the information in the report, and agreed the need for further work to be undertaken with managers to achieve efficiencies	
Executive July 4th	Financial Planning and Budgeting Framework	Head of Finance	Recommend to Council	Approve the contents of the report	Monitor through Budgeting process via Executive Committee
Executive September 9th	Financial Planning and Budgeting Framework	Head of Finance	Approved	The Executive Committee reviewed and AGREED the: Revenue Management Accounts, from 1 April 2011 – 30 June 2011; Capital Management Accounts, from 1 April 2011 – 30 June 2011; and progress on securing savings and efficiencies in the year.	Monitor through Budgeting process via Executive Committee
Executive September 9th	Workforce Efficiency Strategy	HR Manager	Approved	The Executive Committee RESOLVED to formally establish an Efficiency Partnership Group	
Executive October 3rd	Review of Internal Controls Pension Fund 2010/11 and Action Plan	Head of Finance	Approved	The Executive Committee RESOLVED to approve the Action Plan.	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Executive October 3rd	Review of Internal Controls 2010/11 and Action Plan	Head of Finance	Approved	The Executive Committee RESOLVED to approve the action plan.	The Executive Committee further RESOLVED that an update report on items from the Action Plan in this report, and also those improvements that the Council are committed to taking forward in the Finance Service from the ISA260 report, will be reported on regularly for monitoring and review purposes by the Audit and Standards and Executive Committees, as appropriate.

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Executive Oct 3rd	Management Accounts Overview	Head of Finance	Approved	The Committee approved the recommendations and RESOLVED to: □□review the Revenue Management Accounts, □□ review the Capital Management Accounts □□review the progress on securing savings and efficiencies in the year; and □□support the Chief Executive and Corporate Management Team in their actions to continue to critically review all spending decisions to ensure that the expected deficit in the current year is met by the end of the financial year.	
Executive Oct 3rd	Strategic Budget Plan	Head of Finance	Recommend to Council	to approve the Strategic Budget Plan	
Executive Nov 28th	Final Audited Accounts 2010/2011	Head of Finance	Recommend to Council		

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Executive Nov 28th	Strategic Budget Plan: Progress Report (Revenue)	Head of Finance	Recommend to Council		
Executive Nov 28th	Finance Service Improvement Plan	Head of Finance	Recommend to Council		
Executive Nov 28th	Corporate Plan Update Report	Improvement and Performance Manager	Approve / Recommend to Council		
Devt June 22nd	Planning and Performance Management Framework: Summary Workplan	Director Infrastructure and Head of Economic Development	Approved	The Committee RESOLVED to: Note the Service Statements appended to the report. Approve the documents as the work plan to develop policy initiatives and manage performance over the next period.	
Devt Nov 9th	Local Development Plan – progress report	Executive Manager Planning		Minute not available	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Education and Families June 15th	Planning and Performance Management Framework: Summary Workplan	Executive Director Education and Social Care	Approved	The Committee RESOLVED to: Note the Service Statements appended to the report. Approve the documents as the work plan to develop policy initiatives and manage performance over the next period.	
Education and Families Aug 25th	A Brighter Future for All Children and Young People in Shetland: Shetland's Integrated Children and Young People's Services Plan 2011-2014	Director of Children's Services	Approved	The Committee RESOLVED to: 1. agree that the priorities listed in the Plan are appropriate to the delivery of the Integrated Children and Young People's Services Plan 2. agree the Integrated Children and Young People's Services Plan	
Education and Families Aug 25th	Shetland Child Protection Committee: Annual Report and Business Plan	Director of Children's Services		reviewed the terms of the Annual Report and Business Plan, as part of its scrutiny role under the approved Planning and Performance Management Framework (PPMF)	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Education and Families Nov 9th	Annual Report from Chief Social Work Officer	Chief Social Work Officer	Noting	This report is for information only and reflects the requirement set out in Guidance published by the Scottish Government in February 2009, which requires the Council to consider a report from the Chief Social Work Officer on an annual basis. The Committee RESOLVED to: 1. note the Annual Report	
Social Services June 8th	Planning and Performance Management Framework: Summary Workplan	Executive Director Education and Social Care	Approved	The Committee RESOLVED to: □□Note the Service Statements appended to the report. □□Approve the documents as the work plan to develop policy initiatives and manage performance over the next period.	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Social Services Aug 30th	Poverty , Disadvantage and Social Exclusion	Policy Manager	Recommend to Council	1. that there should be further investigation in to the bulk purchase of energy to secure low prices for individuals and the Council 2. the Chair, Vice-Chair and MSP meet with the Cabinet Secretary with responsibility for looking at poverty, disadvantage and social exclusion, and seek a meeting with the First Minister to put Shetland's case including the effect the SIMD figures have regarding dispersed poverty 3. that the Council write to the OFT noting the disparity in fuel prices and the effect it has on all areas of life in Shetland, particularly highlighting fuel poverty 4. that the Chair and Vice-Chair are remitted to work with frontline staff of the CAB, NHS, SIC and the voluntary sector to seek methods of identifying those who will suffer from fuel poverty this winter, and link this in with the review of sheltered housing heating use and report back to the Committee next cycle	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Social Services Aug 30th	Local Housing Strategy	Executive Manager Housing	Approve	The Committee RESOLVED to: 1. formally approve the Local Housing Strategy 2011-16 and recommend that it be submitted to the Scottish Government 2. agree to retain the Housing Strategy Steering Group as a dedicated group to monitor the progress of the Strategy 3. agree that further investigation should be carried out into financial assistance available for self builds in Shetland, where existing lenders are unable or unwilling to lend, and that a report on this be reported back to the Committee within two meeting cycles	
Social Services Aug 30th	Review of Community Health Partnerships by Audit Scotland	Director of Community Care	Recommend to Council to	1. Shetland Islands Council approve delegated authority to the CHP Committee to undertake a project to identify how SIC and NHS Shetland can further the integration of Health and Social Care services and develop the governance and management arrangements.	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Social Services Aug 30th	Scottish Housing Regulator Follow Up Inspection	Executive Manager Housing	Approved	The Committee RESOLVED to: 1. accept the findings of the follow up inspection report	
Social Services Nov 2nd	Annual Report from Chief Social Work Officer	Chief Social Work Officer	Noting	This report is for information only and reflects the requirement set out in Guidance published by the Scottish Government in February 2009, which requires the Council to consider a report from the Chief Social Work Officer on an annual basis. The Committee RESOLVED to: 1. note the Annual Report	
Environment & Transport June 1st	Planning and Performance Management Framework: Summary Work plan	Executive Director Infrastructure	Approved	The Committee RESOLVED to: Note the Service Statements appended to the report. Approve the documents as the work plan to develop policy initiatives and manage performance over the next period.	

BODY	ITEM	SOURCE	ACTION	COMMENT	FOLLOW UP
Environment & Transport June 1st	Council Energy Consumption Update	Energy Manager	Noted	The Committee noted the potential impact on budgets, and that more detail of the impact will be reported through the formal budgetary process or the Planning Performance Management Framework arrangements.	
Environment & Transport Aug 30th	Road Condition Report 2010	Head of Roads	Noted	The Committee NOTED: a) the Audit Scotland Review of Scottish Local Authorities Performance in relation to the implementation of recommendations from the 2004 report, 'Maintaining Scotland's Roads". b) Shetland's Road Condition index (RCI) for 2009/11 and the related roads backlog figure; and c) the position with the development of Shetland's RAMP.	

(Extract from Shetland Islands Council – Constitution Part C - SCHEME OF ADMINISTRATION AND DELEGATIONS May 2011 relating to Scrutiny and Performance Management)

2.2 Executive Committee

2.2.1 The terms of reference of the Executive Committee are as follows –

1a Develop and recommend the corporate plan, the development plan and the overall framework of strategies contained in the Strategy Framework *** *Referred***

1b Ensure the outcomes are achieved through service plans concerned with service delivery developed in cooperation with the functional Committees, and manage performance ***Delegated***

2 Advise the Council in the development of its strategic objectives, policies and priorities ***Referred***
3 Review the overall effectiveness of the Council's work and the standards and levels of service and ensure the Council discharges its functions relating to Best Value ***Delegated***
4 Ensure the effectiveness of the Council's planning and performance management framework ***Delegated***
5 Co-ordinate with partner organisations in relation to the Council's leadership of the Community Planning Partnership ***Delegated***
6a Undertake the planning and preparation of the Council's annual service plans and budget estimates of capital and revenue expenditure ***Delegated***
6b and make recommendations to the Council as to:-
- the corporate and annual service plans
- the estimates of capital and revenue expenditure ***Referred***
- the level of Council Tax
- charges for council services

7 Secure the co-ordination, control and proper management of the financial affairs of the Council ***Delegated***
8 Be responsible for the development and operation of Council as an organisation and all matters relating to organisational development and staffing, officer structures and systems of performance appraisal ***Delegated***
9 Be responsible for the development of cross functional transformational initiatives including for

example customer management, workforce deployment and asset management and health and safety matters ***Delegated***

'Referred' means that it is within the remit to consider but final decision rests with the Council, and "Delegated" means that it is within the remit and authority to decide

2.3 Delegation to Functional Committees –

2.3.1 (1) Advise the Executive Committee and the Council in the development of service objectives, policies and plans concerned with service delivery within the functional areas noted below and manage performance.

(2) Monitor and review achievement of key outcomes in the Service Plans within the functional areas noted below by ensuring –

(a) appropriate performance measures are in place, and to monitor the relevant Planning and Performance Management Framework

(b) best value in the use of resources to achieve these key outcomes is met within a performance culture of continuous improvement and customer focus

Agenda Item

6

Shetland Islands Council

Audit and Standards Committee **15 December 2011**

Overtime Trends	
HR-010	
Report Presented by Project Manager	**Human Resources**

1.0 Summary

1.1 At the Audit and Standards Committee on 27 September 2011, a request was made for an analysis of overtime in the Council (Min Ref 22/11). This report addresses that request; it provides data on the extent and cost of discretionary overtime worked in the 14 months to September 2011.

2.0 Decision Required

2.1 The Audit and Standards Committee is asked to:

Comment on the extent of overtime worked and actions taken, and make any appropriate recommendations to Council or other Committee on further actions required.

3.0 Detail

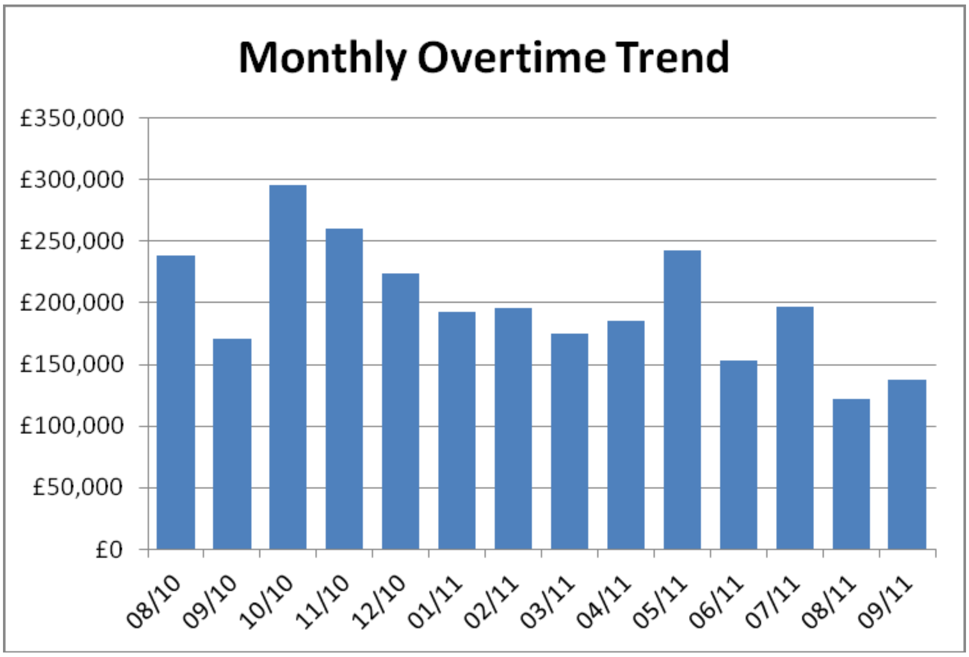
3.1 There are a number of groups of staff who work contractual overtime on a regular basis. i.e. most ferry staff work a 42-hour week which includes 5 hours of contractual overtime paid at time-and-a-half. This report only deals with non-contractual (discretionary) overtime.

3.2 The Council is not obliged to offer non-contractual overtime, nor can employees be compelled to work non-contractual overtime if it is offered. Planned overtime is often necessary to provide efficient services.

3.3 Appendix A shows a breakdown of overtime worked per service. This is analysed by "old" service, rather than reflecting the new Council structure as historical data is stored relative to the "old" structure.

3.4 Since some overtime is seasonal (such as winter roads maintenance), the tables and graphs show 14 month trends in overtime, this allows some year-on-year comparisons to be done. The total column on Appendix A is for the last 12 months of overtime **(Total = £2.35m).**

3.5 The following graph shows the trend over the last 14 months. To show trends more accurately, this graph is adjusted to allow for the fact that some overtime "months" are 4-week months and some are 5 week months.



4.0 Recent Initiatives

4.1 The Executive Committee, on 3 October 2011, approved a "Strategic Budget Plan" which included an item:

"Reduce significantly (by at least 50%) the current level of non-contractual and non terms and conditions overtime payments"

4.2 The Executive Manager – Human Resources has sent a memo to all Directors and Executive Managers to highlight the new restrictions on non-contractual overtime.

4.3 It is recognised that in some areas, overtime cannot stop immediately without a severe impact on the normal running of the Council. Managers are able to apply for an exemption to the "no overtime" restriction. There will also be occasions where it is more cost effective to have planned overtime, rather than engage additional staff, eg closure of the annual accounts.

4.4 It is intended to include regular reporting of overtime spend as one of the key indicators in the new Performance Management arrangements.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities – Councils are required to "demonstrate Best Value in all their activities". It can be argued that excessive use of overtime to deliver service obligations is not "Best Value". It is appropriate that this cost is examined carefully as part of performance management. Clear arrangements for performance management is central to the Councils agreed Improvement plan.

5.2 Community /Stakeholder Issues – None

5.3 Policy And/Or Delegated Authority –

As described in the Council's Scheme of Administration and Delegations, the remit of the Audit and Standards Committee includes;

"To exercise a governance role over management efforts to ensure that ... services are being provided efficiently and effectively."

5.4 Risk Management - There are financial, human resources and reputational risks associated with excessive spending on overtime and the knock-on effects of reduced service delivery.

Placing a restriction on overtime may have an impact on levels of stress in the service area, and Managers should pay close attention to attendance levels and the behaviour of employees to ensure that any impact, positive or negative is monitored and, if necessary, appropriate action taken.

5.5 Equalities, Health And Human Rights – None.

5.6 Environmental – None.

Resources

5.7 Financial - There is a cost to the Council for overtime as staff are paid at 1.5 times the hourly rate. It is not cost effective nor best use of financial resources where overtime is used on a continual basis, alternative ways of working require to be considered such as reallocation of existing resources/shift patterns/re-prioritisation of workloads etc.

Irregular workloads can be covered in other ways, such as flexitime and annualised hours.

5.8 Legal – NONE.

5.9 Human Resources – There may be cases where individuals have been working very regular overtime in the past, and the recent restriction on overtime will have a large effect on their "normal" earnings. Human Resources may be involved in a small number of individual cases.

5.10 Assets and Property – NONE.

6.0 Conclusions

6.1 This report shows that overtime spend has reduced considerably in the last year and that recent decisions will produce a further significant saving in the future.

6.2 Close attention to overtime spend, through the performance management arrangements, will ensure that progress is sustained.

For further information please contact:
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29 November 2011

List of Appendices

Appendix A: Summary of overtime costs by Service

Background documents:

Strategic Budget Plan
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=12561

END

Appendix A – Summary of overtime costs by Service

Department	Service	08/10	09/10	10/10	11/10	12/10	01/11	02/11	03/11	04/11	05/11	06/11	07/11	08/11	09/11	ANNUAL Service TOTAL
Economic Development	Business Development	£618	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Economic Development	£396	£130	£100	£1,078	£87	£75	£0	£249	£312	£0	£2,337	£1,496	£0	£0	£5,734
Education & Social Care	Children's Services	£3,281	£845	£4,672	£1,427	£1,445	£2,323	£1,174	£1,052	£1,123	£2,859	£2,723	£6,014	£1,338	£399	£26,549
	College & Train Shetland	£682	£300	£1,029	£186	£93	£635	£186	£1,166	£320	£505	£320	£304	£382	£186	£5,310
	Community Care	£19,077	£15,904	£16,063	£15,870	£15,994	£11,676	£8,871	£7,807	£8,537	£7,675	£9,090	£7,218	£6,510	£5,668	£120,980
	Criminal Justice Unit	£0	£76	£1,223	£31	£531	£191	£311	£357	£167	£327	£0	£435	£148	£15	£3,734
	Housing	£11,536	£10,254	£15,712	£12,000	£8,613	£9,287	£10,234	£10,798	£10,580	£11,815	£11,610	£11,041	£8,481	£10,326	£130,497
	Library	£200	£115	£155	£155	£0	£70	£124	£131	£403	£147	£109	£666	£77	£53	£2,088
	Resources	£0	£1,692	£873	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,134	£0	£2,007
	Schools	£14,599	£18,402	£17,455	£19,398	£14,551	£17,914	£18,254	£16,292	£12,713	£16,967	£16,030	£8,501	£11,744	£13,211	£183,032
	Sport & Leisure	£6,046	£3,307	£6,820	£3,475	£2,211	£1,050	£1,476	£1,517	£2,043	£9,031	£4,237	£6,786	£5,451	£4,321	£48,419
Executive Services	Capital Programme	£0	£0	£0	£0	£0	£0	£0	£767	£0	£767	£0	£0	£0	£875	£2,409
	Chief Executive Office	£1,924	£1,665	£1,842	£2,651	£1,317	£1,479	£786	£2,395	£1,262	£1,380	£1,893	£1,557	£1,462	£1,287	£19,313
	Finance	£2,569	£2,757	£4,099	£3,941	£0	£4,625	£8,606	£3,307	£8,608	£5,978	£5,280	£4,217	£2,507	£5,669	£56,838
	Legal & Administration	£93	£825	£278	£0	£0	£0	£0	£0	£0	£0	£836	£0	£0	£0	£1,114
	Organisational Dev	£3,715	£2,845	£3,472	£2,789	£207	£226	£223	£1,118	£2,140	£2,753	£3,089	£824	£1,871	£1,429	£20,141
Infrastructure Services	Directorate & Admin	£275	£69	£221	£0	£0	£415	£0	£553	£0	£0	£0	£21	£0	£0	£1,209
	Env. & Building Srvs	£38,778	£33,787	£57,755	£36,677	£25,154	£37,449	£38,664	£33,699	£31,208	£40,991	£30,672	£24,800	£14,156	£18,649	£389,873
	Planning	£533	£0	£0	£0	£1,564	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,564
	Ports & Harbour Ops	£17,817	£18,737	£22,896	£22,228	£40,055	£13,543	£26,150	£18,500	£19,264	£25,777	£22,959	£21,945	£13,155	£7,233	£253,705
	Roads Maintenance	£18,160	£30,316	£39,697	£60,823	£86,431	£42,665	£22,537	£37,626	£15,464	£14,836	£15,528	£14,472	£8,113	£9,472	£367,664
	Transport	£79,244	£55,380	£78,385	£57,793	£59,802	£34,598	£42,867	£65,201	£56,543	£82,396	£49,800	£71,185	£64,765	£48,001	£711,337
	Monthly TOTAL	£219,543	£197,406	£272,747	£240,522	£258,055	£178,220	£180,463	£202,536	£170,685	£224,203	£176,515	£181,483	£141,296	£126,794	**£2,353,517**

Agenda Item

7

Shetland Islands Council

Audit and Standards Committee **15 December 2011**

Sickness Absence Patterns	
HR-011	
Report Presented by Project Manager	**Human Resources**

1.0 Summary

1.1 At the Audit and Standards Commitee on 27 September 2011, a request was made for an analysis of sickness absence patterns in the Council (Min Ref 19/11). This report addresses that request; it provides data on weekly, and monthly sickness absences in the past year.

2.0 Decision Required

2.1 The Audit and Standards Committee is asked to:

Comment on the patterns of sickness absence, and make any appropriate recommendations to Council or other Committee on further actions required.

3.0 Detail

3.1 The provisions relating to sickness absence within the Council are nationally applied and are set out in the Scottish Joint Council National Agreement on Pay and Conditions of Service. All employees can "self-certify" sickness absences up to 7 days. For absences over 7 days, a doctor's certificate is required.

3.2 The Council's policy on the management of employee sickness and attendance is contained within the Absence Management policy. If, in a 6 month period, an employee has more than 3 absences or the total absence is 10 days or more, the manager should conduct a "return to work" interview. This is explained in detail in pages 6-8 of the Council's Absence Management Policy.

3.3 During October 2011, over 200 "return to work" interviews should have been completed. A random sample of these were chosen and investigated. It appears that 2 out of 3 "return to work" interviews are being completed as per policy. This is an improvement on the same time last year when an Internal Audit report showed that only 1 in 3 were done (link).

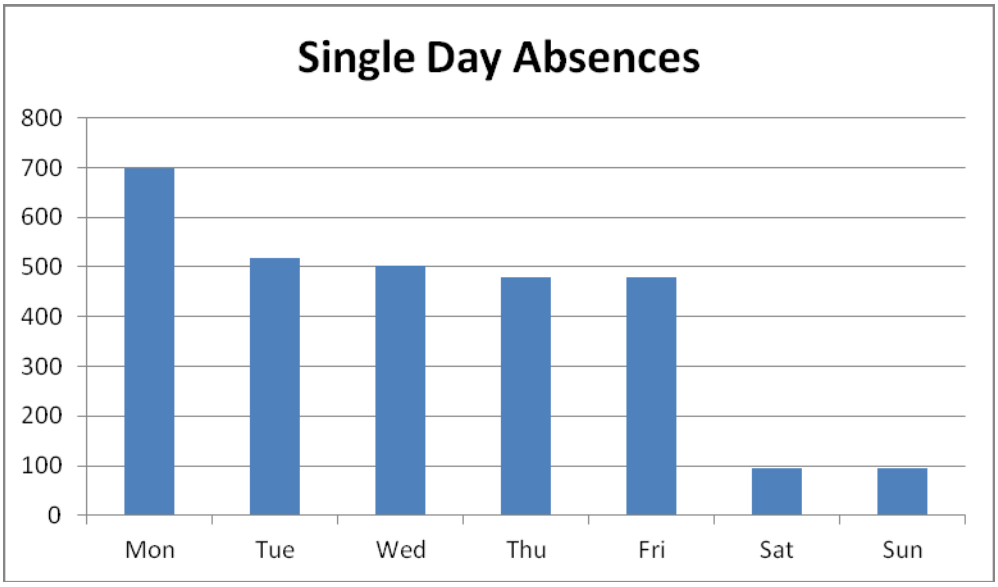
3.3 The following table shows a comparison between Scottish Local Authorities Sickness statistics for 2010/11:

	Total number of days lost per employee per year through sickness absence	
Local Authority	**Teachers**	**Non-Teachers**
Aberdeen City	6.9	15.9
Aberdeenshire	5.8	9.8
Angus	5.9	9.8
Argyll and Bute	7.9	10.0
Clackmannanshire	6.8	9.0
Comhairle nan Eilean Siar	9.3	10.3
Dumfries and Galloway	6.6	11.0
Dundee City	5.6	10.9
East Ayrshire	4.8	11.9
East Dunbartonshire	6.8	11.3
East Lothian	4.5	10.8
East Renfrewshire	6.3	10.9
Edinburgh, City of	8.7	13.0
Falkirk	4.7	10.7
Fife	5.7	12.9
Glasgow City	6.7	9.3
Highland	6.4	10.5
Inverclyde	8.1	10.9
Midlothian	4.9	9.6
Moray	9.2	9.9
North Ayrshire	5.5	8.0
North Lanarkshire	8.7	11.2
Orkney	7.9	9.6
Perth and Kinross	7.4	10.3
Renfrewshire	8.6	10.5
Scottish Borders	5.8	11.9
Shetland Islands	**6.2**	**12.2**
South Ayrshire	6.2	11.7
South Lanarkshire	7.4	9.9
Stirling	4.7	10.5
West Dunbartonshire	7.7	11.3
West Lothian	5.1	10.6
SCOTTISH AVERAGE	**6.6**	**10.8**

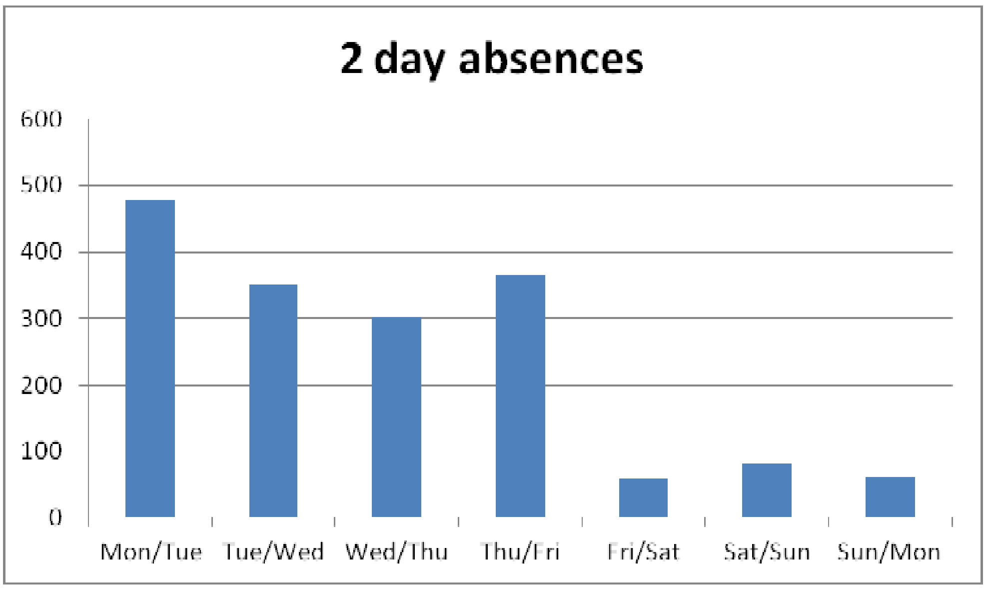
3.4 It can be seen from the above table that Teachers sickness rates are around 7% below the national average and non-teachers sickness rates are around 12% above average.

3.5 Many Authorities do not have Care Homes. Staff in these areas are precluded from returning to work immediately after some illnesses in order to protect vulnerable clients. Therefore, direct authority to authority comparisons are not always valid.

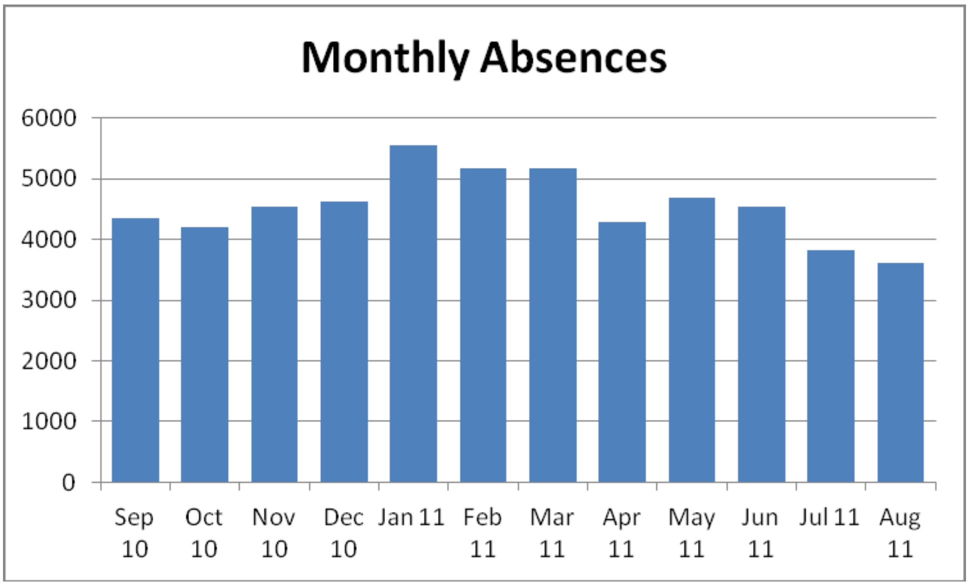
3.5 The following graph shows the weekly pattern of single day absences, there appears to be a definite increase on Mondays. The low number of single day absences at the weekend reflects the high number of Monday-Friday employees.



3.6 The following graph shows the pattern of 2-day absences, there appears to be an increase either side of the weekend. This may be due to employees not declaring that the illness started or ended on a weekend day.



3.7 The following graph shows the monthly pattern of all absences. There is an expected increase in the winter months, with a significant increase between December 2010 and January 2011.



3.8 It is intended to include quarterly reporting of sickness levels as one of the key indicators in the new Performance Management arrangements.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – Councils are required to "demonstrate Best Value in all their activities". Failure to manage absences effectively can lead to unnecessary costs. It is appropriate that this cost is examined carefully as part of performance management. Clear arrangements for performance management is central to the Councils agreed Improvement plan.

4.2 Community /Stakeholder Issues – None

4.3 Policy And/Or Delegated Authority –

As described in the Council's Scheme of Administration and Delegations, the remit of the Audit and Standards Committee includes;

"To exercise a governance role over management efforts to ensure that ... services are being provided efficiently and effectively."

4.4 Risk Management - There are financial, human resources and reputational risks associated with excessive sickness levels.

4.5 Equalities, Health And Human Rights – It is important the Council ensures there are appropriate mechanisms to support staff with long-term or repetitive chronic conditions back to work.

4.6 Environmental – None.

Resources

4.7 Financial - There is a cost both financially and to services as a result of staff absences, either the service does not get performed or other staff have to be paid to provide the service. Resulting in additional resources being used without any additional benefit to the service.

4.8 Legal – NONE.

4.9 Human Resources – An increased focus on absence management will have a workload impact on Human Resources. HR staff are already heavily involved in a number of individual cases.

4.10 Assets and Property – NONE.

5.0 Conclusions

5.1 This report shows that although the number of return to work interviews has increased in the last year, substantial improvements can still be made in this area.

5.2 Regular attention to sickness levels, through effective performance management arrangements, will ensure that progress is sustained.

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29 November 2011

Background documents:

Absence Management Policy
http://intranet.shetland.gov.uk/services/personnel/documents/absence_mgt_nov04_sr.pdf

2010 Internal Audit – Absence Management Report
http://www.shetland.gov.uk/internalaudit/documents/FinalReport_015.DOC

END

Agenda Item

8

Shetland Islands Council

Audit & Standards Committee **15 December 2011**

Audit & Standards Committee – Matters Arising	
HR-012	
Project Manager – Audit & Standards Support	**Corporate Services**

1.0 Summary

1.1 This report is a standing item on the agenda for Audit and Standards Committee. It provides:

1.2 Currently, there is no future "Work Programme" for the Audit & Standards Committee, the last programme was presented to Committee in August 2010 (link).

2.1 The Committee should consider the contents of this report and highlight any issues they feel should be monitored or further addressed through this Committee, other Committees or Council management.

3.0 Previous Items

Electronic Alternatives to Paper Agenda

3.1 At the last Audit & Standards Committee, a request was received to investigate the possibility of replacing the large agenda packs that Councillors receive with electronic devices.

3.2 The ICT service has initiated a project to investigate the alternatives available and will report at a future meeting. Given the short time until the election, and the training required for these devices, it is unlikely that this will be delivered during this Council.

Rent Loss due to Damage in Properties

3.3 At the last Audit & Standards Committee, a question was raised about rent loss due to damage caused by outgoing tenants. The Executive Manager – Housing has replied:

"Rent loss due to damage caused by outgoing tenants is not recorded separately. We monitor our voids overall and are achieving our targets on turnaround. I would estimate that rent lost as directly attributable to damage is a relatively minor sum."

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – This report is in line with Section 4 of the Council's Corporate Plan, "Organising Ourselves Better" and section LV04 of the Improvement Plan "Establish dedicated support services for Members"..

4.2 Community /Stakeholder Issues – NONE

4.3 Policy And/Or Delegated Authority – As outlined in Secion 2.6 of the Council's Scheme of Adminstration and Delegations, the remit of the Audit and Standards Committee includes promoting good internal control, financial management, risk, governance and performance management.

4.4 Risk Management – Failure to undertake a robust approach to Audit & Standards may risk the Council not following its own improvement plan.

4.5 Equalities, Health And Human Rights – NONE.

4.6 Environmental – NONE.

Resources

4.7 Financial – NONE.

4.8 Legal and Administration– NONE

4.9 Human Resources – NONE.

4.10 Assets And Property – NONE.

5.0 Conclusions

5.1 This report gives the Members of the Audit & Standards Committee an update on outstanding items and an opportunity to suggest items for the 2012/13 "Work Programme".

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02/12/11