Agenda Item

1

Shetland Islands Council

Audit & Standards Committee **27 September 2012**

Statutory Performance Indicators 2011-12	
Report No: IP-17-12-F	
Performance Improvement Adviser	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the Statutory Performance Indicators for 2011-12. It is a requirement that these Indicators are published prior to 30 September 2012.

2.0 Decision Required

2.1 I recommend that the Audit and Standards Committee reviews the Performance Indicators for 2011-12 outlined in Appendix A and highlight any areas to be investigated further by this Committee, or the relevant functional Committee.

3.0 Detail

3.1 Appendix A contains a summary of the Performance Indicators, which have been submitted to Audit Scotland. The Appendix shows previous years' figures as a comparison.

3.2 In summary 24 indicators have improved since 2010-11, 30 are worse and 8 have stayed the same.

3.3 Statutory Performance Information on all other Scottish Local Authorities will be available at the end of September. A follow-up report will be presented to the next Audit and Standards Committee indicating the Council's performance in relation to other Authorities. This will give the Committee the opportunity to request the attendance of relevant Chairs, Vice-chairs and officers to discuss particular Indicators in detail.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – "We provide good quality information to deliver effective public accountability"

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 assessing the effectiveness of the Council's Performance Management System by reviewing outputs from the system and overview key performance indicators.

4.4 Risk Management – Effective scrutiny of the Council's performance is necessary to minimise financial and reputational risk.

4.5 Equalities, Health And Human Rights – Equal Opportunities are one of the Statutory Performance Indicators.

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 presents the Statutory Performance Indicators for 2011-12. These have been verified by Audit Scotland. The Audit and Standards Committee have the remit to review the indicators and decide whether any areas require further investigation.

For further information please contact:
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10 September 2012

List of Appendices
Appendix A: Statutory Performance Indicators 2011-12

END

Appendix 1: Statutory Performance Indicators 2011-12

Key Used
X - Worse on the previous year
= - Stayed the same as the previous year
√ - Better than the previous year

Indicator	Measure	Year / measurement				Better, worse or stayed the same since 10/11
		08/09	09/10	10/11	11/12	
	Corporate Management					
1.a.	Sickness Absence - the average number of working days per employee lost through sickness absence for teachers	5.3	6.9	6.2	6.7	**X**
1.b.	Sickness Absence - the average number of working days per employee lost through sickness absence for all other local government employees	13.3	12.2	12.2	13.0	**X**
2.a.	Equal opportunities - percentage of highest paid 2% of earners among Council employees that are women	12.7	13.0	12.1	24.6	√
2.b.	Equal opportunities - percentage of highest paid 5% of earners among Council employees that are women	21.2	20.3	23.8	21.3	**X**
3.	Public access - percentage of public access buildings that are suitable and accessible to disabled people	62.9	63.9	63.9	63.9	**=**
5.	Council tax collection – the cost of collecting council tax per dwelling (£)	15.52	16.21	16.21	12.81	√
6.a.	Council Tax Income - the income due from council tax for the year	7,655,874	7,784,814	7,784,814	8,033,710	√
6.b.	Council Tax Income - the percentage of council tax income for the year that was collected in the year	96.5	96.5	96.5	96.5	**=**
7.	Invoice payment - the percentage of invoices sampled and paid within 30 days	86.4	87.1	85.5	81.9	**X**
8.a.	Asset management - proportion of Gross Internal floor Area that is in satisfactory condition (operational buildings)	80.7	78.8	90.7	94.1	√
8.b.	Asset management - number and percentage of operational buildings that are suitable for their current use	66.2	66.4	70.5	72.2	√

	Benefit Administration					
4.a.	Weighted rent rebate caseload	1,203	1,199	1,170	1,143	√
4.b.	Weighted private rented sector caseload	117	141	147	119	√
4.c.	Weighted registered social landlord caseload	208	270	306	360	**X**
4.d.	Weighted Council Tax Benefit caseload	1,979	2,028	1,997	1926	√
4.e.	Gross administration cost per case	70.22	74.39	77.31	76.36	√

	Adult Social Work					
9.a.	Home care - number of people aged 65+ receiving homecare	423	415	450	419	**X**

9.b.	Home care - total hours as a rate per 1,000 population aged 65+	802	819.6	923.7	740.1	**X**
9.c.i.	Home care - number of home care clients aged 65+ receiving personal care as a percentage of clients	52.2	55.4	57.1	55.8	**X**
9.c.ii.	Home care - number of home care clients aged 65+ receiving care in evenings/ overnight as a percentage of clients	24.6	28.7	31.3	27.2	**X**
9.c.iii.	Home care - number of home care clients aged 65+ receiving care at weekends as a percentage of clients	43.5	46.5	46.7	42.7	**X**

	Cultural and Community Services					
10.a.	Sport and Leisure Management - all pools – the number of attendances expressed per 1,000 population	12,105	11,210	11,768	10,783	**X**
10.b.	Sport and Leisure Management - indoor sports facilities (excluding pools in combined complex) – the number of attendances expressed per 1,000 population	14,718	14,537	15,016	14,950	**X**
11.a.	Museums – number of visits to/usages of council funded or part funded museums and expressed per 1,000 population	289	6,052	8,174	9,391	√
11.b.	Museums – number of visits in part a) that were in person and expressed per 1,000 population	184	3,919	4,121	4,045	**X**
12.a.	Use of Libraries - the number of visits to libraries and expressed per 1,000 population	8,398	8,597	7,920	10,040	√

	Development Services					
13.a.i.	Planning applications processing time – percentage of householder applications dealt with within two months	50.5	80.6	64.6	60.4	**X**
13.a.ii.	Planning applications processing time – percentage of non-householder applications dealt with within two months	31.6	38.0	35.2	28.7	**X**

	Housing					
14.	Response repairs - percentage of housing response repairs completed within target times	76.2	83.6	84.7	92.1	√
15.a.i.	Housing quality - percentage of council dwellings that are of tolerable standard	100	100	100	100	**=**
15.a.ii.	Housing quality - percentage of council dwellings that are free from serious disrepair	100	100	100	100	**=**
15.a.iii.	Housing quality - percentage of council dwellings that are energy efficient	87.9	86.5	86.8	86.6	**X**
15.a.iv.	Housing quality - percentage of council dwellings that have modern facilities and services	99.6	98.9	98.9	98.9	**=**
15.a.v.	Housing quality - percentage of council dwellings that are healthy, safe and secure	93.8	100	100	100	**=**
15.a.vi.	Housing quality - percentage of council dwellings that meet the Scottish Housing Quality Standard	80.8	84.5	85.9	85.7	**X**
16.	Tenancy changes – percentage of rent due in the year that was lost due to voids	2.3	1.9	2.2	1.9	√
17.a.	Tenancy changes – the average time taken to re-let housing not in low demand, in days	48	34	31	20	√
17.b.	Tenancy changes – the average time taken to re-let housing in low demand, in days	161	203	189	115	√

17.c.	Tenancy changes – the number of days that low demand housing had been un-let for, at year end	328	244	216	142	√
18.a.	Rent Arrears - current tenants' arrears as a percentage of net rent due in the year	4.0	3.7	3.5	2.8	√
18.b.	Rent Arrears - the percentage of current tenants owing more than 13 weeks rent excluding those owing less than £250	4.3	4.0	3.9	5.3	**X**
18.c.	Rent Arrears - the proportion of tenants giving up their tenancy during the year that were in rent arrears	-	44.1	42.0	45.2	**X**
18.d.	Rent Arrears – the average number of weeks rent owed by tenants leaving in arrears	-	9.0	7.9	9.4	**X**
18.e.	Rent Arrears - percentage of former tenant arrears written off or collected during the year	-	59.1	61.6	52.0	**X**
19.a.i.	Homelessness - permanent accommodation - the percentage of decision notifications issued within 28 days of date of initial presentation	72	82.8	78.4	89.2	√
19.a.ii.	Homelessness - permanent accommodation - percentage who are housed into permanent accommodation	59	66.7	68.4	74.7	√
19.a.iii.	Homelessness - permanent accommodation - percentage of cases reassessed within 12 months	21	8.6	9.2	3.8	√
19.a.iv.	Homelessness - temporary accommodation - the percentage of decision notifications issued within 28 days of date of initial presentation	81.6	79.7	77.8	79.2	√
19.a.v.	Homelessness - temporary accommodation – percentage of cases reassessed within 12 months	11.8	16	14.6	8	√
19.b.	Homelessness - the proportion of those provided with permanent accommodation in Council stock who maintained their tenancy for at least 12 months	-	90	72	88	√

	Protective Services					
20.a.	Domestic Noise Complaints:					
20.a.i.	Settled without the need for attendance on site	309	261	296	371	**X**
20.a.ii.	Requiring attendance on site	0	2	1	2	**X**
20.a.iii.	Dealt with under Part V of the Antisocial Behaviour (Scotland) Act 2004	0	0	0	0	**=**
20.b.	Average time in hours between the time of the complaint and attendance on site:					
20.b.i	Requiring attendance on site	0	12	0	0.1	**X**
20.b.ii	Dealt with under Part V of the antisocial Behaviour (Scotland) Act 2004	0	No Service	0	0	**=**
21.a.	Consumer complaints – the percentage of complaints processed within 14 days of receipt	90.8	84.8	90.9	91.8	√
21.b.	Business advice requests – the percentage of requests dealt with within 14 days of receipt	94.8	91.7	92.4	90.9	**X**

	Roads and Lighting					
22.	Carriageway condition - the percentage of the road network that should be considered for maintenance treatment	38.4	39.3	40.7	43.7	**X**

	Waste Management					
23.a.	Refuse Collection - the net cost per property (£) of refuse collection	60.09	76.43	77.97	106.51	**X**

23.b.	Refuse Collection - the net cost per property (£) of refuse disposal	56.63	64.39	54.95	47.90	√
24.	Refuse Recycling - the percentage of municipal waste composted/recycled	22.6	19.3	17.8	17.0	**X**
25.	Cleanliness - overall cleanliness index achieved	79	76	73	75	√

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Shetland Islands Council

Audit and Standards Committee **27 September 2012**

Audit Scotland Reports	
Report No: IP-18-12-F	
Report from: Performance and Improvement Adviser	**Corporate Services**

1.0 Summary

1.1 This report contains links to reports produced by Audit Scotland since the last meeting of the Audit and Standards Committee

2.0 Decision Required

2.1 The Audit and Standards Committee should consider the linked reports and highlight any issues that they feel should be monitored or further addressed through this Committee, other Committees or by Council management.

3.0 Detail

3.1 Representatives of Audit Scotland are expected to be in attendance to provide further background or answer questions.

Linked Report	Appropriate Body
Managing ICT Contracts (3 Major National Contracts)	ICT Management Board
Shetland Islands Council – Maintaining Scotland's Roads – a follow-up report	Environment & Transport Committee

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – Improved external engagement and sharing best practice are both elements of the Council's Improvement Plan.

4.2 Community /Stakeholder Issues – NONE

4.3 Policy And/Or Delegated Authority – The Audit and Standards Committee remit includes consideration of reports from Audit Scotland.

4.4 Risk Management Failure to deliver effective external engagement and learn from best practice elsewhere increases the risk of the Council working inefficiently.

4.5 Equalities, Health And Human Rights – NONE

4.6 Environmental - NONE

Resources

4.7 Financial – No direct implications

4.8 Legal – No direct implications

4.9 Human Resources – No direct implications

4.10 Assets And Property – No direct implications

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, Performance & Improvement Adviser
01595 744672
10 September 2012

Agenda Item
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Shetland Islands Council

Pension Fund Management Consultative Committee — **(Date to be set)**
Audit and Standards Committee — **27 September 2012**

Pension Fund Final Audited Accounts 2011/12	
F-045-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the final signed and audited Pension Fund accounts for 2011/12 for noting and to receive Audit Scotland's Annual Report on the 2011/12 Audit.

2.0 Decision Required

2.1 The Audit and Standards Committee and Pension Fund management Consultative Committee are asked to RECOMMEND to the Council that it notes:

a) the final signed and audited Pension Fund accounts for 2011/12; and

b) Audit Scotland's Annual Report on the 2011/12 Audit and;

c) RESOLVE to approve the resolution to address the matter arising.

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 2012.

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. Receiving the 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 was one matter arising in relation to the accounting treatment for death gratuity grants.

A resolution to address this matter is set out in the report.

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 2012. Audit Scotland have provided an ISA 260 report on the 2011/12 accounts and have identified 1 matter arising which will be addressed for the 2012/13 accounts.

For further information please contact:
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2 December 2011

List of Appendices

Appendix 1: Pension Fund Final Audited and Certified Accounts 2011/12

Appendix 2: Pension Fund report to those charged with governance on the 2011/12 audit by Audit Scotland

Background documents:

NONE.

END

Shetland Islands Council

Statement of Accounts 2011/12

Contents

Cover photograph – Winter sunrise over Brae by Margaret Cheriyan

Page 39 photographs by Jeanette Nowak, Jenny Skinner and Kim Rendall

Introduction

Welcome to the Council's Statement of Accounts for the 2011/12 financial year. It is our aim to ensure that the information contained within these Accounts is as clear and understandable as possible in order to make them accessible to the widest audience possible. However, it is necessary and correct that Shetland Islands Council's Annual Accounts adhere to the relevant statutory and regulatory requirements which, in places, can unfortunately result in this document becoming rather technical. It is for this reason that I would encourage users of this document to study the Explanatory Foreword, in conjunction with the Financial Statements, as its purpose is to offer interested parties an easily understandable guide to the most significant matters reported in the Accounts.

The 2010/11 financial year proved to be challenging for many local authorities' finance teams across the country as a result of the introduction of International Financial Reporting Standards (IFRS), which replaced a well established accounting regime. One significant difference arising from this was that the Statement of Accounts now requires much wider input from officers working in departments outside of Finance. I am pleased to see that the changes arising from the introduction of IFRS are becoming embedded within the Finance Service and the wider Council's working practices.

Following a year of significant change, the financial reporting requirements in this second year have remained relatively similar. The only notable change that I would bring to your attention is the requirement for the Council to comply with an accounting standard concerned with the treatment of Heritage Assets. I believe that this development has been dealt with in order to comply with this requirement.

One final change I would highlight in the Statement of Accounts is that I have attempted to include financial information on the Shetland Charitable Trust in the Council's group accounts. My opinion is that it is a requirement of the Code of Practice on Local Authority Accounting in the United Kingdom to include the Shetland Charitable Trust results in the group accounts, and I have found no compelling evidence to make a departure from the Code. As a result I have used publicly available financial information on the Charitable Trust as a basis for consolidating its figures into the Council's group accounts.

I would highlight that the grouping of the Shetland Charitable Trust accounts was done to comply with an accounting definition of 'control' as set out in IAS 27: *Consolidated and Separate Financial Statements*. However, it is worth noting that legally, the Shetland Charitable Trust is independent from the Council and is not controlled by the Council.

Finally, I would like to express my thanks to all those Council officers who have had a role in the preparation of this document, and in particular to those in the Finance Service who have worked diligently and with dedication throughout this process.

James Gray MA (Hons), CPFA
Executive Manager – Finance (Section 95 Officer)
Shetland Islands Council
June 2012

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance during 2011/12 and year-end financial position as at 31 March 2012. In addition, it provides some narrative on the financial outlook for the Council during 2012/13 and beyond.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2012 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 of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of primary statements has been included on page 35, immediately prior to the four statements: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These four Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Council and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

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.

Financial Performance in 2011/12

The Council's financial performance is presented in the four primary statements. The Comprehensive Income and Expenditure Statement (CI&ES) presents the full economic cost of providing Council services in 2011/12. This differs from the budgeted outturn position which was reported to the Executive Committee of the Council on 25 June 2012, which is available on the Council's website.

The reason for this is that the Comprehensive Income and Expenditure Statement includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers. The outturn position reflects only those costs that are required to be met from local taxation. Therefore the difference between the Comprehensive Income and Expenditure Statement and the actual outturn position is purely as a result of necessary accounting adjustments to the former. The Cost of Services of £146.601 million, which is disclosed on the Comprehensive Income and Expenditure Statement, has been reconciled to the outturn used for management decision making of £128.566 million at Note 24– Amounts Reported for Resource Allocation Decisions.

It is also important to note that the Council reports its outturn position by individual Account, as these are required to be accounted for separately under legislation. The revenue Accounts managed by the Council are the General Account, the Housing Revenue Account and the Harbour Account. The Comprehensive Income and Expenditure Account is the consolidation of all three of these accounts to reflect the Council's overall financial results for the year.

The outturn position for each of the budgeted funds, excluding accounting practice adjustments, as compared to the budget set is summarised below.

2011/12 Budget v Expenditure	Original Budgeted Draw from Reserves £m	Revised Budgeted Draw from Reserves £m	Actual Draw from Reserves £m	Revised Budget v Actual Variance Under/(Over) £m
General Account	21.247	27.448	32.002	(4.554)
Housing Revenue Account	(0.258)	(0.154)	0.007	(0.161)
Harbour Account	(2.103)	(1.851)	(2.185)	0.334
Total Revenue Draw	**18.886**	**25.443**	**29.824**	**(4.381)**
Capital Account	13.174	8.457	5.945	2.512
Total	**32.060**	**33.900**	**35.769**	**(1.869)**

General Account

The 2011/12 General Account budget required the Council to achieve in -year savings of £9.4 million. As a result of a number of management efficiency initiatives, such as a restructure of the Council's senior management team, these savings were fully delivered. Approximately £6 million of the savings can be considered to be recurring, which means the benefit of achieving these was not only felt in 2011/12, but will continue to be beneficial in future years.

The table above shows a net overspend of £4.554 million on General Account, which can be attributed to a number of one-off payments. Primarily, these were a payment to the Lerwick Port Authority of £4.883 million, termination costs of £1.536 million and a settlement of single status back pay award s totalling £0.346 million. When the oneoff nature of these costs are removed, there were further underlying savings of £2.211 million against the approved budget. When coupled with the delivery of the £9.4 million of budgeted savings, the Council achieved a total savings figure of £11.8 million.

However, despite this good performance against the revised General Account budget, the total draw on reserves was still £32.002 million, which is clearly unsustainable beyond the immediate short term.

Harbour Account

The Harbour Account exceeded its budgeted surplus by £0.334 million, which allowed it to make a larger contribution to the Reserve Fund of £2.185 million. This occurred as a result of an increased contribution from the Marine Fund to meet one-off termination costs on the Harbour Account, but this was somewhat offset by reduced income from harbour and towage dues as a result of less activity than originally anticipated.

Housing Revenue Account

The financial position of the Housing Revenue Account (HRA) continues to be a significant challenge for the Council. This is due to the need to invest in the current housing stock to meet national housing targets by 2015 as well as managing the pressure for new build housing to meet the high demand, against a backdrop of having to service and repay a historic debt on the HRA, which stood at £40.566 million on 31 March 2012.

There was a net overspend of £0.161 million on the HRA in 2011/12 against the revised budget. This arose due to the Account funding capital from current revenue of £0.828 million in the year for new build housing.

Capital Account

In 2011/12 Shetland Islands Council incurred capital expenditure of £16.845 million against a budget of £22.273 million representing an under spend of £5.428 million in the year. Of this total, £8.457 million was budgeted to be drawn from the Capital Fund, but as a result of the under spend the actual draw of £5.945 million was £2.512 million less than anticipated.

The main reason for the under spend on the capital budget arose as a result of slippage on the programme, i.e. projects not commencing or progressing as originally anticipated in 2011/12.

The most significant General Account capital expenditure during the year was –

- The dredging of Scalloway Harbour which incurred expenditure of £2.516 million during the year;
- The construction of the breakwater on the island of Fetlar, costing £1.571million;
- Construction work on the pier in Walls in West Shetland which incurred expenditure of £0.976 million;
- A total spend of £0.950 million on the vehicle and plant replacement programme;
- The upgrade of the Bixter to Aith road (Phase 2) on which a total spend of £0.817 million was recorded; and
- £0.734 million on fibre optic cables as part of the provision of broadband internet access to the Shetland Islands.

In 2011/12, the Council continued to face significant financial pressures largely driven by external factors, which were outwith the control of the organisation. The most significant of these were –

- Increases in fuel costs, particularly for ferries, which was the overriding factor for the ferries service over spending by £0.609 million in the year;

- A material decrease in funding levels provided by the Scottish Government (General Revenue Grant and share of National Non-Domestic Rates pool) from £95.340 million in 2010/11 to £91.710 million in 2011/12 which equates to a 3.8% reduction year to year;

- A lower than average return on the Council's invested reserves. The invested reserves, which stood at £222.739 million at the start of the financial year, generated a return of £7.099 million, which represents only a 3.2% return on the opening balance, against a long term average of 5.75%. This occurred as a result of the instability in the financial markets arising from the current economic climate.

The Balance Sheet as at 31 March 2012

The Balance Sheet sets out the total net worth of Shetland Islands Council at a snapshot in time. When comparing the net worth of the Council at the date of the last Balance Sheet on 31 March 2011, it can be seen that there has been an overall reduction in the net worth of the organisation of £36.436 million in the past 12 months. This figure matches the Total Comprehensive Income and Expenditure figure in the Comprehensive Income and Expenditure Account as this details all transactions that occurred during the financial year that have led to the movement in the net worth of the Council. The most significant events that have led to this reduction in net worth are as follows

- The Council's Long-term Investments decreased from £222.739 million to £193.170 million as a result of the Council calling back £36 million of funds during the year, which was partially offset by returns on investments totalling approximately £7 million during the year;

- The pension liability, representing the unfunded element of the Council's anticipated future pension payment commitment increased by approximately £13.4 million during the year. This happened as a result of changes in the actuarial assumptions used to determine how much the Council will have to pay out in future pension payments. These changes indicate that the Council will have to make higher payments than previously thought, which has increased the overall liability;

- The first two events above, resulting in a reduction in the Council's net worth, were partially offset by unrealised gains arising from upward revaluations of Property, Plant and Equipment of £6.2 million.

It should be noted that it is not unusual for large fluctuations from year to year in the Council's total net worth and the closing net assets of £472.295 million at 31 March 2012 is still higher than the £460.669 million recorded two years ago at 31 March 2010.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2011 £m	Closing Balance 31 March 2012 £m
Capital Fund	(108.404)	(100.542)
Capital Efficiency/Spend to Save Reserve	(5.000)	(9.096)
Reserve Fund	(61.621)	(57.129)
Repairs & Renewals Fund	(62.900)	(51.576)
General Fund Balance	(3.000)	(3.000)
Revenue Efficiency/Spend to Save Reserve	(0.500)	(0.510)
Potential Contingent Liabilities	(11.400)	(0.849)
Discretionary Reserves	**(252.825)**	**(222.702)**
Marine Superannuation Fund	(2.582)	(2.021)
Pilot Boat Renewal Fund	(0.942)	(0.960)
Housing Repairs & Renewals Fund	(12.035)	(12.259)
Quarry Repairs & Renewals Fund	(0.150)	(0.153)
Insurance Fund	(0.222)	(0.293)
Council Tax Second Homes Receipts	0.000	(0.511)
Hansel Funds	(0.090)	(0.104)
Central Energy Efficiency Fund	(0.052)	(0.043)
Ring Fenced Reserves	**(16.073)**	**(16.344)**
TOTAL	**(268.898)**	**(239.046)**

The overall notional level of usable reserves was £239.046 million at 31 March 2012. However, it should be noted that the level of reserves immediately available to the Council is, in effect, the amount of cash that is invested, which is shown on the balance sheet to be £193.170 million. The main reason for the difference between the two figures is that internal borrowing has occurred against the reserves, so the reserves are not fully backed up by cash at the present moment. This will cease to be the case once all internal borrowing is fully repaid to the reserves.

The Council has no external debt as at 31 March 2012.

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 could be fully used in approximately 5 years if expenditure levels are not brought into line with the level of income available to the organisation. This scenario is based on –

- A draw on reserves similar to 2011/12 being required for the next 5 years to balance the budget – this would equate to a total draw of £178.845 million over the period;
- A reduced contribution to the Reserve Fund from the Harbour Account of approximately £10 million over the next 5 years; and
- A poor performance, in terms of financial returns, on the reserves that are invested as a result of the global financial uncertainty impacting upon financial markets.

As a result of these risks, the Council set a revenue budget on 9 February 2012, which sought to reduce expenditure over a period of 2 years in order bring the budget into financial balance by 2014/15.

2012/13 Budget and Medium Term Financial Outlook

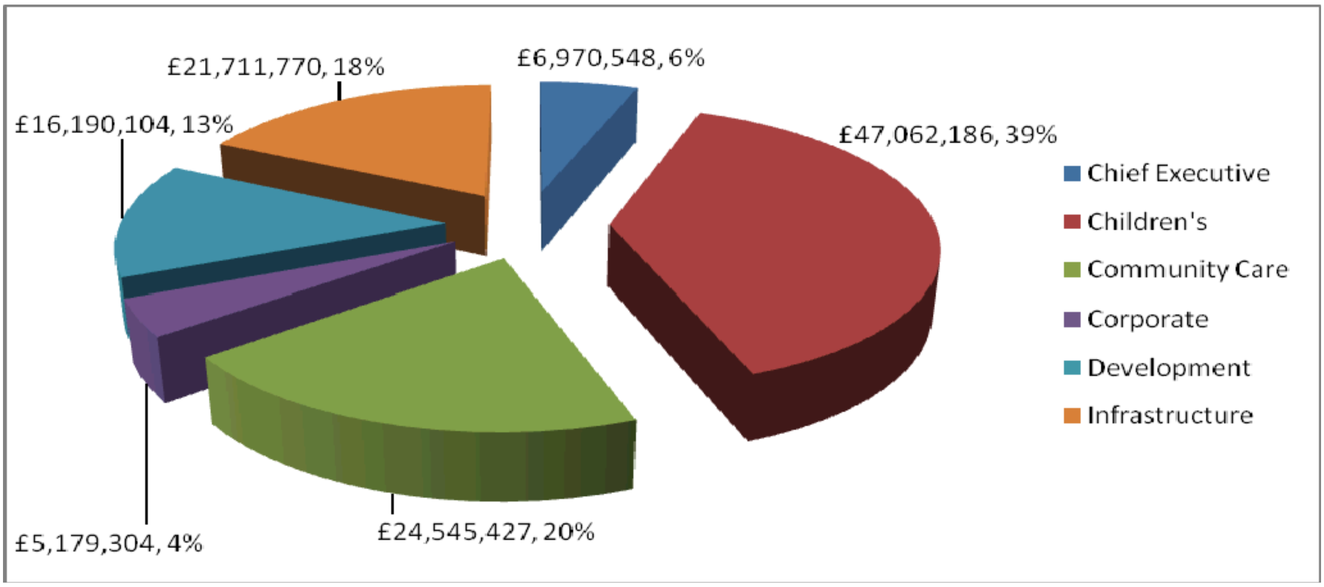
The Council set a challenging budget for 2012/13 with a requirement to make savings of £15.4 million on the General Account. These savings were split into 3 categories across the directorates as follows–

Department	Implement £	Assess £	Review £	Total £
Chief Executive	133,609	-	-	**133,609**
Children's Services	702,700	1,018,240	366,909	**2,087,849**
Community Care Services	69,000	2,923,677	1,080,000	**4,072,677**
Corporate Services	451,378	173,246	293,221	**917,845**
Development Services	419,345	1,824,868	824,928	**3,069,141**
Infrastructure Services	866,349	494,278	1,958,823	**3,319,450**
Council Wide Savings	450,000	200,000	1,100,000	**1,750,000**
Total	**3,092,381**	**6,634,309**	**5,623,881**	**15,350,571**

Savings that have been identified in the Implement category are those which can be actioned immediately from 1 April 2012, and as such these budgets were removed from services at the start of the financial year.

The Assess category requires services to undertake further work to determine specifically how the savings will be made, and require Director sign-off prior to being implemented. The Review category also require further work to be undertaken to determine the exact nature of the saving, but these require to be signed off by Council.

The table below shows how the 2012/13 General Account budget will be spent on Council Services –



It should be noted that the expenditure in the table above totals £121.659 million, but council wide savings of £1.750 million are required from this total, which will result in a final expenditure of £119.909 million.

A new group called *Directors for Change*, comprising all the Council's Directors and certain of the Corporate Services' Executive Managers has been established to oversee the savings work being undertaken by the Council. This group will meet fortnightly throughout 2012/13 in order to ensure that the work to deliver the agreed savings remains on track. The volume of savings work planned for 2012/13 is substantial with 52 savings reviews planned during the year, many of which will require consultation with the community and could result in significant service re-design.

In order to assist with the process of delivering the savings, the Council has both a revenue and capital spend to save budget, which are open for all services to apply for. This money is intended to facilitate any changes necessary in order to realise the agreed savings, with all projects required to fall within a 3 year payback period.

Members will be provided with supplementary financial information specifically related to the Council's progress against its savings targets, in addition to its regular budget monitoring reports, in order that it can monitor progress throughout the financial year.

In addition to the agreed 2012/13 General Account budget, the Council agreed in principle to make further savings of £14.4 million in 2013/14 as part of a strategy to remove the Council's reliance on its reserves by 2014/15.

The table below shows the impact of the savings on total expenditure levels over the next 2 years, and how this reduces the Council's requirement to draw on reserves to meet the funding shortfall.

	2012/13 £000	2013/14 £000
Initial Budget	135,261	120,365
Less savings - assumes all delivered		
Implement	(3,093)	(419)
Assess	(6,634)	(3,745)
Review	(5,624)	(10,225)
Total Expenditure	**119,910**	**105,976**
Revenue Grant Funding (excluding specific grants)	(75,650)	(73,595)
Non-Domestic Rates	(15,035)	(16,177)
Council Tax	(8,036)	(8,036)
Trading Activity	(4,069)	(1,369)
Use of Reserves	(17,120)	(6,799)
Total Funding	**(119,910)**	**(105,976)**

It is anticipated that the 2014/15 General Account budget would require only a sustainable draw on reserves i.e. a level no higher than the return on investments achieved in the prior financial year. This will ensure that reserve levels are stabilised ahead of taking necessary measures to deliver the Council's reserves policy of reaching a level of £250 million by the end of 2021/22.

Impact of the Current Economic Climate and Future Cost Pressures

The Council has again felt the impact of the current economic climate in the 2011/12 financial year. In particular, the Council has suffered from falling revenue funding from the Scottish Government and from lower than average returns on the Council's investments, both of which have arisen as a result of the wider economic situation. The Council is anticipating the following cost pressures in 2012/13 and beyond, the first three of which can be directly attributed to the current economic climate:

- Scottish Government funding allocations – Shetland Islands Council has received its financial settlement figures for the next three years and it reveals a cash reduction in revenue funding for each consecutive year, to a level of £90.549 million in 2014/15. The Council is anticipating that there will continue to be an extremely challenging financial settlement in the years following 2014/15.

- Abolition of the Housing Support Grant – The Scottish Government is planning to abolish the Housing Support Grant of which Shetland Islands Council is a beneficiary. This grant has been critical in financing the interest costs on the Housing Revenue Account debt, which stood at £40.566 million at 31 March 2012. Without any transitional support from the Scottish Government, there will either have to significant cuts in maintenance budgets or increases in rent levels to compensate for this loss of income.

- Reduced returns on the Council's Invested Reserves – The Council has averaged a 5.75% return on its investments over the past 20 years. However, given the uncertainty in the Euro-zone, particularly in Greece and Spain, and the realisation of the fears of a double-dip recession in the UK, the outlook for financial markets in the short to medium term is uncertain. It is therefore prudent to anticipate that returns on investments will be lower than the long term average resulting in a diminished income stream.

- Energy Costs – There is an expectation that both utility and fuel costs will continue to rise in the foreseeable future, which puts particular pressure on the Council's ferry services.

- Harbour Account Surplus – It is anticipated that the surpluses generated from the Harbour Account will be materially diminished over the next few years. The main reasons for this are that throughput will decrease as a result of the Schiehallion Oil Field going off-stream for 2-3 years, resulting in lower fee income, and an additional cost will be placed on the Harbour Account in respect of meeting the Towage staff pension liabilities of £7.8 million over the next 4 years.

- Pay Award – It is anticipated that cost pressures will arise as a result of a pay award from the start of 2013/14 and that there is potential for this to continue in subsequent financial years.

- Welfare Reform – This will be introduced during 2013/14 and could have an adverse impact on Council Tax Benefit income as a result in a funding shortfall of £17 million across Scotland, which is required to be made up by local authorities. As yet it is unclear as to what impact this will have on Shetland Islands Council. In addition, the introduction of Universal Credit will see housing benefit money paid directly to tenants as opposed to the Council which could have a negative impact on Housing Rents collection levels.

Material Transactions During 2011/12

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme and the Council has prepared a separate set of financial statements for the Pension Fund.

The impact of the Local Government Pension Scheme and Teachers Superannuation Scheme on the Council's accounts has been disclosed in Notes 33 and 34 to the accounts.

It is worth mentioning that, as at 31 March 2012, the Council's Pension Fund had a net pension liability of £104.524 million (2011: £91.113 million). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff by 31 March 2012, which is currently unfunded.

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.

Lerwick Port Authority

The Council reached a negotiated settlement with Lerwick Port Authority (LPA) in February 2012 on the claim payable by the Council relating to LPA's abandonment of a dredging project in 2005 due to the former Bressay Bridge Project. The Council agreed a payment of £4.826 million in order to avoid matters being taken to the Court of Session, which was scheduled for October 2012. It is the view of the Council that settling outside of Court represented the best financial outcome to the organisation.

Changes in Accounting Policies

Heritage Assets

From 2011/12 Shetland Islands Council is required by the Code to adopt *FRS 30: Heritage Assets*. This will mean that the Council will recognise its heritage assets at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet, as it was not possible to obtain cost information on the assets.

For Shetland Islands Council, this will mean that the collection at the Museum will be valued on its insurance valuation, and that there is a transfer of assets from community assets to heritage assets. The Council has been required to restate its prior year balance sheet in order to provide a meaningful comparative figure for heritage assets.

In addition, there are a number of disclosure requirements in relation to this new accounting standard, all of which have been included in the Notes to the Accounts.

Group Accounts

The Council has received an audit qualification on the Statement of Accounts for each of the past six years in relation to its approach to group accounts. PricewaterhouseCoopers LLP, the external auditors, issued the first qualification in 2005/06 as a result of the Council failing to prepare any group accounts whatsoever. For the next two years the qualification arose because of a failure to include the Shetland Development Trust and Shetland Charitable Trust (SCT) results, and latterly since 2008/09 the qualification has been in respect of the Council failing to include the results of SCT.

The reason that the Statement of Accounts has not included the results of SCT in the group accounts is largely based on a legal interpretation of the situation. The Elected Members, when acting in their role as SCT Trustees, have a legal duty to act with independence and in the sole interests of the Charity, which in effect means that they cannot act in the interests of the Council and therefore no consolidation is required. For this reason, the Trustees of the SCT have in the past decided not to provide financial information to the Council in the past.

Whilst recognising the legal position, the accounts must be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code requires group accounts to be prepared in accordance with IAS 27: *Consolidated and Separate Financial Statements* and this standard requires an entity (SCT) to be consolidated into group accounts when the parent (the Council) has the ability to control it. Control is deemed to exist when the parent (the Council) has over 50% of the voting rights of the entity (SCT). Given that 22 out of the 24 Trustees of the SCT are Elected Members of the Council, the requirements of the Code are clearly met.

However, it is recognised that legally, the Shetland Charitable Trust is an independent organisation that is not controlled by the Council.

The Section 95 Officer, who is responsible for selecting and applying the accounting policies in the Statement of Accounts, has found no compelling evidence to depart from the treatment required by the Code and the opinion expressed by the External Auditor, Audit Scotland. As a result of this, it is the view of the Section 95 Officer that the correct accounting treatment is to include the results of the Shetland Charitable Trust in Shetland Islands Council's group accounts as a subsidiary.

In the absence of SCT's 2011/12 financial statements being available to the Council, the Section 95 Officer has used publicly available financial information on the organisation to attempt to prepare group accounts with the inclusion of the Charitable Trust as a subsidiary.

Accounting Ratios

CIPFA Scotland Directors of Finance Section has developed a suite of accounting ratios for incorporation into the financial statements. The indicators are intended to support interpretation of the financial statements and explain the Council's financial position and performance.

There are four areas covered by the ratios, namely Reserves, Council Tax, Financial Management and Debt & Borrowing. Not all the ratios are applicable to Shetland Islands Council.

Accounting Ratio	% or £	Explanation
Reserves		
Uncommitted General Fund Reserves as a % of annual budgeted net expenditure	2.3%	Demonstrates the Council's flexibility to meet unanticipated expenditure.
Movement in the Uncommitted General Fund Balance	0%	There has been no movement in the year.
Council Tax		
In-year Collection Rate	96.6%	Demonstrates the Council's effectiveness in collection of local taxation.
Council Tax Income as a % of Overall Funding	6.6%	Demonstrates the funds received from Council Tax as a % of overall funding requirement.
Financial Management		
Actual Outturn as a % of Budget	104%	Demonstrates there has been additional expenditure over budget. It should be recognised that there were a number of one-off unbudgeted expenditure items. Removing these items the % would have been 98%, which better reflects the underlying Council financial activity.
Actual Contribution to/from Uncommitted General Fund Balance	£3m	This was the contribution applied and reinstated in 2011/12.
Debt & Borrowing		
Capital Financing Requirement	£53.8m	This is the amount of unfunded capital expenditure mainly on Council housing.
External Debt Levels	£0	There is no external debt held by the Council.
Ratio of Financing Costs to Net Revenue Stream	N/A	Not applicable as the Council has no external debt.
Impact on Capital Investment on Council Tax and Housing Rents	N/A	Not applicable as the Council has no external debt.

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003. In discharging this accountability, elected members collectively and senior officers individually are responsible for putting in place proper arrangements for the governance of the Council's affairs, the stewardship of the resources at its disposal and the management of risk.

The Governance Framework

In May 2011 the Council renewed the governance arrangements and the role of committees in decision-making is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The one outstanding aspect is the formal approval of a revised Code of Governance, which is being developed for approval early in the life of the new Council. This Code of Governance is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.

The Council has introduced a revised political management structure. The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with the full Council advised by the Executive Committee. There are four functional committees: Development, Education and Families, Environment and Transport and Social Services, who take decisions within their respective scope of responsibility. 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 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.

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 Chief Executive and Directors along with the Monitoring Officer and Chief Financial Officer, meet fortnightly as the Corporate Management Team. Individual Directorates have their own Management Teams. Additionally a new forum called Executive Influence, bringing together all Executive Managers and the Corporate Management Team, meets on a quarterly basis.

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; and
- 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.

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 is a range of strategic and service specific targets, such as:

- ensuring the there is fast and reliable broadband throughout Shetland;
- the development of renewable energy;
- recognising the importance of the education sector and consequently deciding on and implementing the Blueprint for Education;
- determining Shetland's long-term transport infrastructure;
- intervening early to minimise or eliminate poverty and deprivation and promote healthy lifestyles;
- providing affordable housing; and
- making sure we organise and carry out all business properly.

The Council alone is not able to solve all 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.

The Council publishes an Annual Report on its performance against the objectives set out within the Corporate Plan. Corporate improvement actions are led and monitored by the Corporate Management Team and also at Directorate Management Teams. Service Plans are prepared annually which set out detailed actions and outcomes for each Service and include performance indicators. These form an integral part of the Council's Planning and Performance Management Framework which is being refreshed to make greater use of reporting tools such as Covalent. Service performance is reported periodically to the relevant functional committees.

The Council maintains a register of Strategic and Operational Risks, although it is acknowledged that in some departments these are not fully completed. Action Plans have been developed to ensure that these risks are managed, with an additional focus on those of a higher risk. Following the major management restructuring in the Council these risks are being reviewed and steps taken to embed risk management planning and awareness into everyday activity.

Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Co uncil's financial management arrangements mean that 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 costs 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 project management approach, using PRINCE methodology, underpins all the investment decisions for ICT systems development and, based on similar disciplines, a formal investment appraisal system, the Gateway Process, has been established for capital investment decisions.

As part of the Final Accounts work, potential 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 Council?, 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.

Further to the Accounts Commission public hearing in June 2010, the Council approved an Improvement Plan which was intended to deliver a root and branch review of the Council's culture, identify changes needed in its political and other management arrangements, set out the standards to which it will aspire and overhaul its corporate systems and processes.

Over the past year the Council has put in place a number of significant changes to its financial governance arrangements, including a revised policy on reserves, updated financial regulations, agreed a medium term strategic budget planning framework, approved a revised 5 year asset investment plan, approved a procurement strategy and improved the style of financial monitoring reports to place greater emphasis on projected, rather than historic, expenditure.

In their follow up report in January 2012 the Accounts Commission welcomed the prompt action and progress made by the Council in delivering its Improvement Plan, but emphasised the need for this positive direction and change to be sustained and consolidated. There was acknowledgement of the good overall progress made by the Council whilst also observing that some elements of the plan had not progressed in line with original timescales, although this had not compromised the overall plan. These outstanding issues are being addressed. The Council is clear that while we have achieved a very considerable amount in a short space of time, there is still some way to go, and that improvement activity must be continued and supported through the development of a culture of robust self assessment.

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 Executive Manager - Internal Audit reports directly to the Audit and Standards Committee.

The Internal Audit work programme has been completed, with some minor carry forward of work into the 2012/13 financial year. During the last financial year Internal Audit completed and issued 33 planned audits. These reports highlighted the need for improvement in the following areas –

- Ensuring that full risk assessments are carried out at all schools to comply with Health & Safety legislation. The newly appointed Executive Manager for Quality Improvement has committed to ensure that this is actioned.
- A follow up review of the use of relief bank staff in Community Care services identified that there was still a high spend in this area, and work to review the use of relief bank staff in each care unit has yet to commence. A commitment has now been given that this work will be progressed during 2012/13.
- In instances where manual ordering was taking place, there was evidence that purchase ordering procedures were not being followed consistently. The Executive Manager – Finance has committed to address this situation during 2012/13.
- Ensuring that proper regard is given to quality, as well as price, when setting works contract tenders. This recommendation was made following a review of the Walls Pier capital project. The procurement service will ensure that action is taken to address this point in future.

During the 2010/11 financial year Audit Scotland, the Council's External Auditors, raised specific concerns in their ISA 260 Report on the following items:

- Qualification on the Statement of Accounts as a result of the failure to include the financial results of the Shetland Charitable Trust in the Council's group accounts. The Council recognises the importance of this issue and has included the Trust in the group accounts for the 2011/12 Statement of Accounts.

- The 2010/11 draft financial statements, submitted on 30 June 2011 were not of an acceptable standard and required fundamental rework throughout the summer prior to being signed off by the external auditors. The Council has undertaken significant planning for the preparation of the 2011/12 draft Statement of Accounts, as well as having recruited a new financial accountant. These measures should ensure that this issue is not repeated in future.
- The need for the Council to appoint a permanent Section 95 Officer. The Council addressed this issue in January 2012 by appointing a new Executive Manager – Finance who is the Council's Section 95 Officer.
- Failure to prepare the Whole of Government Accounts return by the deadline. This issue has been addressed through the planning work undertaken by the Council during 2011/12 to ensure that all deadlines are met.
- The need for budget monitoring reports for members to be further developed to support them in making decisions on the use of resources. Work has been undertaken to strengthen the quality of the budget monitoring reports and make them more focused on future projections.
- Slippage on the Capital programme. This has been a long standing issue, but work is underway to address this, ensuring that timings for undertaking capital works are accurate and that there are robust management arrangements in place to ensure that this is delivered.
- The level of reserves held by the Council is in danger of dropping below the level set by the Council's policy. The Council fully appreciates how its level of expenditure has led to significant increases in its draw on reserves in recent years. In order to address this, the Council set a challenging revenue budget for 2012/13 and indicative budget for 2013/14, which will see savings of £30 million over the 2 years and will ensure that the Council delivers its policy of not drawing on reserves from 2014/15.
- The Council's risk register is incomplete as a result of individual departments not feeding into the corporate process. The Council will take steps to address this issue once the new Team Leaders are in post.

Significant Governance Issues

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

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 value for money was continuously sought. This assumed that issues identified and agreed are or have been addressed.

Work continues to embed the key improvements delivered through the improved political governance arrangements and revised management structure for Shetland Islands Council. A major area of concern continues to be the recurring Audit Qualification on the Council's Accounts in relation to the specific concerns on the application of accounting regulations. Considerable work was done on this during the last year and reported in detail to the Council in March. The Shetland Charitable Trust is in a 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.

Conclusion

The previously identified difficulties surrounding the governance arrangements in Shetland Islands Council have largely been addressed due to the commitment of elected members and officers.

The Governance Framework has been in place for the financial year ended 31 March 2012 and up to the date of approval of the Statement of Accounts. Effective governance arrangements will remain a key priority for the Council in future, including continuous review and improvement of governance arrangements and ensuring that these are embedded across the whole Council.

A number of weaknesses and issues have been identified and these are set out above. Implementing the action plans is a priority and progress is regularly reported to the Audit and Standards Committee.

Overall, we consider the governance and internal control environment operating in 2011/12 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.

………………………………..	………………………………
Alistair Buchan	Gary Robinson
Chief Executive	Leader of the Council

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) requires the disclosure of exit packages. This disclosure has been included in the remuneration report for 2011/12.

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 2011/12 the salary for the Convener of Shetland Islands Council was £27,057.96 the salary for the Vice-Convener was £20,293.92. However, the position changed in May 2011, when the Council adopted a new role of Leader of the Council, and amended the level of remuneration to £27,058 for the Leader and £20,294 for the Convener.

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% 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 senior councillor positions were, as of 18 May 2011:

- Chair of Education and Families Committee
- Chair of Social Services Committee
- Chair of Development Committee

- Chair of Environment and Transport Committee
- Chair of Audit and Standards Committee
- Chair of Planning Committee
- Chair of Licensing Committee
- Chair of Harbour Board
- Chair of Shetland College Board

As of 18 May 2011, excluding the Convener and the Leader, Shetland Islands Council had nine senior councillors and the additional remuneration paid to these councillors totalled £161,606.65.

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.

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

The Scheme was further updated at the Council meeting on 12 May 2011 with the new positions that attract those allowances, including the creation of the post of Leader, and the Council adopted the new political management framework with effect from 18 May 2011.

All reports are available from the Council's website.

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 and agreements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Shetland Islands Council for the period 2008 to 2011. The salaries of the Strategic Directors are based on a fixed percentage of the Chief Executive's salary, namely 80 % of the amount of the Chief Executive's salary. Executive Managers fall into two bandings, to reflect the statutory level of responsibility held by the Monitoring Officer (Executive Manager - Governance and Law) the Section 95 Officer (Executive Manager - Finance) and the Chief Social Work Officer role held by the Executive Manager - Children and Families. These arrangements were agreed through approval of Report CE 30 F "Management Restructuring" at a meeting of the Full Council on 14 June 2011. The restructuring exercise resulted in a new senior management structure with the new posts populated from 1 July 2011 until 12 September 2011.

The senior employees of the Council consist of the Council's Corporate Management Team and those who hold certain statutory positions. Prior to the completion of the Organisation and Management review these were:

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

Following the implementation of the new Senior Management Structure, which was completed by 1 September 2011, these posts are now: -

- Director - Children's Services
- Director - Infrastructure
- Director - Development
- Director - Corporate Services
- Director - Community Care
- Executive Manager - Governance and Law (Monitoring Officer)
- Executive Manager - Finance (Section 95 Officer)
- Executive Manager - Children and Families (Chief Social Work Officer)

In order to ensure that recruitment of senior employees is properly managed, a protocol for chief officer appointments is in place and is available to view at the address link below. The Protocol applies to appointments to the chief officer posts of Chief Executive and Directors. The Protocol is designed to ensure:

- the appointment is widely known and the best available candidates are attracted to apply
- the best information is available to the Council about qualities, skills, experience and personal attributes of candidates
- information about candidates is assessed effectively and fairly during the assessment, selection and appointment process.

Allowances

Senior employees are provided with a mobile phone/blackberry and are able to claim mileage costs paid at the Inland Revenue recommended rates.

General Disclosure by Pay Band

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or more, disclosed in bands of £5,000. This table includes payments made in the year for salary, pension contributions, redundancy and compensatory added years.

	Number of Employees	
Remuneration Bands	**2010/11**	**2011/12**
£50,000 - £54,999	41	38
£55,000 - £59,999	29	25
£60,000 - £64,999	17	21
£65,000 - £69,999	14	14
£70,000 - £74,999	15	7
£75,000 - £79,999	5	4
£80,000 - £84,999	2	8
£85,000 - £89,999	0	3
£90,000 - £94,999	3	1
£95,000 - £99,999	0	5
£100,000 - £104,999	2	1
£105,000 - £109,999	0	2
£110,000 - £114,999	0	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	1
£125,000 - £129,999	0	0
£130,000 - £134,999	2	2
£135,000 - £139,999	0	0
£140,000 - £144,999	1	0
Total	**131**	**133**

The table above includes staff that terminated employment during both 2010/11 and 2011/12. Many of the staff that left received remuneration packages that included compensation for loss of office (eg. redundancy payment and/or enhanced pension payments), and because of these payments, a number of staffs' remuneration has increased temporarily in both 2010/11 and 2011/12.

Exit Packages

The regulations require the Remuneration Report to provide information on the number of exit packages awarded, in bandings of £20,000 up to £100,000 and thereafter in bandings of £50,000, along with the total cost of the exit packages within each band. The regulations also require disclosure of the number of compulsory redundancies and other agreed departures. The cost of exit packages must pay back within three years and will then provide ongoing savings.

The total cost for 2011/12 of £3.592m (£3.038m in 2010/11) in the table includes £1.811m (£1.274m in 2010/11) for termination benefits agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement in the current year, comprising redundancy payments and pension strain costs. In addition, the table includes £1.781m (£1.764m in 2010/11) for the capitalised cost of compensatory added years agreed in the year that will be charged to the Comprehensive Income and Expenditure Statement across future years.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b + c)		(e) Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£000	£000
£0 - £19,999	0	1	14	20	14	21	121	181
£20,000 - £39,999	0	0	4	6	4	6	114	192
£40,000 - £59,999	0	0	1	10	1	10	42	489
£60,000 - £79,999	0	0	5	12	5	12	342	824
£80,000 - £99,999	0	0	0	6	0	6	0	522
£100,000 - £149,999	0	0	3	7	3	7	356	886
£150,000 - £199,999	0	0	4	3	4	3	675	498
£200,000 - £249,999	0	0	3	0	3	0	656	0
£250,000 - £299,999	0	0	0	0	0	0	0	0
£300,000 - £349,999	0	0	1	0	1	0	349	0
£350,000 - £399,999	0	0	1	0	1	0	383	0
Total	**0**	**1**	**36**	**64**	**36**	**65**	**3,038**	**3,592**

The table above details the number and cost of exit packages awarded in 2010/11 and 2011/12. Included in the cost of the exit packages are the costs to the employer, namely the cost to the Pension Fund (pension strain cost) and the full cost (capitalised cost) of the award of enhanced pension payments (compensatory added years).

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	2011/ 12 £000
Salaries	357	354
Allowances	33	33
Expenses	95	102
Tot al	**485**	**489**

The annual return of councillors' salaries and expenses for 2011/12 is available for any member of the public to view at Finance Services, North Ness during normal working hours.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2010/11 Total Remuneration £	2011/12 Salary, Fees and Allowances £	2011/12 Taxable Expenses (a) £	2011/12 Benefits other than Cash £	2011/12 Total Remuneration £	Notes
Mr A Cluness	Convener	**27,057.96**	21,183.44	0.00		**21,183.44**	
Mr J Simpson	Leader of the Council	**20,448.42**	26,168.44	272.43		**26,440.87**	
Mrs F Grains	Chair - Audit & Standards Committee	**17,873.61**	17,822.00	159.50		**17,981.50**	
Mr L Angus	Chair - Social Services Committee	**19,537.71**	16,233.96	117.33		**16,351.29**	Chair - Social Services Committee to 03/02/2011
Mrs E Fullerton	Chair - Education and Families Committee	**16,994.20**	18,966.54	235.76		**19,202.30**	
Mr R Henderson	Chair - Harbour Board	**17,873.76**	17,822.00	238.88		**18,060.88**	
Mrs I Hughson (nee Hawkins)	Chair - Environment & Transport Committee	**20,040.00**	9,590.30	0.00		**9,590.30**	Ceased being a Councillor on 30/09/2011
Mr A Wishart	Chair - Environment & Transport Committee	**16,233.96**	17,922.77	0.00		**17,922.77**	Chair of Environment & Transport Committee from 9/12/2011
Mr A Cooper	Chair - Development Committee	**17,862.34**	18,666.17	147.71		**18,813.88**	
Mr F Robertson (c)	Chair - Planning Committee & Vice Convener of O & S VJB	**19,749.19**	19,278.96	357.09		**19,636.05**	
Mr C Smith	Chair - Social Services Committee	**17,755.92**	18,666.17	0.00		**18,666.17**	Chair - Social Services Committee from 19/05/2011
Mr A Hughson	Chair - Shetland College Board	**17,755.92**	16,434.11	0.00		**16,434.11**	Chair - Shetland College Board to 17/05/11
Mr J Budge	Chair - Licensing Committee	**16,233.96**	17,621.85	0.00		**17,621.85**	Chair - Licensing Committee from 19/05/2011

Notes:

a) Remuneration payments for positions of responsibility associated with the Council's new committee structure commencing with effect from 18 May 2011.
b) Taxable Expenses – Telephone Line Rental/Broadband.
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.
d) Mr A Wishart only receives one senior councillor payment even though he also holds the position of Chairperson, Shetland College Board.
e) Changes in Committee Structures with effect from May 2011 resulted in changes in designation for some council members.

Remuneration of Senior Employees of the Council

		2010/11	2011/12					
Name of Senior Official	Designation	Total Remuneration £	Salary, Fees and Allowances £	Taxable Expenses (a) £	Compensation for Loss of Employment (e) £	Benefits other than in Cash £	Total Remuneration £	Notes
A Buchan (b)	Chief Executive	**137,100.85**	131,150.13	322.12		24,266.74	**155,738.99**	
W Shannon	Assistant Chief Executive (old)	**67,770.00**	67,006.50	829.02			**67,835.52**	
H Sutherland (c)	Executive Director/Interim Head of Finance (old)	**94,348.36**	95,026.88	822.00			**95,848.88**	
G Greenhill (d)	Executive Director: Infrastructure (old)	**78,279.40**	52,835.80	739.35	52,767.49		**106,342.64**	Redundancy Termination 30/09/2011
R M Sinclair	Executive Manager: Capital Programmes (new)	**55,822.88**	56,947.50	369.34			**57,316.84**	Head of Service: Capital Programmes to 11/09/2011
J R Smith	Executive Manager: Performance & Improvement (new)	**65,994.09**	65,311.56	369.34			**65,680.90**	Head of Service: Organisational Development to 11/09/2011
M A Williamson (e)	Service Manager: Social Work (old)	**57,280.26**	43,098.19	721.74	53,559.59		**97,379.52**	Redundancy Retirement 31/12/2011
H Budge	Strategic Director: Children's Services (new)	**73,023.12**	75,749.70	204.94			**75,954.64**	Head of Service: Schools to 30/06/2011
N Grant	Strategic Director: Development (new)	**66,075.00**	74,017.43	204.94			**74,222.37**	Head of Service: Economic Development to 30/06/2011
P Crossland	Strategic Director: Infrastructure (new) Full Year Remuneration £80,778	**0.00**	42,921.20				**42,921.20**	Commenced with SIC 19/09/2011
Vacant	Strategic Director: Corporate Services (new) Full Year Remuneration £79,026	**0.00**	0.00	0.00			**0.00**	
C Ferguson	Strategic Director: Community Care (new)	**65,946.00**	79,725.94	204.94			**79,930.88**	Head of Service: Community Care to 30/06/2011
J Riise (f)	Executive Manager: Governance & Law (new)	**73,023.12**	78,279.63	369.34			**78,648.97**	Head of Service: Legal & Administration to 11/09/2011
Vacant	Executive Manager: Finance (Section 95 Officer) (new) Full Year Remuneration £67,005		0.00	0.00			**0.00**	Covered by H Sutherland as above for 2011/12
H Leslie	Executive Manager: Children & Families (new)	**50,188.17**	53,592.36	763.70			**54,356.06**	Service Manager: Childrens Services to 30/11/2011

Notes:

a) Taxable Expenses – includes essential car user allowance, taxable mileage and telephone line rental.
b) Mr A Buchan's remuneration includes Shetland Islands Council secondment allowance. Benefits, other than in cash, includes provided accommodation, car and return travel to Orkney.
c) Ms H Sutherland's remuneration in 2011/12 includes a long service award payment. Ms H Sutherland's remuneration in 2010/11 included a payment in respect of Acting Chief Executive in 2009/10 and 2010/11.
d) Mr G Greenhill's compensation for loss of employment includes a redundancy payment, pay in lieu of notice payment and training/coaching needs payment.
e) Mr A Williamson's compensation for loss of employment includes a redundancy payment and compensatory added years (CAYs), annual pension and lump sum amounts awarded on termination of employment.
f) Mr J Riise's remuneration in 2011/12 includes a long service award payment.
g) Management restructuring in 2011/12 has resulted in changes in designation for some senior officials. The word (old) means only part of old structure and (new) means part of new structure.

Pension Benefits – Senior Councillors

The pension entitlements for senior councillors for the year to 31 March 2012 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 2012		As at 31 March 2011	As at 31 March 2012	Increase / (Decrease)	
		£	£		£	£	£	
Mr A Cluness	Convener	8,608.90	3,749.51	Pension	2,076.86	2,789.86	713.00	
				Lump Sum	2,079.02	2,087.94	8.92	
Mr J Simpson	Leader of the Council	6,456.79	4,631.77	Pension	1,636.72	2,497.98	861.26	
				Lump Sum	1,152.07	1,275.55	123.48	
Mrs F Grains	Chair - Audit & Standards 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	Chair - Social Services Committee (Part 2010/11)	6,182.00	2,873.40	Pension	1,317.97	1,840.63	522.66	Chair of Social Services to 03/02/2011
				Lump Sum	927.16	929.67	2.51	
Mrs E Fullerton	Chair - Education & Families Committee	5,313.97	3,357.09	Pension	937.90	1,284.89	346.99	
				Lump Sum	1,146.15	1,210.50	64.35	
Mr R Henderson	Chair - Harbour Board	5,649.26	3,154.47	Pension	1,167.92	1,650.48	482.56	
				Lump Sum	1,337.53	1,416.31	78.78	
Mrs I Hughson (nee Hawkins)	Chair - Environment & Transport Committee (Part 2011/12)	6,376.06	1,697.49	Pension	1,037.50	1,242.75	205.25	Ceased being a Councillor on 30/09/2011
				Lump Sum	1,267.87	1,322.24	54.37	
Mr A Wishart	Chair - Environment & Transport Committee & Chair of Shetland College Board	5,165.11	3,172.32	Pension	1,135.03	1,598.89	463.86	Chair - Environment & Transport Committee from 9/12/2011
				Lump Sum	1,311.91	1,374.13	62.22	
Mr A Cooper	Chair - Development Committee	5,649.26	3,303.92	Pension	1,098.94	1,451.42	352.48	
				Lump Sum	1,371.09	1,400.67	29.58	
Mr F Robertson	Chair - Planning Board & Vice-Convener of O & S VJB	6,133.87	3,412.33	Pension	1,732.47	2,415.85	683.38	
				Lump Sum	1,626.71	1,704.03	77.32	
Mr C Smith	Chair - Social Services Committee	5,649.26	3,303.92	Pension	1,055.39	1,405.04	349.65	Ceased Chair - Licensing Committee on 18/05/2011. Chair - Social Services Committee from 19/05/2011.
				Lump Sum	1,316.75	1,355.90	39.15	
Mr A Hughson	Chair - Shetland College Board	5,649.26	2,908.83	Pension	1,021.09	1,335.26	314.17	Chair of Shetland College Board to 17/05/2011
				Lump Sum	1,247.81	1,257.96	10.15	
Mr J Budge	Chair - Licensing Committee	0.00	0.00	Pension	0.00	0.00	0.00	Chair - Licensing Committee from 19/05/2011. Not a member of the Pension Scheme.
				Lump Sum	0.00	0.00	0.00	

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 £538.96 in 2011/12 and £505.47 in 2010/11.

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
			Year ending 31 March 2011	Year ending 31 March 2012		As at 31 March 2011	As at 31 March 2012	Increase (Decrease)	
			£	£		£	£	£	
A Buchan	Chief Executive	ER Strain	14,066.63	21,179.91	Pension Lump Sum				Accrued Pension Benefits held with OIC
W Shannon	Assistant Chief Executive (old)	ER Strain	21,322.54	11,860.17	Pension Lump Sum	17,086.64 44,563.17	18,216.31 44,588.85	1,129.67 25.68	
H Sutherland	Executive Director/Interim Head of Finance (old)	ER Strain	29,960.93	15,526.18	Pension Lump Sum	26,373.73 70,405.91	28,010.79 70,862.60	1,637.06 456.69	
G Greenhill	Executive Director: Infrastructure (old)	ER Strain	24,609.51	9,351.94 20,561.26	Pension Lump Sum	2,658.30 246.16	3,572.07 249.84	913.77 3.68	Redundancy Retirement 30/09/2011
R M Sinclair	Executive Manager: Capital Programmes (new)	ER Strain	17,527.95	10,079.73	Pension Lump Sum	14,300.26 37,398.75	15,752.88 38,708.72	1,452.62 1,309.97	Head of Service: Capital Programmes to 11/09/2011
J R Smith	Executive Manager: Performance & Improvement (new)	ER Strain	10,818.58	11,560.16	Pension Lump Sum	14,575.04 37,185.99	15,645.72 37,140.42	1,070.68 (45.57)	Head of Service: Organisational Development to 11/09/2011
A Williamson	Service Manager: Social Work (old)	ER Strain	17,881.86	7,544.15 11,199.93	Pension Lump Sum	21,107.49 57,726.70	21,944.86 58,083.21	837.37 356.51	Redundancy Retirement 31/12/2011
H Budge	Strategic Director: Children's Services (new)	ER Strain	20,640.82	11,286.73	Pension Lump Sum	16,759.13 50,277.40	18,524.87 55,574.62	1,765.74 5,297.22	Head of Service: Schools to 30/06/11
N R J Grant	Strategic Director: Development (new)	ER Strain	20,782.81	13,101.10	Pension Lump Sum	7,341.67 15,497.74	9,562.28 17,574.07	2,220.61 2,076.33	Head of Service: Economic Development to 30/06/11
P Crossland	Strategic Director: Infrastructure (new)	ER Strain	N/A	7,597.04	Pension Lump Sum	0.00 0.00	715.57 0.00	715.57 0.00	Commenced with SIC 19/09/2011
Vacant	Strategic Director: Corporate Services (new)	Er Strain							
C Ferguson	Strategic Director: Community Care (new)	ER Strain	10,832.03	13,123.45	Pension Lump Sum	26,300.73 72,353.11	24,775.31 62,714.87	(1,525.42) (9,638.24)	Head of Service: Community Care to 30/06/11
J Riise	Executive Manager: Goverance & Law (new)	ER Strain	22,995.71	12,789.94	Pension Lump Sum	23,436.23 62,632.58	24,755.31 62,714.87	1,319.08 82.29	Head of Service: Legal & Administration to 11/09/2011
H Leslie	Executive Manager: Children & Families (new)	ER Strain	8,017.76	9,417.96	Pension Lump Sum	14,362.82 38,820.39	17,031.78 43,112.54	2,668.96 4,292.15	Service Manager: Childrens Services to 30/11/201

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) The Executive Manager: Governance & Law also 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 includes accrued pension benefits of £780.15 pension and £1,638.21 lump sum as at 31 March 2012. At 31 March 2011 the comparative figures were £680.98 pension and £1,588.88 lump sum.

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 Tiered Contribution Pay Rates for 2011/12 are as follows:	Contribution Rate 2011/12 %
Whole time pay:	
On earnings up to and including £18,500	5.5
On earnings above £18,500 and up to £22,600	7.25
On earnings above £22,600 and up to £30,900	8.5
On earnings above £30,900 and up to £41,200	9.5
On earnings above £41,200	12

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.

Gary Robinson ………………………………………………………….. 27 September 2012
Leader of the Council

Alistair Buchan ………………………………………………………….. 27 September 2012
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 Executive Manager - Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the audited accounts are 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 Executive Manager - Finance's Responsibilities

The Executive Manager - 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 Executive Manager - 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 Executive Manager - 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 Executive Manager - 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 2012.

…………………………………………………….. **27 September 2012**
James Gray MA (Hons) CPFA
Executive Manager - Finance
(Section 95 Officer)

Primary Financial Statements

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.

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 (note 22) £000	Unusable Reserves (note 23) £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				(9,785)		(9,785)
Other Comprehensive Income and Expenditure						0	(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)		(171)		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		(489)	4,224		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)**
Movement in reserves during 2011/12:								
(Surplus) or deficit on the provision of services	34,661	(938)				33,723		33,723
Other Comprehensive Income and Expenditure							2,713	2,713
Total Comprehensive Income and expenditure	**34,661**	**(938)**	**0**	**0**	**0**	**33,723**	**2,713**	36,436
Adjustments between accounting basis & funding basis under regulations (Note 7)	(10,531)	715	13	(425)		(10,228)	10,228	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**24,130**	**(223)**	**13**	**(425)**	**0**	**23,495**	**12,941**	**36,436**
Transfers to Other Statutory						0		0
Net Transfers to/(from) Other Statutory Reserves	(24,644)	223	3,746	0	26,620	5,945	(5,945)	0
(Increase)/Decrease in 2011/12	**(514)**	**0**	**3,759**	**(425)**	**26,620**	**29,440**	**6,996**	**36,436**
Balance as at 31 March 2012	**(3,658)**	**0**	**(110,598)**	**(596)**	**(124,790)**	**(239,642)**	**(237,653)**	**(477,295)**

Total usable and unusable reserves are shown within disclosure notes 22 and 23 respectively.

Comprehensive Income and Expenditure Statement for year ended 31 March 2012

2010/11 Net Expenditure £000		Notes	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
47,800	Education Services		52,195	(6,685)	45,510
3,102	Housing Services		8,185	(5,401)	2,784
8,820	Housing Revenue Account		6,255	(6,744)	(489)
6,829	Cultural and Related Services		8,086	(773)	7,313
6,413	Environmental Services		9,402	(2,140)	7,262
2,197	Fire Services		2,264	0	2,264
11,547	Roads and Transport Services	5	25,468	(9,201)	16,267
10,931	Trading Services		31,185	(17,032)	14,153
1,461	Police Services		1,485	0	1,485
9,969	Planning and Development Services		8,894	(1,134)	7,760
32,503	Social Work		38,828	(7,066)	31,762
2,126	Central Services to the Public		2,489	(2,152)	337
7,572	Corporate and Democratic Core		8,155	0	8,155
(28,826)	Non Distributed Costs		2,038	0	2,038
122,444	**Cost of Services**		**204,929**	**(58,328)**	**146,601**
(327)	Other operating income	9			225
(23,050)	Financing and Investment income and expenditure	10			(4,413)
(108,852)	Taxation and non-specific grant income	11			(108,690)
(9,785)	**(Surplus) or Deficit on Provision of Services**				**33,723**
(15,540)	(Surplus) on revaluation of Property, Plant and Equipment assets				(6,186)
(19,382)	(Surplus) on revaluation of available for sale financial assets	23			(5,652)
23,156	Amounts recycled from the AFSFI reserve upon derecognition	23			3,705
(31,511)	Actuarial (gains)/losses on pension assets/liabilities	34			10,846
(43,277)	**Other Comprehensive Income and Expenditure**				**2,713**
(53,062)	**Total Comprehensive Income and Expenditure**				**36,436**

Balance Sheet as at 31 March 2012

1 April 2010 £000	31 March 2011 £000		Notes	31 March 2012 £000
365,329	371,433	Property, Plant and Equipment	12	373,495
2,139	3,096	Heritage Assets	13	4,768
689	436	Intangible Assets	14	558
218,959	222,739	Long Term Investments	15	193,170
13	1,066	Long Term Debtors	15	1,663
587,129	**598,770**	**Long Term Assets**		**573,654**
1,245	206	Assets held for Sale	16	392
3,609	4,023	Inventories	17	4,901
10,349	8,516	Short Term Debtors	18	12,259
20,906	7,376	Cash and Cash equivalents	19	10,654
36,109	**20,121**	**Current Assets**		**28,206**
(15,396)	(14,037)	Short Term Creditors	20	(19,899)
0	0	Provisions	21	(142)
(15,396)	**(14,037)**	**Current Liabilitie**		**(20,041)**
(4)	(10)	Provisions	21	0
(147,169)	(91,113)	Other Long Term Liabilities	34	(104,524)
(147,173)	**(91,123)**	**Long Term Liabilities**		**(104,524)**
460,669	**513,731**	**Net Assets**		**477,295**
(273,767)	(269,082)	Usable Reserves	22	(239,642)
(186,902)	(244,649)	Unusable Reserves	23	(237,653)
(460,669)	**(513,731)**	**Total Reserves**		**(477,295)**

The unaudited accounts were issued on 28 June 2012 and the audited accounts were authorised for issue on 27 September 2012.

………………………………………………………. **27 September 2012**
James Gray MA (Hons) CPFA
Executive Manager - Finance
(Section 95 Officer)

Cash Flow Statement for year ended 31 March 2012

2010/11 £000		2011/12 £000	2011/12 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(102,976)	Cash paid to and on behalf of employees	(106,720)	
(88,270)	Other operating cash payments	(84,872)	
(3,407)	Precepts Paid	(3,899)	
(194,653)			**(195,491)**
	Cash Inflows		
2,711	Housing Rents	4,086	
551	Trading	1,429	
86,894	Revenue Support Grant	77,690	
769	DWP Grants	782	
39,561	Sales of goods and services	46,236	
3,575	Other operating cash receipts	7,507	
12,220	Other Government Grant	7,455	
8,647	Council Tax income	11,604	
8,672	Non Domestic Rates Income	12,639	
163,600			**169,428**
	Movement of working capital		
(414)	(Increase)/Decrease in Stock	(878)	
1,833	(Increase)/Decrease in Debtors	(3,909)	
(1,359)	Increase/(Decrease) in Creditors	5,793	
60			**1,006**
(30,993)	**Net Cash Outflow from Operating Activities**		**(25,057)**
	INVESTING ACTIVITIES		
	Cash Outflows		
(18,048)	Purchase of Fixed Assets	(16,845)	
(238,884)	Purchase of Long Term Investments	(2,368)	
(107,700)	Purchase of Short Term Investments	0	
(364,632)			**(19,213)**
	Cash Inflows		
1,572	Sale of Fixed Assets	1,297	
253,383	Sale of Long Term Investments	36,000	
119,300	Sale of Short Term investments	0	
4,657	Capital Grant receipts	7,940	
3,183	Interest Received & Dividends	2,311	
382,095			**47,548**
17,463	**Net Cash Inflow from Investing Activities**		**28,335**
	FINANCING ACTIVITIES		
0	Cash Outflows		0
0	Cash Inflows		0
0	**Net Cash Flow from Financing Activities**		**0**
(13,530)	**NET INCREASE/(DECREASE) IN CASH**		**3,278**
20,906	Cash and Cash Equivalents at 1 April		7,376
(13,530)	Net movement of Cash and Cash Equivalents during the year		3,278
7,376	**Cash & Cash Equivalent at 31 March**		**10,654**

Refer to note 19 for an analysis of the components of cash and cash equivalents.

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; and
- 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 accounts 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 Changes in Accounting Policies and Estimates and Errors and Prior Period Adjustments

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. A change in accounting policy requires a prior period adjustment.

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 in accounting policy 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 accounts is historical cost modified by the revaluation of certain categories of non-current assets, pension liability and financial instruments.

The concept of the authority operating as a going concern is based on the premise that sufficient funding is available so 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 in order to represent a true and fair view. It is a matter of professional judgment 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.

1.4 Accruals of Income and Expenditure

a) 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 internal 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.

b) Recognition of Debtors and Creditors on the Balance Sheet

Where income 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 the Comprehensive Income and Expenditure Statement for the income that might not be collected.

1.5 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 Balance Sheet date 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.

1.6 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; and
- 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. However, it is required to make an annual contribution from revenue equal to loans fund principal charges. 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.

1.7 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.

1.8 Contingent Liabilities

Contingent liabilities are disclosed in note 35 to the accounts but not recognised in the Balance Sheet, in 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; or
- 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.

1.9 Employee Benefits

a) Accumulated Absences

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences (holidays) 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.

(b) 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 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 entitlement arises.

c) 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.

d) Post Employment Benefits

Employees of the authority may be members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government; and
- 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 in respect of Teachers' Pensions in the year.

e) The Local Government Pension Scheme

The Local Government Pension 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, projections of earnings for current employees etc.

- Liabilities are discounted to their value at current prices using a discount rate of 4.8% 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; and
    - 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 Comprehensive Income and Expenditure 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.

f) 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.

1.10 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; and
- 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.

1.11 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; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

a) 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 Cost of Services 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 Cost of Services.

b) 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; and
- 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 in the Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Account.

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).

The Council invests through three fund managers, Baillie Gifford, GMO and Insight. These managers all invest on behalf of the Council into unitised products. Each manager records income and fees relating to these units differently, and the following sets out how each manager accounts for these transactions.

Baillie Gifford receives and records income during the year, and deducts their fees out of this income with the balance re-invested into the units. This was changed during the year and the manager now invoices the Council their fees, and these are paid directly from the Council to Baillie Gifford.

GMO calculate the total fund management fee as per the Investment Management Agreement, they compare this to the fixed unitised fees within the units and if the unit fees are higher than the management fee they rebate the excess fees back into the units. These rebated fees are treated as income into the fund.

Insight invoice the Council for their fees and these are paid directly from the Council to Insight. No income is generated by Insight out with the units.

1.12 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 the Balance Sheet date. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.13 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.

1.14 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 2 to 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.

1.15 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.

1.16 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 have been measured at nil since 2010/11. Due to the inactive market, penalties have been suspended but not cancelled.

1.17 Leases

Operating Leases

a) The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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).

b) 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.

1.18 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 Service Reporting Code of Practice 2011/12 (SeRCOP). 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 organization; and
- 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

1.19 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.

a) 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.

b) 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; and
- 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); and
- 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); and
- 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.

c) Impairment

Assets are assessed at each year-end as to whether there is any indication that they 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.

d) 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 and Heritage 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: 27 - 50 years
- Other Land and Buildings: 7 - 120 years
- Vehicles, Plant, Furniture and Equipment: 1 - 30 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 costs are 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.

e) 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.

1.20 Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, the museum collection and a war memorial.

As a general policy, heritage assets are recognised on the balance sheet where the authority has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the balance sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the authority's general policies on impairment.

It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items will be accounted for in accordance with authority's general provisions relating to the disposal of property, plant and equipment.

a) Historical Buildings

Held on the balance sheet at fair value, determined as the amount that would be paid for the asset in its Existing Use Value (EUV) but 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. They are depreciated on a straight line basis over their remaining useful life.

b) Museum Collection

The Authority's Museum Collection is reported in the Balance Sheet at insurance valuation, which is based on market values. These insurance valuations are updated annually.

c) War Memorial

Held on the balance sheet at Depreciated Historical Cost (DHC).

1.21 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.

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement, with the exception of the Reserve Fund. 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.

In addition, Shetland Islands Council operates a Reserve Fund, as permitted under statute by the Zetland County Council Act 1974. Only surpluses from the Harbour Account can be credited to this reserve. The first priority of this reserve is to fund Ports and Harbours' expenditure. Beyond this, its balance may be applied to any expenditure that benefits the inhabitants of Shetland.

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.

1.23 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.

1.24 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

IFRS 7 Financial Instruments: Disclosures was amended in October 2010 to require entities to supplement disclosures for all transferred financial assets that are not derecognised where there has been some continuing involvement in a transferred asset. This amendment is to be adopted from 1 April 2012 but should have no material impact on the 2012/13 financial statements.

Application to Shetland Islands Council Accounts

Currently financial assets held by the Council are investments and loans, and all cash flows are received and retained by the Council.

3. Critical Judgments in Applying Accounting Policies

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

a) A number of legal claims are currently outstanding against the Council. These have all been accounted for as contingent liabilities as opposed to provisions, which are recognised on the Balance Sheet. There is insufficient evidence to demonstrate a current obligation and a reliable estimate has not been possible to establish.

b) One area where a long-standing issue remains unresolved is the relationship between the Council and the Shetland Charitable Trust. The Trust does not believe that a relationship whereby the Council controls the Trust exists. As a result of this they have not provided financial statements that could be used to consolidate their results into the group accounts. It is the opinion of the Executive Manager – Finance that under the requirement of the Code and definitions in IAS27 Consolidated and Separate Financial Statements, the Council does have the ability to control the Shetland Charitable Trust. As a result of this we have used publicly available information to attempt to group the results of the Trust in the 2011/12 financial statements.

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 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) 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 £33.616m however the assumptions interact in complex ways. During 2011/12, the authority's actuaries advised that the net pensions liability had increased by £19.208m as a result of updated assumptions.

b) Arrears

At 31 March 2012, the authority had a balance on sundry debtors of £3.511m within short term debtors. A review of significant balances suggested that an impairment of doubtful debts of £0.170m 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 £0.030m will eventually be written off from Council Tax charges of £8.034m levied during 2011/12.

c) 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 £0.849m has been recorded for a number of outstanding legal cases.

5. Material Items of Income and Expenditure

The Council received a capital receipt of £1.2 million for the Joint Occupational Therapy Unit during 2011/12.

Lerwick Port Authority (LPA) and Shetland Islands Council reached a negotiated settlement on the claim payable by the Council of £4.826m relating to the abandonment of a dredging project in 2005 due to the former Bressay Bridge Project. This is included in the Roads and Transport Services line of the Comprehensive Income and Expenditure Statement.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Manager - Finance on 27 September 2012. 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 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.
The Police and Fire Reform (Scotland) Bill received royal assent on 7 August 2012 that will create a single police service and a single fire and rescue service for Scotland from 1 April 2013 to replace the current regional bodies. Currently Shetland Islands Council provides funding to the Northern Joint Police Board and the Highlands and Islands Fire Board, but in future the new Scottish bodies will receive all their funding directly from the Scottish Government. The full impact of the reform process is currently being assessed.

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.

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance
The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises those resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. For housing authorities, however, the balance is not available to be applied to funding Housing Revenue Account services.

Housing Revenue Account Balance
The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part X of the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital

expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grant Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2011/12	Usable Reserves General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	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	(12,344)	(1,525)			13,869
Revaluation losses on Property Plant and Equipment	(2,411)	(1,034)			3,445
Amortisation of intangible assets	(155)				155
Capital grants and contributions applied	7,344				(7,344)
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	(1,071)	(450)			1,521
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	740	2,004			(2,744)
Capital expenditure charged against the General Fund and HRA balances	66	828			(894)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	596			(596)	0
Application of grants to capital financing transferred to the Capital Adjustment Account				171	(171)
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	405	892	(1,297)		0
Use of the Capital Receipts Reserve to finance new capital expenditure			1,310		(1,310)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(14,099)				14,099
Employer's pensions contributions and direct payments to pensioners payable in the year	11,534				(11,534)
Adjustment primarily involving the Employee Statutory Adjustment 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	(1,136)				1,136
Total Adjustments	**(10,531)**	**715**	**13**	**(425)**	**10,228**

2010/11 Comparative Figures	Usable Reserves				Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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)			13,130
Revaluation losses on Property Plant and Equipment	(1,933)	(10,986)			12,919
Amortisation of intangible assets	(525)				525
Capital grants and contributions applied	4,486				(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 and Expenditure Statement	(335)	(909)			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			(2,604)
Capital expenditure charged against the General Fund and HRA balances	618	1,195			(1,813)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	171			(171)	0
Application of grants to capital financing transferred to the Capital Adjustment Account					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
Use of the Capital Receipts Reserve to finance new capital expenditure			1,572		(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				(13,961)
Employer's pensions contributions and direct payments to pensioners payable in the year	10,583	1			(10,584)
Adjustment primarily involving the Employee Statutory Adjustment 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)				82
Total Adjustments	**16,745**	**(9,454)**	**0**	**(171)**	**(7,120)**

8. Transfers to/(from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2011/12.

	Balance at 1 April 2010 £000	Transfers out 2010/11 £000	Transfers in 2010/11 £000	Balance at 31 Mar 2011 £000	Transfers out 2011/12 £000	Transfers in 2011/12 £000	Balance at 31 Mar 2012 £000
General Fund:							
General Fund Balance	**0**	26,408	(29,408)	**(3,000)**	42,885	(42,885)	**(3,000)**
Council Tax Second Homes Receipts	**0**			**0**		(511)	**(511)**
Hansel	**(83)**		(7)	**(90)**		(14)	**(104)**
Central Efficiency	**(78)**	26		**(52)**	9		**(43)**
Total	**(161)**	**26,434**	**(29,415)**	**(3,142)**	**42,894**	**(43,410)**	**(3,658)**
Capital:							
Capital Fund	**(117,625)**	12,350	(3,129)	**(108,404)**	9,946	(2,084)	**(100,542)**
Capital Efficiency/Spend to Save Reserve	**0**		(5,000)	**(5,000)**		(4,096)	**(9,096)**
Pilot Boat Renewal Fund	**(943)**	14	(13)	**(942)**		(18)	**(960)**
Usable Capital Receipts	**(13)**	1,572	(1,572)	**(13)**	1,310	(1,297)	**0**
Elimination of inter Capital Fund transfers		(6,587)	6,587	**0**			**0**
Total	**(118,581)**	**7,349**	**(3,127)**	**(114,359)**	**11,256**	**(7,495)**	**(110,598)**
Other Revenue Statutory Funds:							
Revenue Efficiency/Spend to Save Reserve	**0**		(500)	**(500)**		(10)	**(510)**
Marine Fund	**(2,974)**	621	(229)	**(2,582)**	611	(50)	**(2,021)**
Reserve Fund	**(66,752)**	27,529	(22,398)	**(61,621)**	5,677	(1,185)	**(57,129)**
Repairs & Renewals Fund	**(74,318)**	25,046	(13,628)	**(62,900)**	12,533	(1,209)	**(51,576)**
Quarry Repairs & Renewals Fund	**(150)**			**(150)**		(3)	**(153)**
Housing Repairs & Renewals Account	**(10,577)**	489	(1,947)	**(12,035)**	7	(231)	**(12,259)**
Insurance Fund	**(254)**	67	(35)	**(222)**		(71)	**(293)**
Potential Contingent Liabilities	**0**		(11,400)	**(11,400)**	10,770	(219)	**(849)**
Elimination of inter Revenue Fund transfers	**0**	(26,829)	26,829	**0**			**0**
Total	**(155,025)**	**26,923**	**(23,308)**	**(151,410)**	**29,598**	**(2,978)**	**(124,790)**
Housing Revenue Account	**0**	489	(489)	**0**	938	(938)	**0**
Capital Grants Unapplied	**0**	0	(171)	**(171)**	171	(596)	**(596)**
Total Usable Reserves	**(273,767)**	**61,195**	**(56,510)**	**(269,082)**	**84,857**	**(55,417)**	**(239,642)**

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 General Fund Balance Reserve was established at the end of 2010/11 to defray General Fund expenditure.

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 £0.611m 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 is to set aside funds to meet the financial obligations that may arise if known contingent liabilities materialise.

The Hansel Fund and the Central Energy Efficiency Fund are earmarked general fund reserves that were established several years ago. The Central Energy 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.

A new reserve, Council Tax Second Homes Receipts, for the receipts from reducing the discount on second homes council tax was created in 2011/12. This has been set up to fund housing expenditure.

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 Capital Receipts Reserve was established for the purpose of financing capital expenditure. All receipts from the sale of assets are credited to the reserve; these can then be used to finance subsequent capital expenditure.

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.

9. Other Operating Income

31 March 2011 £000		31 March 2012 £000
(327)	(Gains)/losses on the disposal of non-current assets	225
(327)	**Total**	**225**

10. Financing and Investment Income and Expenditure

31 March 2011 £000		31 March 2012 £000
3,383	Pensions interest cost and expected return on pensions assets	1,771
(2,291)	Interest receivable and similar income	(1,067)
(986)	Other investment income	(2,257)
(23,156)	Realised gains in relation to Available for Sale financial asse	(2,860)
(23,050)	**Total**	**(4,413)**

11. Taxation and Non -Specific Grant Income

31 March 2011 £000		31 March 2012 £000
(8,629)	Council tax income	(8,752)
(8,672)	Non domestic rates	(14,308)
(86,894)	Non ring fenced government grants	(77,690)
(4,657)	Capital grants and contributior	(7,940)
(108,852)	**Total**	**(108,690)**

12. Property, Plant and Equipment

Movement in 2011/12	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 2011	60,588	142,876	53,906	147,196	5,862	695	22,360	433,483
- additions	2,013	546	2,039	1,752			10,368	16,718
revaluation increases/(decreases) recognised in the Revaluation Reserve	(599)	992		82				475
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,217)	(3,224)	(954)			(150)		(5,545)
derecognition – disposals	(468)	(218)	(1,028)	(1,433)			(100)	(3,247)
assets reclassified (to)/ fro Assets Held for Sale	(267)	(125)						(392)
other movements in cost or valuation	(6)	3,062	14,971	3,310	332	(42)	(21,783)	(156)
At 31 March 2012	60,044	143,909	68,934	150,907	6,194	503	10,845	441,336
Accumulated Depreciation and Impairment								
at 1 April 2011	(1,571)	(12,850)	(17,924)	(29,564)	(8)	(133)	-	(62,050)
depreciation charge	(1,574)	(4,388)	(4,441)	(3,391)		(62)		(13,856)
depreciation written out to the Revaluation Reserve	184	3,838						4,022
depreciation written out to the Surplus/Deficit on the Provision of Services	37	2,045	3			19		2,104
derecognition – disposals	19		855	1,059				1,933
other movements in depreciation and impairment	6							6
At 31 March 2012	(2,899)	(11,355)	(21,507)	(31,896)	(8)	(176)	0	(67,841)
Net Book Value								
at 31 March 2012	57,145	132,554	47,427	119,011	6,186	327	10,845	373,495
at 31 March 2011	59,017	130,026	35,982	117,632	5,854	562	22,360	371,433

Comparator 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 Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2010	62,082	129,667	49,876	145,837	5,857	251	22,838	416,408
- additions	1,839	716	2,750	1,213	1	2	11,486	18,007
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,700	(119)		4	0	352	12,563
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)				(1,313)	(13,058)
assets reclassified (to)/from Assets Held for Sale	(212)							(212)
other movements in cost or valuation	(34)	8,796	1,428	146		442	(11,003)	(225)
At 31 March 2011	60,588	142,876	53,906	147,196	5,862	695	22,360	433,483
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(9,067)	(13,911)	(26,223)	(8)	(13)		(51,079)
depreciation charge	(1,579)	(3,967)	(4,169)	(3,341)		(62)		(13,118)
depreciation written out to the Revaluation Reserve	1,726	114	155					1,995
depreciation written out to the Surplus/Deficit on the Provision of Services	139							139
Eliminated on reclassification to Assets Held for Sale	6							6
other movements in depreciation and impairment at 31 March 2010	(6)	70	1			(58)		7
at 31 March 2011	(1,571)	(12,850)	(17,924)	(29,564)	(8)	(133)	0	(62,050)
Net Book Value								
at 31 March 2011	59,017	130,026	35,982	117,632	5,854	562	22,360	371,433
at 31 March 2010	60,225	120,600	35,965	119,614	5,849	238	22,838	365,329

a) Capital Commitments

At 31 March 2012, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years, budgeted to cost £5.744m. Similar commitments at 31 March 2011 were £14.531m. The major commitments are:

- Walls Piers £1.887m
- Joint Occupational Therapy Centre £1.492m
- Shetland College Phase 3 £0.770m
- B9071 Bixter to Aith Phase 2 £0.550m

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) Revaluation 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, 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
Carried at historic cost				130,185	6,194		10,845	147,224
valued at fair value as at 1 April of year:								
2011 - 2012	60,044	52,998	14,257	150		59		127,508
2010 - 2011		16,520	330			112		16,962
2009 - 2010		50,184	2,817			332		53,333
2008 - 2009		18,512	2,187					20,699
2007 - 2008		5,695	49,343	20,572				75,610
Total Cost or Valuation	60,044	143,909	68,934	150,907	6,194	503	10,845	441,336

Council Dwelling Beacon Valuations are assessed for revaluation annually resulting in the full valuation figure in the current year.

13. Heritage Assets

	Historic Buildings £000	Museum Collection £000	War Memorials £000	Total Assets £000
Net Value				
At 1 April 2010	1,464	615	60	**2,139**
Revaluations		969		**969**
Depreciation	(12)			**(12)**
At 31 March 2011	**1,452**	**1,584**	**60**	**3,096**
Net Value				
At 1 April 2011	1,452	1,584	60	**3,096**
Revaluations		1,685		**1,685**
Depreciation	(13)			**(13)**
At 31 March 2012	**1,439**	**3,269**	**60**	**4,768**

a) Historic Buildings

The two historic buildings classified as heritage assets are the Dunrossness Crofthouse Museum and the Bod of Gremista. The Dunrossness Crofthouse Museum is a restored 19th century croft house with thatched roof, outbuildings and a watermill. The property was originally built in the 1850s and has been restored to provide an example of a typical croft house dwelling, including period furniture and other artifacts. The property is open for public viewing during the months of May to September. The Bod of Gremista is a two-storey rectangular house built around 1790 to provide family accommodation and a store for fishing and fish curing activities. The property was restored in the 1980s and is now run by Shetland Amenity Trust as a community museum displaying period furnishings and other artifacts and displays. The property is open for public viewing during the months of May to September.

The valuation process for these assets is the same as for Other Land & Buildings, as set out in Note 12 parts (b) and (c).

b) Museum Collection

The authority's museum collection is reported in the Balance Sheet at insurance valuation, which is based on market values. These insurance valuations are updated annually.

Agricultural Implements – These artifacts comprise mostly 20th century items. Most are factory produced, so are not intrinsically unique to Shetland. Condition is variable, although in the main good. There are some larger items, such as threshing machines and ploughs. Most items are small hand tools and equipment to do with livestock and crops. Most of the large items are in storage, and overall only a small percentage is on display. New acquisitions are infrequent. The items are not readily marketable in the commercial sense.

Costume Jewellery – Clothes, jewellery, watches, knitwear and textiles. This is a large proportion of the collection, and one of the areas that is growing constantly. These items have a clearer commercial worth, in the sense that there is a lively craft interest in costume. Being garments, items are all small, and mostly in very good condition. Many items are on display, but the greater bulk is in storage. Pieces are often used in temporary shows. High profile items are the Fair Isle garments which are unique to Shetland.

Archaeology – Composed of artifacts assemblages from excavations, such as Underhoull and Clickimin, as well as individual pieces from private donors. The collection is growing, but growth is uneven. Excavation groups expand the collection in large blocks but do not occur often. Archaeology includes items of specialised interest and includes various high profile items, like Pictish carvings. The vast majority is in store, as most things are duplicated and nondescript, e.g. potsherds. Items are frequently consulted by researchers.

Art – Watercolours, oil paintings, textile artworks, drawings and sculptures. Growth is small but even, a couple of items a month. Readily translatable to market value, but each piece is unique, so irreplaceable. Condition overall very good. Stored centrally in one room, save for display items. Vast majority are 20th century items, but most significant are the 19th century oil paintings.

Maps – Maps and charts. Collection rarely added to, as there are few gaps in the collection. Condition overall good. Few items on display, but often used for reference. Many pieces rare and replacement unlikely.

Household Items – Includes household implements, furniture, furnishings, fixtures and fittings. Some larger items such as minor furnishings.

Social History – Large category, and items diverse. Includes toys, games, music, sport, telecommunications, domestic service, cooking and cleaning. Range of materials and condition multitudinous, and collection steadily growing. Some larger items such as radios and prams.

Institutions – Educational and church/religious objects. Relatively small category, with emphasis on badges, programmes, insignia, signs and office equipment. Additions fairly infrequent.

War – Items from armed services and war relics. Encompasses uniforms and equipment, insignia, weapons and aeroplane debris. Condition mainly favourable. Most items in storage. Nearly all are generic objects, but local provenance vitally important. Lively collector market means elements of financial worth applicable.

Tools – Covers tradesmen's tools and scientific implements. The museum holds many of the former, mostly for carpentry, also blacksmiths' and stonemasons' tools. Mostly hand tools, and condition generally good. Few items inherently rare, their value to the Museum being their provenance. Scientific and other tools fewer in number. Quite a large proportion on display. This category is expanded infrequently.

Maritime – Broad category. Model boats; several large examples of commercial worth. Fishing gear; several larger items, condition variable. Seamen's effects; tools, garments, ship equipment – of potential commercial worth (but provenance, as always, makes each irreplaceable). Shipwreck material; diversity of items, condition often fair, and several large bulky artifacts.

Trade – Commercial goods and tools associated with businesses. Includes many bulky items (shelving, cabinets, signs). Greater bulk concerns equipment (scales, tills, barrels) and goods (bottles, packets, jars). Small proportion on display. Limited financial value as such. Most items mass–produced, so not unique to Shetland. Condition of some larger items requires work.

Natural History – Stuffed animals, fossils, geological specimens, egg collections and organic material. Most of collection in storage. Infrequently used by researchers. Herbarium is large and important collection, and irreplaceable. Bird collection contains some significant items. Geology also extensive collection, and only replaceable with very great effort. Negligible commercial value.

Currency – Currently, notes, coins and medals. Small section on display; vast majority in storage. All items have clearly recognisable commercial value to collections. The medals are individually inscribed, so are irreplaceable. The coins, although mass-produced, have (like everything in the Museum) their local connotations, so are unique in their own way.

Archived Books – The Archives collection of published works, mainly books and pamphlets from the 17th to the 21st centuries, comprise modern publications about Shetland, purchased regularly, and antiquarian works, some of them parts of bigger donated collections, including those formed by E S Reid Tait and Provost Goudie of Lerwick. The more modern books are available on open shelves in the search room, invigilated at all times by an archivist; the older and more valuable material is held in the Archives repository, and access to it is via requisition slips signed by visitors. This asset was not previously recognised in the Balance Sheet and is therefore fully recognised in 2011/12 as a revaluation gain in the Revaluation Reserve Account.

c) War Memorial

The Authority’s War Memorial is reported in the Balance Sheet at depreciated historical cost. The Lerwick War Memorial is a First World War monument built around 1923 with Second World War memorials added in the 1970s.
The valuation process for this asset is the same as for Community Assets, as set out in Note 12 parts (b) and (c).

d) Heritage Assets – 5 Years of Transactions

There has been one purchase of a heritage asset during the last 3 years costing £0.025m, which has been shown in the Balance Sheet. There were no donations, disposals or impairments. It is not practicable to provide information prior to 1 April 2009.

e) Heritage Assets Change in Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the authority. As set out in our summary of significant accounting policies, the authority now requires heritage assets to be carried in the Balance Sheet at valuation.

For 2011/12, the authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets or other land and buildings assets (at valuation) in the property, plant and equipment classification in the Balance Sheet. The authority’s accounting policies for recognition and measurement of heritage assets are set out in the authority's summary of significant accounting policies (see Note 1).

In applying the new accounting policy, the authority has identified that the assets that were previously held as community assets at £1.644m and other land and buildings assets at £1.464m within property, plant and equipment should now be recognised as heritage assets. These assets relate to the museum collection, the war memorial and historic buildings. The 1 April 2010 and the 31 March 2011 Balance Sheets and the 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the heritage assets is presented at its valuation at £3.108m. The element that was p reviously recognised in property, plant and equipment has been reclassified.
- The Balance Sheet has been fully restated for 1 April 2010. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010 £000	Restated Opening Balances as at 1 April 2010 £000	Restatement £000
Property, Plant and Equipment	367,468	365,329	(2,139)
Heritage Assets	-	2,139	2,139

Comprehensive Income and Expenditure Statement

There has been no restatement of any of the lines of the Comprehensive Income and Expenditure Statement as there has been no revaluation or impairment of these assets.

Movement in Reserves Statement – Unusable Reserves 2010/11

There has been no change in the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy.

Effect on Balance Sheet 31 March 2011

	As Previously Stated 31 March 2011 £000	As Restated 3 March 2011 £000	Restatement 2011 £000
Property, Plant and Equipment	374,529	371,433	(3,096)
Heritage Assets	-	3,096	3,096

The effect on the change in accounting policy in 2010/11 has been that heritage assets are recognised at £3.096m on the Balance Sheet.

14. 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 are purchased licences. 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.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.155m charged to revenue in 2011/12 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

There are no items of capitalised software that are individually material to the financial statements and there are no outstanding contractual commitments for the acquisition of intangible assets.

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

Years	Purchased Licences
3	Webroster
5	Financial Management Systems
5	Payroll/HR/Pension Systems
5	Housing Stock Management System
5	Libraries Systems
5	Planning Systems
5	GIS Innogistic System
5	Client Records System
5	Building/DLO Stores System
5	Microsoft Licences
5	Council Tax/Housing Benefits/Rents
5	Risk Assessment Software
7	Occupational Therapy Stock Control System
8	Facility Management System

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

31 March 2011 £000		31 March 2012 £000
	Balance at start of year	
2,086	Gross carrying amounts	2,089
(1,397)	Accumulated amortisation	(1,653)
689	**Net carrying amount at start of year**	**436**
41	Purchases	127
0	Other disposals	0
(525)	Amortisation for the period	(155)
231	Other changes	150
436	**Net carrying amount at end of year**	**558**
	Comprising:	
2089	Gross carrying amounts	2287
(1,653)	Accumulated amortisation	(1,729)
436		558

15. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term 31 March 2011 £000	Current 31 March 2011 £000		Long-Term 31 March 2012 £000	Current 31 March 2012 £000
		Financial Assets:		
		Investments:		
222,739	0	Available for sale financial assets	193,170	0
222,739	**0**	**Total Investments**	**193,170**	**0**
		Debtors:		
1,051	271	Loans and receivables	1,663	401
15	1	Financial assets carried at contract amounts	0	0
1,066	**272**	**Total Debtors**	**1,663**	**401**
		Financial Liabilities:		
		Creditors:		
0	(119)	Accrued Interest liability	0	0
0	**(119)**	**Total Creditors**	**0**	**0**

b) Income, Expense, Gains and Losses

31 March 2011				31 March 2012		
Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000		Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
0	25	**25**	Interest expense	0	0	**0**
516	0	**516**	Impairment losses	69	0	**69**
0	957	**957**	Fee expenses	0	895	**895**
516	**982**	**1,498**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**69**	**895**	**964**
(54)	(4,259)	**(4,313)**	Interest & dividend income	(77)	(2,257)	**(2,334)**
0	(23,156)	**(23,156)**	Gains on de-recognition	0	(2,860)	**(2,860)**
(54)	**(27,415)**	**(27,469)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(77)**	**(5,117)**	**(5,194)**
0	(19,382)	**(19,382)**	Gains on revaluation	0	(5,652)	**(5,652)**
0	23,156	**23,156**	Amounts recycled	0	3,705	**3,705**
0	**3,774**	**3,774**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES**	**0**	**(1,947)**	**(1,947)**
462	**(22,659)**	**(22,197)**	**Net (Gain)/Loss for the Year**	**(8)**	**(6,169)**	**(6,177)**

There were gains for available for sale financial assets on revaluation of £5.652m as at 31 March 2012 (£19.382m at 31 March 2011) and therefore no impairment has been identified and the Council did not carry out an impairment review.

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; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2011			31 March 2012	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,322	1,322	Loans and Receivables	2,064	2,064
16	16	Long-Term Debtors (mortgages)	0	0

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.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

16. Assets Held for Sale

31 March 2011 £000		31 March 2012 £000
1,245	**Balance outstanding at start of year**	**206**
	Assets newly classified as held for sale:	
206	Property, Plant and Equipment	392
	Assets declassified as held for sale:	
(1,245)	Assets sold	(206)
206	**Balance outstanding at year-end**	**392**

17. Inventories

	Ports & Harbours 2010/11 £000	Ports & Harbours 2011/12 £000	Trading Operations 2010/11 £000	Trading Operations 2011/12 £000	Infrastructure 2010/11 £000	Infrastructure 2011/12 £000	Total 2010/11 £000	Total 2011/12 £000
Balance outstanding at start of year	**2,383**	**2,717**	**752**	**755**	**474**	**551**	**3,609**	**4,023**
Purchases	960	1,359	1,752	2,969	1,419	1,358	4,131	5,686
Recognised as an expense in the year	(626)	(732)	(1,736)	(2,651)	(1,342)	(1,397)	(3,704)	(4,780)
Written off Balances	0	0	(13)	(12)	0	(16)	(13)	(28)
Reversals of write offs in previous years	0	0	0	0	0	0	0	0
Balance outstanding at year end	**2,717**	**3,344**	**755**	**1,061**	**551**	**496**	**4,023**	**4,901**

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

18. Short-Term Debtors

31 March 2011 £000		31 March 2012 £000
1,290	Central Government Bodies	2,510
389	Other Local Authorities	2,609
67	NHS Bodies	301
106	Public Corporation and Trading Funds	848
6,664	Other Entities and Individuals	5,991
8,516	**Total**	**12,259**

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 2011 £000		31 March 2012 £000
(402)	Opening balance - General Fund	(413)
108	Miscellaneous Invoices written off	32
24	Council Tax written off	18
(143)	(Charge)/Credit to General Fund for provision	0
(413)	**Closing Balance**	**(363)**
(175)	Opening balance - Housing Revenue Account	(155)
2	Miscellaneous Invoices written off	5
38	Rents written off	30
(20)	Change in Housing Revenue Account provision	0
(155)	**Closing Balance**	**(120)**

19. Cash and Cash Equivalents

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

31 March 2011 £000		31 March 2012 £000
22	Cash held by the Authority	24
7,251	Bank current accounts	10,629
103	Short-term certificates of deposit	1
7,376	**Total**	**10,654**

20. Short-Term Creditors

31 March 2011 £000		31 March 2012 £000
(3,252)	Central Government Bodies	(4,031)
(277)	Other Local Authorities	(3,144)
(33)	NHS Bodies	(108)
(344)	Public Corporations and Trading Funds	(775)
(10,131)	Other entities and individuals	(11,841)
(14,037)	**Total**	**(19,899)**

21. Provisions

Provisions are made where an event has taken place that gives the Council 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.

The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, participating authorities will submit the annual report on their emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

2010/11			2011/12	
Short-term	Long-term		Short-term	Long-term
Carbon Reduction Commitment £000	Equal Pay Claims £000		Carbon Reduction Commitment £000	Equal Pay Claims £000
0	**(4)**	**Balance at 1 April**	**0**	**(10)**
0	(6)	Additional provisions made	(142)	0
0	0	Amounts used	0	10
0	**(10)**	**Balance at 31 March**	**(142)**	**0**

22. Usable Reserves

The movements in the authority's usable and unusable reserves are detailed in the Movement in Reserves Statement.

Reconciliation of Usable Funds to the balance sheet

31 March 2011 £000		31 March 2012 £000
(3,144)	General Fund Balance	(3,658)
(114,357)	Capital Receipts Reserve/Capital Funds	(110,598)
(171)	Capital Grants Unapplied	(596)
(151,410)	Other Revenue Statutory Funds	(124,790)
(269,082)	**Total balance of usable reserves at 31 March**	**(239,642)**

23. Unusable Reserves

Reconciliation of Unusable Funds to the balance sheet

31 March 2011 £000		31 March 2012 £000
(64,271)	Revaluation Reserve	(67,923)
(19,376)	Available for Sale Financial Instruments Reserve	(21,323)
(253,562)	Capital Adjustment Account	(255,514)
91,113	Pensions Reserve	104,524
1,447	Employee Statutory Adjustment Account	2,583
(244,649)	**Total balance of unusable reserves at 31 March**	**(237,653)**

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; or
- 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 2011 £000		31 March 2012 £000	£000
(53,504)	**Balance at 1 April**		**(64,271)**
(29,007)	Upward revaluation of assets	(6,848)	
13,467	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	662	
(15,540)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(6,186)
1,636	Difference between fair value depreciation and historical cost depreciation	1,771	
404	Accumulated gains on assets sold or scrapped	763	
2,733	Prior year difference between ledger and asset register	0	
4,773	Amount written off to the Capital Adustment Account		2,534
(64,271)	**Balance at 31 March**		**(67,923)**

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 2011 £000		31 March 2012 £000
(23,150)	**Balance at 1 April**	**(19,376)**
(19,382)	Upward revaluation of assets	(6,528)
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	876
(19,382)		(5,652)
23,156	Removal of previously unrealised gains in relation to assets sold	3,705
(19,376)	**Balance at 31 March**	**(21,323)**

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 2011 £000		31 March 2012 £000
147,169	**Balance at 1 April**	**91,113**
(31,511)	Actuarial (gains) and losses on pensions assets and liabilities	10,846
(13,961)	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	14,099
(10,584)	Employer's pensions contributions and direct payments to pensioners payable in the year	(11,534)
91,113	**Balance at 31 March**	**104,524**

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2011 £000		31 March 2012 £000	£000
(258,782)	Balance at 1 April		(253,562)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
13,130	Charges for depreciation and impairment of Non-Current assets	13,869	
12,919	Revaluation losses on Property, Plant and Equipment	3,445	
525	Amortisation of Intangible assets	155	
1,244	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	1,521	
27,818			18,990
(4,773)	Adjustment amounts written out of the Revaluation Reserve		(2,534)
23,045	Net written out amount of the cost of Non-Current assets consumed in the year		16,456
	Capital financing applied in the year:		
(1,572)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,310)	
(4,486)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(7,344)	
0	Application of grants to capital financing from the Capital Grants Unapplied Account	(171)	
(2,604)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,744)	
(1,813)	Capital expenditure charged against the General Fund and HRA balances	(894)	
(10,475)			(12,463)
(7,350)	Capital Fund Reserve		(5,945)
(253,562)	**Balance at 31 March**		**(255,514)**

e) Employee Statutory Adjustment Account

This 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.

31 March 2011 £000		31 March 2012 £000
1,365	**Balance at 1 April**	**1,447**
(1,365)	Settlement or cancellation of accrual made at the end of the preceding year	(1,447)
1,447	Amounts accrued at the end of the current year	2,583
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
1,447	**Balance at 31 March**	**2,583**

24. Amounts reported for Resource Allocation Decisions

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

Decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Service committees. 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; and
- 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 2011/12	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Executive £000	Boards (Harbour & College) £000	Total £000
Employee expenses	37,321	28,560	3,137	17,204	7,992	9,960	104,174
Operating costs	8,629	10,374	13,245	23,910	10,387	6,057	72,602
Transfer Payments	1,327	6,946	5,485	867	351	159	15,135
Total expenditure	**47,277**	**45,880**	**21,867**	**41,981**	**18,730**	**16,176**	**191,911**
Total income	(2,323)	(20,012)	(2,996)	(16,055)	(2,784)	(19,175)	(63,345)
Net expenditure	**44,954**	**25,868**	**18,871**	**25,926**	**15,946**	**(2,999)**	**128,566**

Income and Expenditure Analysis Comparative Figures 2010/11	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Executive £000	Boards (Harbour & College) £000	Total £000
Employee expenses	37,701	28,863	2,729	17,645	6,393	13,223	106,554
Operating costs	11,319	10,415	7,273	23,189	4,116	2,981	59,293
Transfer Payments	1,539	6,442	9,305	628	1,314	41	19,269
Total expenditure	**50,559**	**45,720**	**19,307**	**41,462**	**11,823**	**16,245**	**185,116**
Total income	(2,530)	(21,131)	(2,970)	(15,216)	(4,171)	(19,713)	(65,731)
Net expenditure	**48,029**	**24,589**	**16,337**	**26,246**	**7,652**	**(3,468)**	**119,385**

31 March 2011 £000	Summary reconciliation between Budget reported and Comprehensive Income and Expenditure Statement	31 March 2012 £000
119,385	Net expenditure in the Income and Expenditure Analysis	128,566
5,846	Net expenditure of services and support services not included in the Analysis and not reported to management for decision making	(93)
(2,787)	Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis	18,128
122,444	**Cost of Services in Comprehensive Income and Expenditure Statement**	**146,601**

Detailed reconciliation between Budget reported and Comprehensive Income and Expenditure Statement

2011/12	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
Employee expenses	104,174		(101)	2,048	106,121
Other service expenses	87,737		109	14,380	102,226
Support service recharges				(16,751)	(16,751)
Depreciation, amortisation and impairment				17,469	17,469
Interest Payments				988	988
Precepts & Levies					0
Gain or Loss on Disposal of Fixed Assets					0
Total expenditure	**191,911**	**0**	**8**	**18,134**	**210,053**
Fees, charges & other service income	(55,023)		(101)	(10)	(55,134)
Interest and investment income	(221)			4	(217)
Income from council tax	(15)				(15)
Government grants and contributions	(8,086)				(8,086)
Total Income	**(63,345)**	**0**	**(101)**	**(6)**	**(63,452)**
Cost of Services	**128,566**	**0**	**(93)**	**18,128**	**146,601**

Comparative Figures 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
Employee expenses	106,554	4,552		(18,241)	92,865
Other service expenses	78,562	5,176	5		83,743
Support service recharges					0
Depreciation, amortisation and impairment				26,574	26,574
Interest Payments					0
Precepts & Levies			310	3,682	3,992
Gain or Loss on Disposal of Fixed Assets					0
Total expenditure	**185,116**	**9,728**	**315**	**12,015**	**207,174**
Fees, charges & other service income	(65,731)	(2,181)	(60)	(14,802)	(82,774)
Interest and investment income		125			125
Income from council tax					0
Government grants and contributions		(2,081)			(2,081)
Total Income	**(65,731)**	**(4,137)**	**(60)**	**(14,802)**	**(84,730)**
Cost of Services	**119,385**	**5,591**	**255**	**(2,787)**	**122,444**

25. Trading Operations

The authority has established two trading units where the 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 2011/12 are as follows:

	2009/10		2010/11		2011/12	
	£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 breakeven over a 3 year rolling period.						
Turnover	(6,518)		(7,760)		(7,511)	
Expenditure	6,188		7,562		7,139	
Surplus		(330)		(198)		(372)
Cumulative surplus - over last three financial years		**(240)**		**(374)**		**(900)**
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 breakeven over a 3 year rolling period.						
Turnover	(4,880)		(4,713)		(4,171)	
Expenditure	4,595		4,588		4,226	
Surplus		(285)		(125)		55
Cumulative surplus - over last three financial years		**(148)**		**(190)**		**(355)**
Net (surplus)/deficit on trading operations:		**(615)**		**(323)**		**(317)**

The table above is presented exclusively to show whether each trading organisation met its statutory financial target. The figures for 2009/10 are based on UK GAAP in line with the legislative requirement for those years. The 2010/11 and 2011/12 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 the authority's services to the public (e.g. refuse collection), whilst others are support services tthe 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 2011 £000		31 March 2012 £000
(37)	Net (Surplus)/Deficit on Services to the public incl. in Cost of Services	441
(286)	Support services recharged to Expenditure of Continuing Operations	(758)
(323)	**Net (surplus)/deficit on trading operations**	**(317)**

26. 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.

Shetland Heat, Energy and Power Ltd (SHEAP) provide heating in the Lerwick area. The Council provide a service that allows them to take credit and debit card payments through the Council's income system. The Council charge them 5% of any amount paid through the system.

Shetland Box Office is a service delivered by Shetland Islands Council and Shetland Arts to event promoters in Shetland. Promoters are charged a fee for the public sale of tickets for events and festivals. Shetland Islands Council is therefore providing an agency service for the promoters to the general public.

31 March 2011 £000		31 March 2012 £000
33	Expenditure incurred in collection service for Scottish Water	27
(62)	Commission payable by Scottish Water	(65)
0	Expenditure incurred in collection service for SHEAP	0
(3)	Income payable by SHEAP	(3)
0	Expenditure incurred in collection service for Shetland Box Office	0
0	Income payable by Shetland Box Office	(1)
7	Expenditure incurred in payroll services to other organisations	7
(7)	Income payable by other organisation for payroll services	(7)
(32)	**Net surplus arising on the agency arrangements**	**(42)**

27. 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 2011 £000		31 March 2012 £000
242	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	240
5	Fees payable in respect of other services provided by Audit Scotland during the year (related to IFRS - prior year restatement)	0
0	Rebate relating to prior year accounts	(21)
247	**Total**	**219**

28. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

31 March 2011 £000		31 March 2012 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,629)	Council tax income	(8,752)
(8,672)	Non domestic rates	(14,308)
(86,894)	Non ring fenced government grants	(77,690)
(4,657)	Capital grants and contributions	(7,940)
(108,852)	**Total**	**(108,690)**
	Credited to Services	
(178)	NHS	(688)
(788)	Council Tax Benefits Subsidy	(748)
(2,855)	Housing Benefit Subsidy	(2,887)
(1,233)	Housing Support Grant	(993)
(42)	ERDF & ESF	(56)
(319)	Training Grants	(281)
(69)	Central - Government Grants	(2)
(206)	Cultural - Government Grants	(170)
(2,824)	Education - Government Grants	(2,779)
(126)	Environment - Government Grants	(85)
(136)	Planning & Development - Government Grants	(476)
(477)	Roads & Transport - Government Grants	(50)
(468)	Social Work - Government Grants	(394)
(9,721)	**Total**	**(9,609)**

29. 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 28.

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 £4.446m (£7.529m in 2010/11) to these bodies during 2011/12.

c) Officers

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

The Executive Manager - Sport and Leisure was previously responsible for the grant payable to Shetland Golf Club under a three-year service level agreement and was also a member of the golf club. This responsibility transferred during 2011/12 to the Community Planning and Development Service. In order to ensure that no undue influence had occurred in prior years with regard to the transaction, the assessment was undertaken by another member of staff and the Executive Director presented the report for consideration by Council Members.

d) Local Government Pension Scheme

The Local Government Pension Scheme is administered locally by Shetland Islands Council for the benefit of employees. The Council has made payments to the Local Government Pension Scheme as detailed in Note 34 Defined Benefit Pension Schemes.

30. 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 2011 £000		31 March 2012 £000
55,140	Opening Capital Financing Requirement	55,363
	Capital Investment:	
18,007	Property, Plant and Equipment	16,718
41	Intangible Assets	127
	Sources of Finance:	
(1,572)	Capital Receipts	(1,310)
(4,486)	Government Grants and Other Contributions	(7,516)
(7,350)	Funding from Reserves	(5,945)
	Sums set aside from Revenue:	
(1,813)	Direct Revenue Contributions	(894)
(2,604)	Loans Fund Principal	(2,744)
55,363	**Closing Capital Financing Requirement**	**53,799**
	Explanation of Movements in Year:	
223	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,564)
223	**Increase/(Decrease) in Capital Financing Requirement**	**(1,564)**

31. Leases

Finance Leases

During 2010/11 and 2011/12 the Council did not have any finance leases as lessee.

Operating Leases

a) The Authority as a Lessee

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe oil terminal where the Council lease land from Shetland Charitable Trust for £1.226m a year and subleases it to BP for the same amount. This lease arrangement is due to run until 2025 and had not been included in lease notes to previous accounts.

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

31 March 2011 £000		31 March 2012 £000
2,474	Not later than one year	2,374
9,274	Later than one year and not later than five years	9,130
18,682	Later than five years	17,219
30,430	**Total**	**28,723**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2011 £000		31 March 2012 £000
2,908	Minimum lease payments	2,824
(1,538)	Sublease payments receivable	(1,365)
1,370	**Total**	**1,459**

b) The Authority as a Lessor

Finance Leases

During 2010/11 and 2011/12 the Council did not have any finance leases as lessor.

Operating Leases

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 minimum sublease payments expected to be received in future years are:

31 March 2011 £000		31 March 2012 £000
(1,312)	Not later than one year	(1,287)
(5,200)	Later than one year and not later than five years	(5,108)
(12,072)	Later than five years	(10,628)
(18,584)	**Total**	**(17,023)**

The total value of rental income, excluding subleases, recognised during the period was £0.425m (2010/11 - £0.331m).

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

31 March 2011 £000		31 March 2012 £000
(223)	Not later than one year	(294)
(621)	Later than one year and not later than five years	(668)
(97)	Later than five years	(165)
(941)	**Total**	**(1,127)**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 and 2011/12 no contingent rents were receivable by the Council.

32. Termination Benefits

The Council terminated 65 employee contracts in 2011/12 (36 in 2010/11), incurring liabilities of £2.041m (£1.480m in 2010/11). This figure includes one off termination payments made to staff (eg. redundancy payments and enhanced pension lump sum payments) and also one off pension fund employer costs (pension strain cost). Of the 65 contracts, 33 formed part of the Blueprint for Education review and 8 were part of the Ports of the Future project.

Termination benefits differ from the exit packages disclosed in the remuneration report. This is because termination benefits show the in-year liabilities, including any enhanced pension lump sum payment, whereas exit packages show the full capitalised cost adding on any future years enhanced pension costs to the Council.

33. 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 2011/12, the Council paid £2.481m to the SPPA in respect of teachers’ retirement benefits, representing 14.9% of pensionable pay (£2.618m and 14.9% in 2010/11). 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 2011/12 these amounted to £0.800m (£0.740m for 2010/11), representing 4.77% of teachers’ pensionable pay (4.21% for 2010//11). These costs are accounted for on a defined benefit basis.

34. 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:

2010/11 £000	Local Government Pension Scheme	2011/12 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
11,561	Current service cost	10,039
(30,072)	Past service cost	727
1,167	Settlements and curtailments	1,562
	Financing and Investment Income and Expenditure:	
17,900	Interest cost	16,999
(14,517)	Expected return on scheme assets	(15,228)
(13,961)	**Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**14,099**
	Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(31,511)	Actuarial (gains) and losses	10,846
(45,472)	**Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**24,945**
	Movement in Reserves Statement	
(31,511)	Actuarial losses or (gains)	10,846
(13,961)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	14,099
	Actual amount charged against the General Fund Balance for pensions in the year:	
(10,584)	Employers' contributions and direct payments to pensioners payable in the year	(11,534)
(56,056)	**Movement in the year on the Pension Reserve**	**13,411**

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2012 a loss of £81.566m (31 March 2011 was a loss of £70.720m).

c) Assets and Liabilities in Relation to PostEmployment Benefits

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

2010/11 £000		2011/12 £000
342,879	Opening balance at 1 April	305,998
11,561	Current service cost	10,039
17,900	Interest Cost	16,999
3,593	Contributions by scheme participants	3,482
(33,309)	Actuarial gains and losses	2,517
(7,721)	Benefits paid	(9,567)
(30,072)	Past service costs	727
1,167	Curtailments	1,562
305,998	**Closing balance at 31 March**	**331,757**

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

2010/11 £000		2011/12 £000
195,710	**Opening balance at 1 April**	214,885
14,517	Expected rate of return	15,228
(1,798)	Actuarial gains and losses	(8,329)
10,584	Employer contributions	11,534
3,593	Contributions by scheme participants	3,482
(7,721)	Benefits paid	(9,567)
214,885	**Closing balance at 31 March**	**227,233**

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 £2.054m (2010/11 £12.756m).

d) Scheme History

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

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of liabilities:					
Local Government Pension Scheme	197,917	193,332	342,879	305,998	331,757
Discretionary Benefits	0	0	0	0	0
Fair value of assets in the Loca Government Pension Scheme	**179,810**	**134,353**	**195,710**	**214,885**	**227,233**
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme	1,208	(40,844)	(122,943)	(68,445)	(77,897)
Discretionary Benefits	(19,315)	(18,135)	(24,226)	(22,668)	(26,627)
Total	**(18,107)**	**(58,979)**	**(147,169)**	**(91,113)**	**(104,524)**

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £331.757 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 £104.524 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 2013 is £11.834 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 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 31 March 2012.

The principal assumptions used by the actuary have been:

2010/11		2011/12
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity investments	6.2%
4.9%	Bonds	4.0%
5.2%	Other	4.0%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
21.5	Men	23.0
24.9	Women	25.8
	Longevity at 65 for future pensioners (in years):	
23.5	Men	24.9
27.0	Women	27.7
2.8%	Rate of inflation	3.3%
5.1%	Rate of increase in salaries	4.8%
2.8%	Rate of increase in pensions	2.5%
5.5%	Rate for discounting scheme liabilities	4.8%
70%	Take-up of option to convert annual pension into retirement lump sum	70%

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:

2010/11		2011/12
80%	Equity investments	81%
9%	Debt instruments	8%
11%	Other assets	11%

f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in each of the last five years can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	2007/08	2008/09	2009/10	2010/11	2011/12
Differences between the expected and actual return on assets	(15.6%)	(47.6%)	23.57%	(0.84%)	(3.67%)
Experience gains and losses on liabilities	0.06%	(4.19%)	1.85%	(0.13%)	(5.47%)

The actuarial present value of promised retirement benefits calculated similarly to the defined benefit obligation under IAS19, is £351 million at 31 March 2012 (£299m at 31 March 2011).

35. Contingent Liabilities

At 31 March 2012, the authority had contingent liabilities of £0.849m (£11.400m at 31 March 2011). There are a number of projects for which the Council is currently in legal dispute. These claims are being contested and are at present unresolved and not admitted.
The contingent liability at 31 March 2011 contained £8.091m relating to pension benefits for Shetland Towage staff who transferred to Shetland Islands Council Pension Scheme. This was valued by the Council's actuary at £7.600m and now forms part of the Council's total pension liability of £104.524m.

36. 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; and
- 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.

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; or
- 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 2011/12.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2012, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Estimated maximum exposure at 31 March 2011	Amount at 31 March 2012	Historical experience of default (expressed as % of A)	Historical experience adjusted for market conditions at 31 March 2012	Estimated maximum exposure to default and uncollectability at 31 March 2012
		A	B	C	A*C
	£000	£000	%	%	£000
Deposits with Banks	0	11,450	0	0	0
Customers	26	92	25	25	23

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 £1.309m of the £3.500m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2011 £000		31 March 2012 £000
36	Less than three months	769
143	Three to six months	61
104	Six months to one year	197
164	More than one year	282
447	**Total**	**1,309**

Liquidity Risk

The authority has external investments with fund managers amounting to £193 million at 31 March 2012. 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 2012/13. All creditors are due to be paid in less than one year.

Market Risk

a) 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 2012 the composition of these funds has been diversified between the following asset classes:

- UK Equities - 35%
- Overseas Equities - 39%
- UK Government Bonds - 10%
- UK Corporate Bonds – 10%
- Other Bonds - 6%

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 £0.700m for 2012/13.

b) Price risk

The authority had £193 million of investments as at 31 March 2012 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 £7.141m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2011/12.

c) Foreign exchange risk

The authority has £75.270m 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 an 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

2010/ 11 £000		2011/12 £000	£000
	Expenditure		
2,317	Repairs and maintenance	2,195	
529	Supervision and management	551	
12,518	Depreciation and impairment of non-current assets	2,559	
20	Movement in the allowance for bad debts	0	
194	Other expenditure	950	
15,578	**Total expenditure**		**6,255**
	Income		
(5,411)	Dwelling rents	(5,625)	
(116)	Non-Dwelling rents	(119)	
(1,233)	Housing Support Grant	(993)	
2	Other Income	(7)	
(6,758)	**Total income**		**(6,744)**
8,820	**HRA share of other amounts included in the whole authority Net Cost of Services but not allocated for specific services**		**(489)**
	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
125	HRA services' share of Corporate and Democratic Core		225
8,945	**Net Cost/(Income) of HRA Services**		**(264)**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
100	(Gain) or loss on sale of HRA non-current assets		(443)
901	Interest payable and similar charges		0
(4)	Interest and investment income		(231)
1	Pension interest cost & expected return on pension assets		0
998	**Net HRA share of operating expenditure**		**(674)**
9,943	**(Surplus) or deficit for the year on HRA services**		**(938)**

c) Movement on the Housing Revenue Account Statement

2010/11 £000		2011/12 £000
0	**Balance on the HRA at the end of the previous year**	0
9,943	Surplus or (deficit) on the HRA Income and Expenditure Statement	(938)
	Adjustment between accounting basis and funding basis under statute	
(1,532)	Charges for depreciation and impairment of non-current assets	(1,525)
(10,986)	Revaluation losses on Property, Plant and Equipment	(1,034)
(909)	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	(450)
1,969	Statutory provision for the financing of capital investment	2004
1,195	Capital expenditure charged against HRA balances	828
808	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	892
1	Employer's pensions contributions and direct payments to pensioners payable in the year	0
489		(223)
(489)	Transfers to or (from) reserves	223
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.

31 March 2011 Number	Housing Stock	31 March 2012 Number
95	1 Apartment	103
417	2 Apartment	403
564	3 Apartment	543
678	4 Apartment	683
39	5 Apartment	38
2	8 Apartment	2
1,795	**Total**	**1,772**

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 and the amount of arrears has decreased per property.

31 March 2011 £000		31 March 2012 £000
119	**Rent Arrears**	**102**
325	Number of properties in arrears (Number)	289
18.1%	Properties in arrears as share of total stock (%)	16.3%
£366	Average amount per property in arrears (£)	£353

3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2011/12:

2010/11 £000		2011/12 £000	2011/12 £000
(175)	**Balance as at 1st April**		**(155)**
	Bad rent debt written off:		
27	Over £1,000 (Council approved)	20	
11	Under £1,000 (delegated authority)	10	
38			30
2	Miscellaneous bad debt written off		5
(135)			(120)
(20)	Contribution to/(from) Housing Revenue Account		0
(155)	**Balance as at 31st March**		**(120)**

4) Void Rents

The following table summarises the income lost due to voids in 2011/12. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2010/11 £000		2011/12 £000
2	Ladies Drive Void Rents and Charges	1
67	General Needs Void Rents and Charges	44
36	Sheltered Housing Void Rents and Charges	27
20	Refurbishment Properties Void Rents and Charges	37
125	**TOTAL**	**109**

Council Tax Income Account

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

2010/ 11 £000		2011/ 12 £000
(9,847)	**Gross Council Tax levied and contributions in lieu**	**(9,946)**
(3)	Council Tax benefits (net of Government grant)	(3)
1,162	Other discounts and reductions	1,167
34	Write-offs of uncollectable debts and allowance for impairment	0
25	Adjustment to previous years' community charge and council tax	30
(8,629)	**Transfer to General Fund**	**(8,752)**

a) Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2011/12 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.

b) Charge setting

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

c) 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 2011/12

	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	£212,000.00 to infinity	
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)		3,057	1,792	2,621	1,690	1,185	219	56	1	**10,621**
Gross Tax Base (Properties x Weighting)		18,342	12,544	20,968	15,210	13,035	2,847	840	18	**83,804**
Adjusted Properties (Band D Equivalents)		2,038	1,394	2,330	1,690	1,448	316	93	2	**9,312**
Vacant Properties (Number.):										
Mandatory Standard Exemptions		(164)	(66)	(71)	(45)	(9)	(3)	(2)	(1)	**(361)**
Chargeable Dwellings subject to Disabled Reduction (Number)		(12)	(5)	(12)	(12)	(6)	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	2,887	1,734	2,549	1,638	1,171	217	53	0	**10,261**
Types of Property (Number):										
Single Discount (25%)	6	1,226	708	967	361	174	21	7	0	**3,470**
Double Discount (50%)	0	289	108	67	45	23	2	0	0	**534**
No Discount (0%)	6	1,371	917	1,516	1,233	973	194	46	0	**6,256**
	12	2,886	1,733	2,550	1,639	1,170	217	53	0	**10,260**
Properties Subject to Council Tax (Number)	11	2,435	1,502	2,275	1,526	1,115	211	51	0	**9,126**
Net Tax Base (Properties x Weighting)	55	14,610	10,514	18,198	13,736	12,265	2,740	769	0	**72,887**
Adjusted Properties (Band D Equivalents)	6	1,623	1,168	2,022	1,526	1,363	304	85	0	**8,097**
COUNCIL TAX 2011/12:										
General Fund Charge										
Tax Yield (£	7,722	1,709,370	1,230,138	2,129,166	1,607,141	1,435,005	320,551	89,944	0	**8,529,037**
Charge per Property (£	**702**	**702**	**819**	**936**	**1,053**	**1,287**	**1,521**	**1,755**	**2,106**	

Non-Domestic Rate Income Account

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

2010/11 £000		2011/12 £000
17,912	Gross rates levied and contributions in lieu	18,645
(3,751)	Reliefs and other deductions	(4,291)
0	Payment of interest	0
(4)	Write-offs of uncollectable debts and allowance for impairment	92
14,157	Net non-domestic rate income	14,446
(83)	Adjustment to previous years' national non-domestic rates	(218)
14,074	**Contribution to non-domestic rate pool**	**14,228**
(8,795)	Distribution from non-domestic rate pool	(14,308)
123	Adjustment for years prior to the pool	0
(8,672)	**Transfer to Comprehensive Income & Expenditure Statement**	**(14,308)**

There has been a change in the distribution basis for non-domestic rates from 2011/12. The amount of non-domestic rate income distributed to the Council by the Scottish Government is now aligned to the amount collected by the Council. The distribution basis in 2010/11 was based on population.

a) 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.

Category	Number of Subjects	Rateable Value £000
Commercial	558	6,618
Industrial	494	24,635
Other	860	12,369
TOTAL	**1,912**	**43,622**

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 2011/12 is 42.6p (up from 40.7p) with a large business supplement of 0.7p for all subjects with a rateable value above £35,000.

The large business supplement contributes to the cost of the Small Business Bonus Scheme, which 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 £25,000 or less.

Trust Funds Administered by the Council

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

2010/11 £000		2011/12 £000
(16,855)	Shetland Development Trust	(12,468)
(649)	Zetland Educational Trust	(652)
(52)	Gilbertson Trust	(53)
(3)	Samuel Mullay Bequest	(3)
(5)	Others (4 Trusts)	(3)
(17,564)	**Total**	**(13,179)**

The Zetland Educational Trust, with an income of £14,500 and expenditure of £11,624, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £955, 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 essentially redundant due to their low annual income; spend was incurred within their remit of £1,617.

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 2012 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.

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 2012.

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, 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 has the ability to control 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 four entities, which fall under the criteria of subsidiaries:

- Shetland Charitable Trust;
- Shetland Towage;
- Shetland Development Trust; and
- Zetland Transport Partnership.

Shetland Charitable Trust, Shetland Development Trust and Zetland Transport Partnership have been consolidated into the Group Statements as subsidiaries. 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 three 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; and
- Orkney and Shetland Valuation Joint Board.

2) Method of Consolidation

In accordance with the Code, the subsidiaries have been fully consolidated and have a financial year-end of 31 March 2012. 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 three associates have been consolidated at their financial year-ends of 31 March 2012 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 2011/12 that was as follows:

- Northern Joint Police Board – In 2011/12 the Council contributed 6.05% of NJPB operating costs (6.15% in 2010/11);
- Highlands and Islands Fire Board – In 2011/12 the Council contributed 10.23% of HIFB operating costs (10.08% in 2010/11);
- Orkney and Shetland Valuation Joint Board – The Council contributed 51.4% of the Board's operating costs (51.7% in 2010/11); and

With the exception of Shetland Charitable Trust and 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 2012. The accounts of Shetland Charitable Trust and Shetland Development Trust 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.

Shetland Charitable Trust

The Trustees of Shetland Charitable Trust have taken legal advice regarding the inclusion of the Trust in the Council's group accounts. This states that there are no legal grounds for consolidation and as a result, in the past, they have not provided a set of financial statements for inclusion in the Council's group accounts.

It is teh section 95 officer's belief that under the requirements of the Code consolidation is required as the Shetland Charitable Trust meets the accounting definition for grouping. Therefore publicly available financial information on Shetland Charitable Trust has been used as the basis for grouping its results for the year ended 31 March 2012 and its financial position as at 31 March 2012.

Group Movement in Reserves Statement 2011/12

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Council's share of Group usable reserves £000	Total Usable Reserves £000	Council's unusable reserves £000	Council's share of Group unusable reserves £000	Total Unusable Reserves £000	£000
Balance at 31 March 2011	**(3,144)**	**0**	**(114,357)**	**(171)**	**(151,410)**	**(236,217)**	**(505,299)**	**(244,649)**	**23,903**	**(220,746)**	**(726,045)**
Movement in Reserves during 2011/12											
(Surplus) or deficit on the provision of services	34,661	(938)	0	0	0	6,023	**39,746**	0	0	**0**	**39,746**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	2,713	4,803	**7,516**	**7,516**
Total Comprehensive Income and Expenditure	**34,661**	**(938)**	**0**	**0**	**0**	**6,023**	**39,746**	**2,713**	**4,803**	**7,516**	**47,262**
Adjustments between accounting basis & funding basis under regulations	(10,531)	715	13	(425)	0	(789)	**(11,017)**	10,228	789	**11,017**	**0**
Adjustment for a change in the Council's share of equity in Associates	0	0	0	0	0	0	**0**	0	0	**0**	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**24,130**	**(223)**	**13**	**(425)**	**0**	**5,234**	**28,729**	**12,941**	**5,592**	**18,533**	**47,262**
Transfers to/from Earmarked Reserves	(24,644)	223	3,746	0	26,620	(36)	**5,909**	(5,945)	36	**(5,909)**	**0**
(Increase)/Decrease in 2011/12	**(514)**	**0**	**3,759**	**(425)**	**26,620**	**5,198**	**34,638**	**6,996**	**5,628**	**12,624**	**47,262**
Balance at 31 March 2012	**(3,658)**	**0**	**(110,598)**	**(596)**	**(124,790)**	**(231,019)**	**(470,661)**	**(237,653)**	**29,531**	**(208,122)**	**(678,783)**

Group Movement in Reserves Statement 2010/11

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Council's share of Group usable reserves £000	Total Usable Reserves £000	Council's unusable reserves £000	Council's share of Group unusable reserves £000	Total Unusable Reserves £000	£000
Balance at 31 March 2010	(161)	0	(118,581)	0	(155,025)	(235,920)	(509,687)	(186,902)	37,161	(149,741)	(659,428)
Movement in Reserves during 2010/11											
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	(1,685)	**(11,470)**	0	0	**0**	**(11,470)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(43,277)	(11,250)	**(54,527)**	**(54,527)**
Total Comprehensive Income and Expenditure	**(19,728)**	**9,943**	**0**	**0**	**0**	**(1,685)**	**(11,470)**	**(43,277)**	**(11,250)**	**(54,527)**	**(65,997)**
Adjustments between accounting basis & funding basis under regulations	16,745	(9,454)	0	(171)	0	0	**7,120**	(7,120)	0	**(7,120)**	**0**
Adjustment for a change in the Council's share of equity in Associates	0	0	0	0	0	1,124	**1,124**	0	(1,744)	**(1,744)**	**(620)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(2,983)**	**489**	**0**	**(171)**	**0**	**(561)**	**(3,226)**	**(50,397)**	**(12,994)**	**(63,391)**	**(66,617)**
Transfers to/from Earmarked Reserves	0	(489)	4,224	0	3,615	264	**7,614**	(7,350)	(264)	**(7,614)**	**0**
(Increase)/Decrease in 2010/11	**(2,983)**	**0**	**4,224**	**(171)**	**3,615**	**(297)**	**4,388**	**(57,747)**	**(13,258)**	**(71,005)**	**(66,617)**
Balance at 31 March 2011	**(3,144)**	**0**	**(114,357)**	**(171)**	**(151,410)**	**(236,217)**	**(505,299)**	**(244,649)**	**23,903**	**(220,746)**	**(726,045)**

Group Comprehensive Income and Expenditure Account for year ended 31 March 2012

2010/11 Net Expenditure £000		2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
48,054	Education Services	52,455	(6,685)	45,770
3,102	Housing Services	8,185	(5,401)	2,784
8,820	Housing Revenue Account	6,255	(6,744)	(489)
12,719	Cultural and Related Services	12,672	1,185	13,857
6,591	Environmental Services	9,605	(2,140)	7,465
2,197	Fire Services	2,264	0	2,264
11,547	Roads and Transport Services	25,600	(9,333)	16,267
8,495	Trading Services	31,499	(20,900)	10,599
1,461	Police Services	1,485	0	1,485
9,398	Planning and Development Services	9,800	(233)	9,567
38,327	Social Work	44,227	(7,066)	37,161
2,126	Central Services to the Public	2,489	(2,152)	337
8,298	Corporate and Democratic Core	8,935	0	8,935
(29,052)	Non Distributed Costs	2,074	0	2,074
(3,582)	Associates Accounted for on an Equity Basis	9,557	(1,601)	7,956
128,501	**Cost of Services**	**227,102**	**(61,070)**	**166,032**
(327)	Other operating income			225
(33,901)	Financing and investment income and expenditure			(11,175)
(108,852)	Taxation and non-specific grant income			(108,690)
853	Tax Expenses			438
2,256	Share of (surplus) or deficit on provision of services by Associates			(7,084)
(11,470)	**(Surplus) or deficit on Provision of Services**			**39,746**
(15,540)	(Surplus) on revaluation of Property, Plant and Equipment assets			(6,303)
(19,382)	(Surplus) on revaluation of available for sale financial assets			(5,652)
23,156	Amounts recycled from AFS reserve upon derecognition			3,705
(31,771)	Actuarial (gains)/losses on pension assets/liablilities			15,816
(10,990)	Share of other comprehensive income and expenditure of Associates and Joint Ventures			(50)
(54,527)	**Other Comprehensive Income and Expenditure**			**7,516**
(65,997)	**Total Comprehensive Income and Expenditure**			**47,262**

Group Balance Sheet as at 31 March 2012

1 April 2010 £000	31 March 2011 £000		Notes	31 March 2012 £000
378,206	387,030	Property, Plant and Equipment	3	391,830
2,139	3,096	Heritage Assets		4,768
16,986	15,151	Investment Property	4	14,863
10,807	9,608	Intangible Assets	5	8,786
401,456	402,382	Long-term Investments	6	366,727
4,337	4,331	Long-term Debtors	6	4,409
813,931	**821,598**	**Long-Term Assets**		**791,383**
1,245	206	Assets Held for Sale		392
3,645	4,065	Inventories		4,955
12,014	11,614	Short-term Debtors	7	14,996
32,516	21,174	Cash and Cash Equivalents	8	25,397
49,420	**37,059**	**Current Assets**		**45,740**
(18,909)	(17,078)	Short-term Creditors	9	(23,569)
(1,147)	(1,138)	Provisions		(1,146)
(20,056)	**(18,216)**	**Current Liabilities**		**(24,715)**
(4)	(10)	Provisions		0
(148,768)	(92,226)	Other Long-term Liabilities		(105,767)
(35,095)	(22,160)	Liabilities in Associates/Joint Ventures		(27,858)
(183,867)	**(114,396)**	**Long-Term Liabilities**		**(133,625)**
659,428	**726,045**	**Net Assets**		**678,783**
(509,687)	(505,299)	Usable Reserves		(470,661)
(149,741)	(220,746)	Unusable Reserves		(208,122)
(659,428)	**(726,045)**	**Total Reserves**		**(678,783)**

Group Cash Flow Statement for the year ended 31 March 2012

2010/11 £000		2011/12 £000	2011/12 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(108,516)	Cash paid to and on behalf of employees	(111,156)	
(93,627)	Other operating cash payments	(88,926)	
(3,407)	Precepts Paid	(3,899)	
(642)	Taxation	(751)	
(206,192)			**(204,732)**
	Cash Inflows		
2,711	Housing Rents	4,086	
551	Trading	1,429	
86,894	Revenue Support Grant	77,690	
769	DWP Grants	782	
40,511	Sales of goods and services	48,815	
3,600	Other operating cash receipts	5,741	
12,220	Other Government Grants	7,455	
8,647	Council Tax income	11,604	
8,672	NDR Income	12,639	
164,575			**170,241**
	Movement of working capital		
(414)	(Increase)/Decrease in Stock	(878)	
1,464	(Increase)/Decrease in Debtors	(3,909)	
(1,186)	Increase/(Decrease) in Creditors	5,793	
(136)			**1,006**
(41,753)	**Net Cash Outflow from Operating Activities**		**(33,485)**
	INVESTING ACTIVITIES		
	Cash Outflows		
(22,316)	Purchase of Fixed Assets	(21,029)	
(251,120)	Purchase of Long-term Investments	(122,593)	
(112,549)	Purchase of Short-term Investments	(1,856)	
(385,985)			**(145,478)**
	Cash Inflows		
1,572	Sale of Fixed Assets	1,297	
282,521	Sale of Long-term Investments	163,250	
119,300	Sale of Short-term investments	3,279	
4,657	Capital Grant receipts	7,941	
8,346	Interest Received & Dividends	7,419	
416,396			183,186
30,411	**Net Cash Inflow from Investing Activities**		**37,708**
	FINANCING ACTIVITIES		
0	Cash Outflows	0	
0	Cash Inflows	0	
0	**Net Cash Flow from Financing Activities**		**0**
(11,342)	**NET INCREASE/(DECREASE) IN CASH**		**4,223**
32,516	Cash and Cash Equivalents at 1 April		21,174
(11,342)	Net movement of Cash and Cash Equivalents during the year		4,223
21,174	**Cash & Cash Equivalent at 31 March**		**25,397**

c) Notes to the Group Accounts

1) Subsidiaries

The Group Accounts include the consolidation of the accounts of Shetland Charitable Trust (SCT), Shetland Development Trust (SDT) and Zetland Transport Partnership (ZetTrans) as subsidiaries of the Council.

Shetland Charitable Trust (SCT)

The SCT is both a charity and a trust. The governing trust deed requires that the trustees act in the best interest of the inhabitants of Shetland. Shetland Charitable Trust carries out some charitable activities itself, but mostly achieves its objects by funding other charities in Shetland. The Council has the ability to exercise control as 22 of the 24 trustees are councillors.

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.

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 Council has the ability to exercise control as 6 of the 8 members are councillors.

2) Associates

The Group financial statements include the consolidation of the investments in Northern Joint Police Board (NJPB), Highland and Islands Fire Board (HIFB) and Orkney & Shetland Valuation Joint Board (OS&VJB) as associates.

Northern Joint Police Board (NJPB)

The NJPB was established at local government reorganisation in 1975 and provides policing services to the Highlands and Islands. In 2011/12 the Council contributed 6.05% of NJPB operating costs (6.15% in 2010/11) and its share of the year-end net liability of £21.067 million (£17.750 million in 2010/11) 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	2011/12 £000
Gross Income	(4,757)	(4,942)
Gross Expenditure	3,966	5,502
Net (Surplus)/Deficit	(791)	560
Non-Current Assets	2,855	3,190
Current Assets	931	931
Current Liabilities	(443)	(544)
Non-Current Liabilities	(21,093)	(24,644)
Capital and Reserves	17,750	21,067

Highland and Islands Fire Board (HIFB)

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

In 2011/12 the Council contributed 10.23% of HIFB operating costs (10.08% in 2010/11) and its share of the yearend net liability of £6.214 million (£4.146 million in 2010/11) 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	2011/12 £000
Gross Income	(3,058)	(3,437)
Gross Expenditure	2,639	3,754
Net (Surplus)/Deficit	(419)	317
Non-Current Assets	4,714	4,712
Current Assets	486	535
Current Liabilities	(432)	(481)
Non-Current Liabilities	(8,914)	(10,980)
Capital and Reserves	4,146	6,214

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.

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 6 members of the Board out of 12 and contributed 51.4% of the Board's operating costs (51.7% in 2010/11) and its share of the year-end net liability of £0.577 million (£0.264 million in 2010/11) 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	2011/12 £000
Gross Income	(307)	(305)
Gross Expenditure	190	300
Net (Surplus)/Deficit	(117)	(5)
Non-Current Assets	0	0
Current Assets	12	7
Current Liabilities	(18)	(11)
Non-Current Liabilities	(258)	(572)
Capital and Reserves	264	577

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2012 (2011: nil).

3) Group Property, Plant and Equipment

Movement in 2011/12	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 2011	60,588	168,310	55,694	164,041	5,862	695	26,275	481,465
- additions	2,013	546	2,039	1,924			14,378	20,900
revaluation increases/(decreases) recognised in the Revaluation Reserve	(599)	992		82				475
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,217)	(3,224)	(954)			(150)		(5,545)
derecognition – disposals	(468)	(218)	(1,028)	(1,433)			(100)	(3,247)
assets reclassified (to)/ fro Assets Held for Sale	(267)	(125)						(392)
other movements in cost or valuation	(6)	3,062	14,971	3,310	332	(42)	(21,783)	(156)
At 31 March 2012	60,044	169,343	70,722	167,924	6,194	503	18,770	493,500
Accumulated Depreciation and Impairment								
at 1 April 2011	(1,571)	(32,605)	(18,733)	(41,385)	(8)	(133)	-	(94,435)
depreciation charge	(1,574)	(5,452)	(4,559)	(3,651)		(62)		(15,298)
depreciation written out to the Revaluation Reserve	184	3,838						4,022
depreciation written out to the Surplus/Deficit on the Provision of Services	37	2,045	3			19		2,104
derecognition – disposals	19		855	1,059				1,933
other movements in depreciation and impairment	6	(2)						4
At 31 March 2012	(2,899)	(32,176)	(22,434)	(43,977)	(8)	(176)	0	(101,670)
Net Book Value								
at 31 March 2012	57,145	137,167	48,288	123,947	6,186	327	18,770	391,830
at 31 March 2011	59,017	135,705	36,961	122,656	5,854	562	26,275	387,030

Comparative Movements 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	155,111	51,413	162,226	5,857	251	23,287	460,227
- additions	1,839	716	3,001	1,669	1	2	14,952	22,180
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,700	(119)		4		352	12,563
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)				(1,313)	(13,058)
derecognition – disposals								0
assets reclassified (to)/ fro Assets Held for Sale	(212)							(212)
other movements in cost or valuation	(34)	8,786	1,428	146		442	(11,003)	(235)
At 31 March 2011	60,588	168,310	55,694	164,041	5,862	695	26,275	481,465
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(27,737)	(14,603)	(37,803)	(8)	(13)	-	(82,021)
depreciation charge	(1,579)	(5,052)	(4,286)	(3,582)		(62)		(14,561)
depreciation written out to the Revaluation Reserve	1,726	114	155					1,995
depreciation written out to the Surplus/Deficit on the Provision of Services	139							139
derecognition – disposals								0
other movements in depreciation and impairment		70	1			(58)		13
At 31 March 2011	(1,571)	(32,605)	(18,733)	(41,385)	(8)	(133)	0	(94,435)
Net Book Value								
at 31 March 2011	59,017	135,705	36,961	122,656	5,854	562	26,275	387,030
at 31 March 2010	60,225	127,374	36,810	124,423	5,849	238	23,287	378,206

4) Group Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

Group 31 March 2011 £000		Group 31 March 2012 £000
16,986	**Balance at start of the year**	**15,151**
95	Additions	2
(344)	Disposals	(38)
(1,586)	Net gains/(losses) from fair value adjustments	(252)
15,151	**Balance at end of the year**	**14,863**

Investment properties are held by Shetland Leasing and Property Developments Ltd which is a subsidiary of Shetland Charitable Trust.

5) Group Intangible Assets

Group 31 March 2011 £000		Group 31 March 2012 £000
	Balance at start of year	
20,645	Gross carrying amounts	20,647
(9,838)	Accumulated amortisation	(11,039)
10,807	**Net carrying amount at start of year**	**9,608**
41	Purchases	127
0	Disposals	0
(1,471)	Amortisation for the period	(1,099)
231	Other changes	150
9,608	**Net carrying amount at end of year**	**8,786**

Included in the group intangible assets is a Fish Quota for £7,902,000 and a Fishing Boat Licence for £326,000, both relating to Shetland Development Trust. The costs of these assets are amortised over a period of 20 years, being their estimated useful lives.

6) Group Financial Assets

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

Group Long-Term 31 March 2011 £000	Group Current 31 March 2011 £000		Group Long-Term 31 March 2012 £000	Group Current 31 March 2012 £000
		Financial Assets:		
		Investments:		
400,157	0	Available for sale financial assets	364,235	0
2,225	0	Unquoted equity investment at cost	2,492	0
402,382	**0**	**Total Investments**	**366,727**	**0**
		Debtors:		
4,316	271	Loans and receivables	4,409	401
15	1	Financial assets carried at contract amounts	0	0
4,331	**272**	**Total Debtors**	**4,409**	**401**
		Financial Liabilities:		
		Creditors:		
0	(119)	Accrued Interest Liability	0	0
0	**(119)**	**Total Creditors**	**0**	**0**

Shetland Development Trust and Shetland Charitable Trust have 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
Shetland Development Trust		
Cost at 31/03/2012	7,055	4,152
Total provision at 31/03/12	(6,820)	(2,066)
Net Value	**235**	**2,086**
Shetland Charitable Trust		
Cost at 31/03/2012	2,858	719
Total provision at 31/03/12	(601)	(59)
Net Value	**2,257**	**660**

7) Group Short-Term Debtors

Group 31 March 2011 £000		Group 31 March 2012 £000
1,290	Central Government Bodies	2,543
389	Other Local Authorities	2,609
67	NHS Bodies	301
106	Public Corporations and Trading Funds	848
9,762	Other Entities and Individuals	8,695
11,614	**Total**	**14,996**

8) Group Cash and Cash Equivalents

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

Group 31 March 2011 £000		Group 31 March 2012 £000
22	Cash held by the Authority	24
19,674	Bank current accounts	22,341
1,478	Short-term certificates of deposit	3,032
21,174	**Total**	**25,397**

9) Group Short-Term Creditors

Group 31 March 2011 £000		Group 31 March 2012 £000
(3,252)	Central Government Bodies	(4,045)
(277)	Other Local Authorities	(3,144)
(33)	NHS Bodies	(108)
(344)	Public Corporations and Trading Funds	(775)
(13,172)	Other Entities and Individuals	(15,497)
(17,078)	**Total**	**(23,569)**

10) Financial Impact

The inclusion of the six organisations (subsidiaries 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 £678.783m is an increase of £201.488m from the Council's net worth of £477.295m. This is mainly due to the inclusion of the Shetland Charitable Trust that added £216.878m to the balance sheet. This is partially offset by the downward impact on net worth from the pension liabilities of the Police and Fire Boards.

11) Remuneration Report

No remuneration report has been compiled for the Group as the Shetland Development Trust and ZetTrans do not have any senior employees or make payments to senior councillors. No information is available for Shetland Charitable Trust.

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 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account 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 2011/12 (the 2011/12 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 125 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 Executive Manager - Finance and auditor

As explained more fully in the Statement of Responsibilities on Page 35, the Executive Manager - Finance 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 Shetland Islands Council and its group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; 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.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2012 and of the income and expenditure of the group and the 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 2011/12 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 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.

David McConnell, CPFA
Assistant Director
Audit Scotland
7th Floor, Plaza Tower
East Kilbride, G74 1LW

27 September 2012

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. Revenue Expenditure

This is expenditure incurred during the year on running costs such as staff, building costs, transport and supplies and services.

10. 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.

11. Outturn

This is the actual expenditure and income for the year.

12. Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

13. Actuarial

Relating to the work of an actuary. The Council uses an actuary to calculate its pension liability.

14. Contingent Liability

A contingent liability is defined as either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority; or
- a present obligation that arises from past events but is not recognised because it is not probable that the obligation will require to be settled, or the amount of the obligation cannot be measured with sufficient reliability.

15. Contingent Asset

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

16. Depreciation

Depreciation is a method of allocating the cost of a tangible asset over its useful life.

17. Amortisation

Amortisation is a method of allocating the cost of an intangible asset over its useful life.

18. Impairment

An asset is impaired when its value in the balance sheet exceeds the higher of its net sale value or value in use. An impairment loss would then be recognised.

Shetland Islands Council Pension Fund

Report to those charged with governance on the 2011/12 audit

AUDIT SCOTLAND

Prepared for the members of Shetland Council Pension Fund

September 2012

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

Summary

Introduction

1. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

2. ISA 260 requires us to highlight:
   - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
   - the overall scope and approach to the audit, including any expected limitations, or additional requirements
   - expected modifications to the audit report
   - management representations requested by us
   - unadjusted misstatements, other than those that are clearly trivial
   - material weaknesses in internal control identified during the audit
   - qualitative aspects of accounting practice and financial reporting, including accounting policies
   - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3. This report sets out for the Audit and Standards Committee's consideration the matters arising from the audit of the financial statements for 2011/12 that require reporting under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of Shetland Islands Council and Shetland Islands Pension Fund and no responsibility to any third party is accepted.

Status of the Audit

4. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued to the Executive Manager - Finance over the course of the audit. This schedule was finalised and agreed at a meeting on 3 September 2012.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit and Standards Committee on 16 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

Audit opinion & representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report on 28 September (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

7. All errors identified during the audit have been corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.

8. As part of the completion of our audit we seek written assurances from the Executive Manager - Finance on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 will be provided to the Executive Manager - Finance on receipt of a final agreed set of accounts. This should be signed and returned by the Executive Manager - Finance with the signed accounts prior to the independent auditor's opinion being certified.

Accounting and internal control systems

9. 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 accounts.

Matters arising

10. In our view, the following issue requires to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

    Accounting for Death Gratuity Grants – The pension fund account for death gratuity grants on a cash basis when the payment to the person's estate is paid out instead of accounting for these payments on an accruals basis in the year the member dies. The benefits payable amount in the pension fund account should be increased by £34,000. In addition, arrangements should be in place to provide assurance that death gratuity grants are accounted for on an accruals basis going forward.

    Resolution: 2011/12 accounts were adjusted to include all death gratuity payments for deaths prior to 31 March 2012. Arrangements are now in place to account for death gratuity grants on an accruals basis in future years.

Outstanding Information

11. **Letter of Representation**. The formal Letter of Representation is required prior to the auditor's certification of the financial statements.

Acknowledgements

12. I would like to express my thanks to the staff of Shetland Islands Council for their help and assistance during the audit of this year's financial statements which has enabled me to certify the financial statements by the target date.

APPENDIX A: Independent Auditor's Report

Independent auditor's report to the members of Shetland Islands Council as administering body for the Shetland Islands Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Pension Fund for the year ended 31 March 2012 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 2011/12 (the 2011/12 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 125 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, 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 2011/12 Code of the financial transactions of the fund during the year ended 31 March 2012, 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 2011/12 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.

David McConnell CPFA
Assistant Director (Audit Services)
Audit Scotland
7th Floor, Plaza tower
East Kilbride
Glasgow G74 1LW

27 September 2012

Agenda Item
4

Shetland Islands Council

Audit and Standards Committee **27 September 2012**
Shetland Islands Council **9 October 2012**

Final Audited Accounts 2011/12	
F-044-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the final signed and audited accounts for 2011/12 and to receive Audit Scotland's report to those charged with governance on the 2011/12 Audit.

2.0 Decision Required

2.1 The Audit and Standards Committee is asked to consider, and the Council is asked to APPROVE:

a) The final signed and audited accounts for 2011/12; and

b) Note Audit Scotland's report to those charged with governance on the 2011/12 Audit.

3.0 Detail

3.1 Audit Scotland's Report to those charged with governance on the 2011/12 audit fulfils the requirements of ISA 260 which requires external auditors to highlight the following to Members –

- relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
- the overall scope and approach to the audit, including any expected limitations, or additional requirements
- expected modifications to the audit report
- management representations requested by us
- unadjusted misstatements, other than those that are clearly trivial
- material weaknesses in internal control identified during the audit
- qualitative aspects of accounting practice and financial reporting, including accounting policies

- matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3.2 Audit Scotland's overall conclusion on the 2011/12 accounts is that they:
- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2012 and of the income and expenditure of the group and the 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 2011/12 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.

3.3 As a result of this Audit Scotland will be issuing an unqualified audit opinion of the 2011/12 accounts.

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. Receiving the audited accounts of the Council and related certificates and reports is a matter reserved by the Council

4.4 Risk Management – The Report to those charged with governance on the 2011/12 audit contains a number of matters arising. For each matter, a resolution accompanies it to set out how the matter will or has been addressed.

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 2012.

For further information please contact:
James Gray
Executive Manager - Finance
Email: james.gray2@shetland.gov.uk
Telephone: 01595 74 4607

19 September 2012

List of Appendices

Appendix 1: Final Audited and Certified Accounts 2011/12

Appendix 2: Report to those charged with governance on the 2011/12 audit by Audit Scotland

Background documents:

NONE.

END

Shetland Islands Council

Statement of Accounts 2011/12

Contents

Cover photograph – Winter sunrise over Brae by Margaret Cheriyan

Page 39 photographs by Jeanette Nowak, Jenny Skinner and Kim Rendall

Introduction

Welcome to the Council's Statement of Accounts for the 2011/12 financial year. It is our aim to ensure that the information contained within these Accounts is as clear and understandable as possible in order to make them accessible to the widest audience possible. However, it is necessary and correct that Shetland Islands Council's Annual Accounts adhere to the relevant statutory and regulatory requirements which, in places, can unfortunately result in this document becoming rather technical. It is for this reason that I would encourage users of this document to study the Explanatory Foreword, in conjunction with the Financial Statements, as its purpose is to offer interested parties an easily understandable guide to the most significant matters reported in the Accounts.

The 2010/11 financial year proved to be challenging for many local authorities' finance teams across the country as a result of the introduction of International Financial Reporting Standards (IFRS), which replaced a well established accounting regime. One significant difference arising from this was that the Statement of Accounts now requires much wider input from officers working in departments outside of Finance. I am pleased to see that the changes arising from the introduction of IFRS are becoming embedded within the Finance Service and the wider Council's working practices.

Following a year of significant change, the financial reporting requirements in this second year have remained relatively similar. The only notable change that I would bring to your attention is the requirement for the Council to comply with an accounting standard concerned with the treatment of Heritage Assets. I believe that this development has been dealt with in order to comply with this requirement.

One final change I would highlight in the Statement of Accounts is that I have attempted to include financial information on the Shetland Charitable Trust in the Council's group accounts. My opinion is that it is a requirement of the Code of Practice on Local Authority Accounting in the United Kingdom to include the Shetland Charitable Trust results in the group accounts, and I have found no compelling evidence to make a departure from the Code. As a result I have used publicly available financial information on the Charitable Trust as a basis for consolidating its figures into the Council's group accounts.

I would highlight that the grouping of the Shetland Charitable Trust accounts was done to comply with an accounting definition of 'control' as set out in IAS 27: *Consolidated and Separate Financial Statements*. However, it is worth noting that legally, the Shetland Charitable Trust is independent from the Council and is not controlled by the Council.

Finally, I would like to express my thanks to all those Council officers who have had a role in the preparation of this document, and in particular to those in the Finance Service who have worked diligently and with dedication throughout this process.

James Gray MA (Hons), CPFA
Executive Manager – Finance (Section 95 Officer)
Shetland Islands Council
June 2012

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance during 2011/12 and year-end financial position as at 31 March 2012. In addition, it provides some narrative on the financial outlook for the Council during 2012/13 and beyond.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2012 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 of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of primary statements has been included on page 35, immediately prior to the four statements: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These four Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Council and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

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.

Financial Performance in 2011/12

The Council's financial performance is presented in the four primary statements. The Comprehensive Income and Expenditure Statement (CI&ES) presents the full economic cost of providing Council services in 2011/12. This differs from the budgeted outturn position which was reported to the Executive Committee of the Council on 25 June 2012, which is available on the Council's website.

The reason for this is that the Comprehensive Income and Expenditure Statement includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers. The outturn position reflects only those costs that are required to be met from local taxation. Therefore the difference between the Comprehensive Income and Expenditure Statement and the actual outturn position is purely as a result of necessary accounting adjustments to the former. The Cost of Services of £146.601 million, which is disclosed on the Comprehensive Income and Expenditure Statement, has been reconciled to the outturn used for management decision making of £128.566 million at Note 24 – Amounts Reported for Resource Allocation Decisions.

It is also important to note that the Council reports its outturn position by individual Account, as these are required to be accounted for separately under legislation. The revenue Accounts managed by the Council are the General Account, the Housing Revenue Account and the Harbour Account. The Comprehensive Income and Expenditure Account is the consolidation of all three of these accounts to reflect the Council's overall financial results for the year.

The outturn position for each of the budgeted funds, excluding accounting practice adjustments, as compared to the budget set is summarised below.

2011/12 Budget v Expenditure	Original Budgeted Draw from Reserves £m	Revised Budgeted Draw from Reserves £m	Actual Draw from Reserves £m	Revised Budget v Actual Variance Under/(Over) £m
General Account	21.247	27.448	32.002	(4.554)
Housing Revenue Account	(0.258)	(0.154)	0.007	(0.161)
Harbour Account	(2.103)	(1.851)	(2.185)	0.334
Total Revenue Draw	**18.886**	**25.443**	**29.824**	**(4.381)**
Capital Account	13.174	8.457	5.945	2.512
Total	**32.060**	**33.900**	**35.769**	**(1.869)**

General Account

The 2011/12 General Account budget required the Council to achieve in-year savings of £9.4 million. As a result of a number of management efficiency initiatives, such as a restructure of the Council's senior management team, these savings were fully delivered. Approximately £6 million of the savings can be considered to be recurring, which means the benefit of achieving these was not only felt in 2011/12, but will continue to be beneficial in future years.

The table above shows a net overspend of £4.554 million on General Account, which can be attributed to a number of one-off payments. Primarily, these were a payment to the Lerwick Port Authority of £4.883 million, termination costs of £1.536 million and a settlement of single status back pay awards totalling £0.346 million. When the oneoff nature of these costs are removed, there were further underlying savings of £2.211 million against the approved budget. When coupled with the delivery of the £9.4 million of budgeted savings, the Council achieved a total savings figure of £11.8 million.

However, despite this good performance against the revised General Account budget, the total draw on reserves was still £32.002 million, which is clearly unsustainable beyond the immediate short term.

Harbour Account

The Harbour Account exceeded its budgeted surplus by £0.334 million, which allowed it to make a larger contribution to the Reserve Fund of £2.185 million. This occurred as a result of an increased contribution from the Marine Fund to meet one-off termination costs on the Harbour Account, but this was somewhat offset by reduced income from harbour and towage dues as a result of less activity than originally anticipated.

Housing Revenue Account

The financial position of the Housing Revenue Account (HRA) continues to be a significant challenge for the Council. This is due to the need to invest in the current housing stock to meet national housing targets by 2015 as well as managing the pressure for new build housing to meet the high demand, against a backdrop of having to service and repay a historic debt on the HRA, which stood at £40.566 million on 31 March 2012.

There was a net overspend of £0.161 million on the HRA in 2011/12 against the revised budget. This arose due to the Account funding capital from current revenue of £0.828 million in the year for new build housing.

Capital Account

In 2011/12 Shetland Islands Council incurred capital expenditure of £16.845 million against a budget of £22.273 million representing an under spend of £5.428 million in the year. Of this total, £8.457 million was budgeted to be drawn from the Capital Fund, but as a result of the under spend the actual draw of £5.945 million was £2.512 million less than anticipated.

The main reason for the under spend on the capital budget arose as a result of slippage on the programme, i.e. projects not commencing or progressing as originally anticipated in 2011/12.

The most significant General Account capital expenditure during the year was –

- The dredging of Scalloway Harbour which incurred expenditure of £2.516 million during the year;
- The construction of the breakwater on the island of Fetlar, costing £1.571million;
- Construction work on the pier in Walls in West Shetland which incurred expenditure of £0.976 million;
- A total spend of £0.950 million on the vehicle and plant replacement programme;
- The upgrade of the Bixter to Aith road (Phase 2) on which a total spend of £0.817 million was recorded; and
- £0.734 million on fibre optic cables as part of the provision of broadband internet access to the Shetland Islands.

In 2011/12, the Council continued to face significant financial pressures largely driven by external factors, which were outwith the control of the organisation. The most significant of these were –

- Increases in fuel costs, particularly for ferries, which was the overriding factor for the ferries service over spending by £0.609 million in the year;

- A material decrease in funding levels provided by the Scottish Government (General Revenue Grant and share of National Non-Domestic Rates pool) from £95.340 million in 2010/11 to £91.710 million in 2011/12 which equates to a 3.8% reduction year to year;

- A lower than average return on the Council's invested reserves. The invested reserves, which stood at £222.739 million at the start of the financial year, generated a return of £7.099 million, which represents only a 3.2% return on the opening balance, against a long term average of 5.75%. This occurred as a result of the instability in the financial markets arising from the current economic climate.

The Balance Sheet as at 31 March 2012

The Balance Sheet sets out the total net worth of Shetland Islands Council at a snapshot in time. When comparing the net worth of the Council at the date of the last Balance Sheet on 31 March 2011, it can be seen that there has been an overall reduction in the net worth of the organisation of £36.436 million in the past 12 months. This figure matches the Total Comprehensive Income and Expenditure figure in the Comprehensive Income and Expenditure Account as this details all transactions that occurred during the financial year that have led to the movement in the net worth of the Council. The most significant events that have led to this reduction in net worth are as follows

- The Council's Long-term Investments decreased from £222.739 million to £193.170 million as a result of the Council calling back £36 million of funds during the year, which was partially offset by returns on investments totalling approximately £7 million during the year;

- The pension liability, representing the unfunded element of the Council's anticipated future pension payment commitment increased by approximately £13.4 million during the year. This happened as a result of changes in the actuarial assumptions used to determine how much the Council will have to pay out in future pension payments. These changes indicate that the Council will have to make higher payments than previously thought, which has increased the overall liability;

- The first two events above, resulting in a reduction in the Council's net worth, were partially offset by unrealised gains arising from upward revaluations of Property, Plant and Equipment of £6.2 million.

It should be noted that it is not unusual for large fluctuations from year to year in the Council's total net worth and the closing net assets of £472.95 million at 31 March 2012 is still higher than the £460.669 million recorded two years ago at 31 March 2010.

The Council’s Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2011 £m	Closing Balance 31 March 2012 £m
Capital Fund	(108.404)	(100.542)
Capital Efficiency/Spend to Save Reserve	(5.000)	(9.096)
Reserve Fund	(61.621)	(57.129)
Repairs & Renewals Fund	(62.900)	(51.576)
General Fund Balance	(3.000)	(3.000)
Revenue Efficiency/Spend to Save Reserve	(0.500)	(0.510)
Potential Contingent Liabilities	(11.400)	(0.849)
Discretionary Reserves	**(252.825)**	**(222.702)**
Marine Superannuation Fund	(2.582)	(2.021)
Pilot Boat Renewal Fund	(0.942)	(0.960)
Housing Repairs & Renewals Fund	(12.035)	(12.259)
Quarry Repairs & Renewals Fund	(0.150)	(0.153)
Insurance Fund	(0.222)	(0.293)
Council Tax Second Homes Receipts	0.000	(0.511)
Hansel Funds	(0.090)	(0.104)
Central Energy Efficiency Fund	(0.052)	(0.043)
Ring Fenced Reserves	**(16.073)**	**(16.344)**
TOTAL	**(268.898)**	**(239.046)**

The overall notional level of usable reserves was £239.046 million at 31 March 2012. However, it should be noted that the level of reserves immediately available to the Council is, in effect, the amount of cash that is invested, which is shown on the balance sheet to be £193.170 million. The main reason for the difference between the two figures is that internal borrowing has occurred against the reserves, so the reserves are not fully backed up by cash at the present moment. This will cease to be the case once all internal borrowing is fully repaid to the reserves.

The Council has no external debt as at 31 March 2012.

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 could be fully used in approximately 5 years if expenditure levels are not brought into line with the level of income available to the organisation. This scenario is based on –

- A draw on reserves similar to 2011/12 being required for the next 5 years to balance the budget – this would equate to a total draw of £178.845 million over the period;
- A reduced contribution to the Reserve Fund from the Harbour Account of approximately £10 million over the next 5 years; and
- A poor performance, in terms of financial returns, on the reserves that are invested as a result of the global financial uncertainty impacting upon financial markets.

As a result of these risks, the Council set a revenue budget on 9 February 2012, which sought to reduce expenditure over a period of 2 years in order bring the budget into financial balance by 2014/15.

2012/13 Budget and Medium Term Financial Outlook

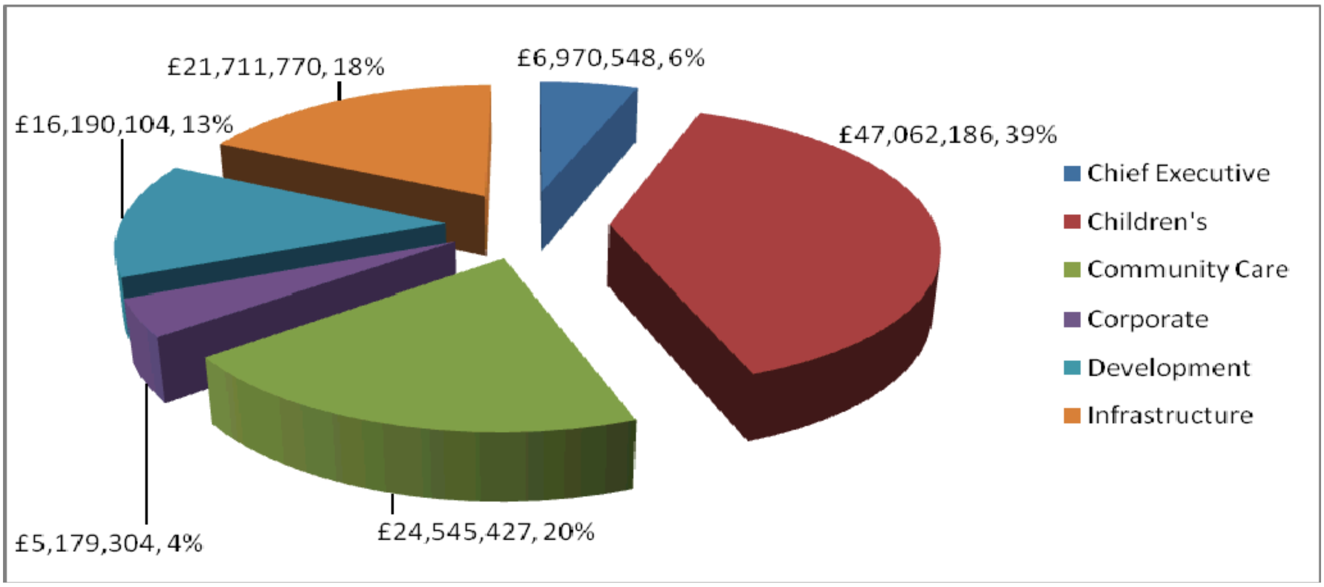
The Council set a challenging budget for 2012/13 with a requirement to make savings of £15.4 million on the General Account. These savings were split into 3 categories across the directorates as follows–

Department	Implement £	Assess £	Review £	Total £
Chief Executive	133,609	-	-	**133,609**
Children's Services	702,700	1,018,240	366,909	**2,087,849**
Community Care Services	69,000	2,923,677	1,080,000	**4,072,677**
Corporate Services	451,378	173,246	293,221	**917,845**
Development Services	419,345	1,824,868	824,928	**3,069,141**
Infrastructure Services	866,349	494,278	1,958,823	**3,319,450**
Council Wide Savings	450,000	200,000	1,100,000	**1,750,000**
Total	**3,092,381**	**6,634,309**	**5,623,881**	**15,350,571**

Savings that have been identified in the Implement category are those which can be actioned immediately from 1 April 2012, and as such these budgets were removed from services at the start of the financial year.

The Assess category requires services to undertake further work to determine specifically how the savings will be made, and require Director sign-off prior to being implemented. The Review category also require further work to be undertaken to determine the exact nature of the saving, but these require to be signed off by Council.

The table below shows how the 2012/13 General Account budget will be spent on Council Services –



It should be noted that the expenditure in the table above totals £121.659 million, but council wide savings of £1.750 million are required from this total, which will result in a final expenditure of £119.909 million.

A new group called *Directors for Change*, comprising all the Council's Directors and certain of the Corporate Services' Executive Managers has been established to oversee the savings work being undertaken by the Council. This group will meet fortnightly throughout 2012/13 in order to ensure that the work to deliver the agreed savings remains on track. The volume of savings work planned for 2012/13 is substantial with 52 savings reviews planned during the year, many of which will require consultation with the community and could result in significant service re-design.

In order to assist with the process of delivering the savings, the Council has both a revenue and capital spend to save budget, which are open for all services to apply for. This money is intended to facilitate any changes necessary in order to realise the agreed savings, with all projects required to fall within a 3 year payback period.

Members will be provided with supplementary financial information specifically related to the Council's progress against its savings targets, in addition to its regular budget monitoring reports, in order that it can monitor progress throughout the financial year.

In addition to the agreed 2012/13 General Account budget, the Council agreed in principle to make further savings of £14.4 million in 2013/14 as part of a strategy to remove the Council's reliance on its reserves by 2014/15.

The table below shows the impact of the savings on total expenditure levels over the next 2 years, and how this reduces the Council's requirement to draw on reserves to meet the funding shortfall.

	2012/13 £000	2013/14 £000
Initial Budget	135,261	120,365
Less savings - assumes all delivered		
Implement	(3,093)	(419)
Assess	(6,634)	(3,745)
Review	(5,624)	(10,225)
Total Expenditure	**119,910**	**105,976**
Revenue Grant Funding (excluding specific grants)	(75,650)	(73,595)
Non-Domestic Rates	(15,035)	(16,177)
Council Tax	(8,036)	(8,036)
Trading Activity	(4,069)	(1,369)
Use of Reserves	(17,120)	(6,799)
Total Funding	**(119,910)**	**(105,976)**

It is anticipated that the 2014/15 General Account budget would require only a sustainable draw on reserves i.e. a level no higher than the return on investments achieved in the prior financial year. This will ensure that reserve levels are stabilised ahead of taking necessary measures to deliver the Council's reserves policy of reaching a level of £250 million by the end of 2021/22.

Impact of the Current Economic Climate and Future Cost Pressures

The Council has again felt the impact of the current economic climate in the 2011/12 financial year. In particular, the Council has suffered from falling revenue funding from the Scottish Government and from lower than average returns on the Council's investments, both of which have arisen as a result of the wider economic situation. The Council is anticipating the following cost pressures in 2012/13 and beyond, the first three of which can be directly attributed to the current economic climate:

- **Scottish Government funding allocations** – Shetland Islands Council has received its financial settlement figures for the next three years and it reveals a cash reduction in revenue funding for each consecutive year, to a level of £90.549 million in 2014/15. The Council is anticipating that there will continue to be an extremely challenging financial settlement in the years following 2014/15.

- **Abolition of the Housing Support Grant** – The Scottish Government is planning to abolish the Housing Support Grant of which Shetland Islands Council is a beneficiary. This grant has been critical in financing the interest costs on the Housing Revenue Account debt, which stood at £40.566 million at 31 March 2012. Without any transitional support from the Scottish Government, there will either have to significant cuts in maintenance budgets or increases in rent levels to compensate for this loss of income.

- **Reduced returns on the Council's Invested Reserves** – The Council has averaged a 5.75% return on its investments over the past 20 years. However, given the uncertainty in the Euro-zone, particularly in Greece and Spain, and the realisation of the fears of a double-dip recession in the UK, the outlook for financial markets in the short to medium term is uncertain. It is therefore prudent to anticipate that returns on investments will be lower than the long term average resulting in a diminished income stream.

- **Energy Costs** – There is an expectation that both utility and fuel costs will continue to rise in the foreseeable future, which puts particular pressure on the Council's ferry services.

- **Harbour Account Surplus** – It is anticipated that the surpluses generated from the Harbour Account will be materially diminished over the next few years. The main reasons for this are that throughput will decrease as a result of the Schiehallion Oil Field going off-stream for 2-3 years, resulting in lower fee income, and an additional cost will be placed on the Harbour Account in respect of meeting the Towage staff pension liabilities of £7.8 million over the next 4 years.

- **Pay Award** – It is anticipated that cost pressures will arise as a result of a pay award from the start of 2013/14 and that there is potential for this to continue in subsequent financial years.

- **Welfare Reform** – This will be introduced during 2013/14 and could have an adverse impact on Council Tax Benefit income as a result in a funding shortfall of £17 million across Scotland, which is required to be made up by local authorities. As yet it is unclear as to what impact this will have on Shetland Islands Council. In addition, the introduction of Universal Credit will see housing benefit money paid directly to tenants as opposed to the Council which could have a negative impact on Housing Rents collection levels.

Material Transactions During 2011/12

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme and the Council has prepared a separate set of financial statements for the Pension Fund.

The impact of the Local Government Pension Scheme and Teachers Superannuation Scheme on the Council's accounts has been disclosed in Notes 33 and 34 to the accounts.

It is worth mentioning that, as at 31 March 2012, the Council's Pension Fund had a net pension liability of £104.524 million (2011: £91.113 million). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff by 31 March 2012, which is currently unfunded.

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.

Lerwick Port Authority

The Council reached a negotiated settlement with Lerwick Port Authority (LPA) in February 2012 on the claim payable by the Council relating to LPA's abandonment of a dredging project in 2005 due to the former Bressay Bridge Project. The Council agreed a payment of £4.826 million in order to avoid matters being taken to the Court of Session, which was scheduled for October 2012. It is the view of the Council that settling outside of Court represented the best financial outcome to the organisation.

Changes in Accounting Policies

Heritage Assets

From 2011/12 Shetland Islands Council is required by the Code to adopt *FRS 30: Heritage Assets*. This will mean that the Council will recognise its heritage assets at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet, as it was not possible to obtain cost information on the assets.

For Shetland Islands Council, this will mean that the collection at the Museum will be valued on its insurance valuation, and that there is a transfer of assets from community assets to heritage assets. The Council has been required to restate its prior year balance sheet in order to provide a meaningful comparative figure for heritage assets.

In addition, there are a number of disclosure requirements in relation to this new accounting standard, all of which have been included in the Notes to the Accounts.

Group Accounts

The Council has received an audit qualification on the Statement of Accounts for each of the past six years in relation to its approach to group accounts. PricewaterhouseCoopers LLP, the external auditors, issued the first qualification in 2005/06 as a result of the Council failing to prepare any group accounts whatsoever. For the next two years the qualification arose because of a failure to include the Shetland Development Trust and Shetland Charitable Trust (SCT) results, and latterly since 2008/09 the qualification has been in respect of the Council failing to include the results of SCT.

The reason that the Statement of Accounts has not included the results of SCT in the group accounts is largely based on a legal interpretation of the situation. The Elected Members, when acting in their role as SCT Trustees, have a legal duty to act with independence and in the sole interests of the Charity, which in effect means that they cannot act in the interests of the Council and therefore no consolidation is required. For this reason, the Trustees of the SCT have in the past decided not to provide financial information to the Council in the past.

Whilst recognising the legal position, the accounts must be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code requires group accounts to be prepared in accordance with IAS 27: *Consolidated and Separate Financial Statements* and this standard requires an entity (SCT) to be consolidated into group accounts when the parent (the Council) has the ability to control it. Control is deemed to exist when the parent (the Council) has over 50% of the voting rights of the entity (SCT). Given that 22 out of the 24 Trustees of the SCT are Elected Members of the Council, the requirements of the Code are clearly met.

However, it is recognised that legally, the Shetland Charitable Trust is an independent organisation that is not controlled by the Council.

The Section 95 Officer, who is responsible for selecting and applying the accounting policies in the Statement of Accounts, has found no compelling evidence to depart from the treatment required by the Code and the opinion expressed by the External Auditor, Audit Scotland. As a result of this, it is the view of the Section 95 Officer that the correct accounting treatment is to include the results of the Shetland Charitable Trust in Shetland Islands Council's group accounts as a subsidiary.

In the absence of SCT's 2011/12 financial statements being available to the Council, the Section 95 Officer has used publicly available financial information on the organisation to attempt to prepare group accounts with the inclusion of the Charitable Trust as a subsidiary.

Accounting Ratios

CIPFA Scotland Directors of Finance Section has developed a suite of accounting ratios for incorporation into the financial statements. The indicators are intended to support interpretation of the financial statements and explain the Council's financial position and performance.

There are four areas covered by the ratios, namely Reserves, Council Tax, Financial Management and Debt & Borrowing. Not all the ratios are applicable to Shetland Islands Council.

Accounting Ratio	% or £	Explanation
Reserves		
Uncommitted General Fund Reserves as a % of annual budgeted net expenditure	2.3%	Demonstrates the Council's flexibility to meet unanticipated expenditure.
Movement in the Uncommitted General Fund Balance	0%	There has been no movement in the year.
Council Tax		
In-year Collection Rate	96.6%	Demonstrates the Council's effectiveness in collection of local taxation.
Council Tax Income as a % of Overall Funding	6.6%	Demonstrates the funds received from Council Tax as a % of overall funding requirement.
Financial Management		
Actual Outturn as a % of Budget	104%	Demonstrates there has been additional expenditure over budget. It should be recognised that there were a number of one-off unbudgeted expenditure items. Removing these items the % would have been 98%, which better reflects the underlying Council financial activity.
Actual Contribution to/from Uncommitted General Fund Balance	£3m	This was the contribution applied and reinstated in 2011/12.
Debt & Borrowing		
Capital Financing Requirement	£53.8m	This is the amount of unfunded capital expenditure mainly on Council housing.
External Debt Levels	£0	There is no external debt held by the Council.
Ratio of Financing Costs to Net Revenue Stream	N/A	Not applicable as the Council has no external debt.
Impact on Capital Investment on Council Tax and Housing Rents	N/A	Not applicable as the Council has no external debt.

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003. In discharging this accountability, elected members collectively and senior officers individually are responsible for putting in place proper arrangements for the governance of the Council's affairs, the stewardship of the resources at its disposal and the management of risk.

The Governance Framework

In May 2011 the Council renewed the governance arrangements and the role of committees in decision-making is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The one outstanding aspect is the formal approval of a revised Code of Governance, which is being developed for approval early in the life of the new Council. This Code of Governance is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.

The Council has introduced a revised political management structure. The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with the full Council advised by the Executive Committee. There are four functional committees: Development, Education and Families, Environment and Transport and Social Services, who take decisions within their respective scope of responsibility. 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 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.

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 Chief Executive and Directors along with the Monitoring Officer and Chief Financial Officer, meet fortnightly as the Corporate Management Team. Individual Directorates have their own Management Teams. Additionally a new forum called Executive Influence, bringing together all Executive Managers and the Corporate Management Team, meets on a quarterly basis.

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; and
- 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.

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 is a range of strategic and service specific targets, such as:

- ensuring the there is fast and reliable broadband throughout Shetland;
- the development of renewable energy;
- recognising the importance of the education sector and consequently deciding on and implementing the Blueprint for Education;
- determining Shetland's long-term transport infrastructure;
- intervening early to minimise or eliminate poverty and deprivation and promote healthy lifestyles;
- providing affordable housing; and
- making sure we organise and carry out all business properly.

The Council alone is not able to solve all 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.

The Council publishes an Annual Report on its performance against the objectives set out within the Corporate Plan. Corporate improvement actions are led and monitored by the Corporate Management Team and also at Directorate Management Teams. Service Plans are prepared annually which set out detailed actions and outcomes for each Service and include performance indicators. These form an integral part of the Council's Planning and Performance Management Framework which is being refreshed to make greater use of reporting tools such as Covalent. Service performance is reported periodically to the relevant functional committees.

The Council maintains a register of Strategic and Operational Risks, although it is acknowledged that in some departments these are not fully completed. Action Plans have been developed to ensure that these risks are managed, with an additional focus on those of a higher risk. Following the major management restructuring in the Council these risks are being reviewed and steps taken to embed risk management planning and awareness into everyday activity.

Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Co uncil's financial management arrangements mean that 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 costs 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 project management approach, using PRINCE methodology, underpins all the investment decisions for ICT systems development and, based on similar disciplines, a formal investment appraisal system, the Gateway Process, has been established for capital investment decisions.

As part of the Final Accounts work, potential 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 Council?, 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.

Further to the Accounts Commission public hearing in June 2010, the Council approved an Improvement Plan which was intended to deliver a root and branch review of the Council's culture, identify changes needed in its political and other management arrangements, set out the standards to which it will aspire and overhaul its corporate systems and processes.

Over the past year the Council has put in place a number of significant changes to its financial governance arrangements, including a revised policy on reserves, updated financial regulations, agreed a medium term strategic budget planning framework, approved a revised 5 year asset investment plan, approved a procurement strategy and improved the style of financial monitoring reports to place greater emphasis on projected, rather than historic, expenditure.

In their follow up report in January 2012 the Accounts Commission welcomed the prompt action and progress made by the Council in delivering its Improvement Plan, but emphasised the need for this positive direction and change to be sustained and consolidated. There was acknowledgement of the good overall progress made by the Council whilst also observing that some elements of the plan had not progressed in line with original timescales, although this had not compromised the overall plan. These outstanding issues are being addressed. The Council is clear that while we have achieved a very considerable amount in a short space of time, there is still some way to go, and that improvement activity must be continued and supported through the development of a culture of robust self assessment.

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 Executive Manager - Internal Audit reports directly to the Audit and Standards Committee.

The Internal Audit work programme has been completed, with some minor carry forward of work into the 2012/13 financial year. During the last financial year Internal Audit completed and issued 33 planned audits. These reports highlighted the need for improvement in the following areas –

- Ensuring that full risk assessments are carried out at all schools to comply with Health & Safety legislation. The newly appointed Executive Manager for Quality Improvement has committed to ensure that this is actioned.
- A follow up review of the use of relief bank staff in Community Care services identified that there was still a high spend in this area, and work to review the use of relief bank staff in each care unit has yet to commence. A commitment has now been given that this work will be progressed during 2012/13.
- In instances where manual ordering was taking place, there was evidence that purchase ordering procedures were not being followed consistently. The Executive Manager – Finance has committed to address this situation during 2012/13.
- Ensuring that proper regard is given to quality, as well as price, when setting works contract tenders. This recommendation was made following a review of the Walls Pier capital project. The procurement service will ensure that action is taken to address this point in future.

During the 2010/11 financial year Audit Scotland, the Council's External Auditors, raised specific concerns in their ISA 260 Report on the following items:

- Qualification on the Statement of Accounts as a result of the failure to include the financial results of the Shetland Charitable Trust in the Council's group accounts. The Council recognises the importance of this issue and has included the Trust in the group accounts for the 2011/12 Statement of Accounts.

- The 2010/11 draft financial statements, submitted on 30 June 2011 were not of an acceptable standard and required fundamental rework throughout the summer prior to being signed off by the external auditors. The Council has undertaken significant planning for the preparation of the 2011/12 draft Statement of Accounts, as well as having recruited a new financial accountant. These measures should ensure that this issue is not repeated in future.
- The need for the Council to appoint a permanent Section 95 Officer. The Council addressed this issue in January 2012 by appointing a new Executive Manager – Finance who is the Council's Section 95 Officer.
- Failure to prepare the Whole of Government Accounts return by the deadline. This issue has been addressed through the planning work undertaken by the Council during 2011/12 to ensure that all deadlines are met.
- The need for budget monitoring reports for members to be further developed to support them in making decisions on the use of resources. Work has been undertaken to strengthen the quality of the budget monitoring reports and make them more focused on future projections.
- Slippage on the Capital programme. This has been a long standing issue, but work is underway to address this, ensuring that timings for undertaking capital works are accurate and that there are robust management arrangements in place to ensure that this is delivered.
- The level of reserves held by the Council is in danger of dropping below the level set by the Council's policy. The Council fully appreciates how its level of expenditure has led to significant increases in its draw on reserves in recent years. In order to address this, the Council set a challenging revenue budget for 2012/13 and indicative budget for 2013/14, which will see savings of £30 million over the 2 years and will ensure that the Council delivers its policy of not drawing on reserves from 2014/15.
- The Council's risk register is incomplete as a result of individual departments not feeding into the corporate process. The Council will take steps to address this issue once the new Team Leaders are in post.

Significant Governance Issues

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

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 value for money was continuously sought. This assumed that issues identified and agreed are or have been addressed.

Work continues to embed the key improvements delivered through the improved political governance arrangements and revised management structure for Shetland Islands Council. A major area of concern continues to be the recurring Audit Qualification on the Council's Accounts in relation to the specific concerns on the application of accounting regulations. Considerable work was done on this during the last year and reported in detail to the Council in March. The Shetland Charitable Trust is in a 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.

Conclusion

The previously identified difficulties surrounding the governance arrangements in Shetland Islands Council have largely been addressed due to the commitment of elected members and officers.

The Governance Framework has been in place for the financial year ended 31 March 2012 and up to the date of approval of the Statement of Accounts. Effective governance arrangements will remain a key priority for the Council in future, including continuous review and improvement of governance arrangements and ensuring that these are embedded across the whole Council.

A number of weaknesses and issues have been identified and these are set out above. Implementing the action plans is a priority and progress is regularly reported to the Audit and Standards Committee.

Overall, we consider the governance and internal control environment operating in 2011/12 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.

………………………………..	………………………………
Alistair Buchan	Gary Robinson
Chief Executive	Leader of the Council

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) requires the disclosure of exit packages. This disclosure has been included in the remuneration report for 2011/12.

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 2011/12 the salary for the Convener of Shetland Islands Council was £27,057.96 the salary for the Vice-Convener was £20,293.92. However, the position changed in May 2011, when the Council adopted a new role of Leader of the Council, and amended the level of remuneration to £27,058 for the Leader and £20,294 for the Convener.

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% 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 senior councillor positions were, as of 18 May 2011:

- Chair of Education and Families Committee
- Chair of Social Services Committee
- Chair of Development Committee

- Chair of Environment and Transport Committee
- Chair of Audit and Standards Committee
- Chair of Planning Committee
- Chair of Licensing Committee
- Chair of Harbour Board
- Chair of Shetland College Board

As of 18 May 2011, excluding the Convener and the Leader, Shetland Islands Council had nine senior councillors and the additional remuneration paid to these councillors totalled £161,606.65.

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.

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

The Scheme was further updated at the Council meeting on 12 May 2011 with the new positions that attract those allowances, including the creation of the post of Leader, and the Council adopted the new political management framework with effect from 18 May 2011.

All reports are available from the Council's website.

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 and agreements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Shetland Islands Council for the period 2008 to 2011. The salaries of the Strategic Directors are based on a fixed percentage of the Chief Executive's salary, namely 80 % of the amount of the Chief Executive's salary. Executive Managers fall into two bandings, to reflect the statutory level of responsibility held by the Monitoring Officer (Executive Manager - Governance and Law) the Section 95 Officer (Executive Manager - Finance) and the Chief Social Work Officer role held by the Executive Manager - Children and Families. These arrangements were agreed through approval of Report CE 30 F "Management Restructuring" at a meeting of the Full Council on 14 June 2011. The restructuring exercise resulted in a new senior management structure with the new posts populated from 1 July 2011 until 12 September 2011.

The senior employees of the Council consist of the Council's Corporate Management Team and those who hold certain statutory positions. Prior to the completion of the Organisation and Management review these were:

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

Following the implementation of the new Senior Management Structure, which was completed by 1 September 2011, these posts are now: -

- Director - Children's Services
- Director - Infrastructure
- Director - Development
- Director - Corporate Services
- Director - Community Care
- Executive Manager - Governance and Law (Monitoring Officer)
- Executive Manager - Finance (Section 95 Officer)
- Executive Manager - Children and Families (Chief Social Work Officer)

In order to ensure that recruitment of senior employees is properly managed, a protocol for chief officer appointments is in place and is available to view at the address link below. The Protocol applies to appointments to the chief officer posts of Chief Executive and Directors. The Protocol is designed to ensure:

- the appointment is widely known and the best available candidates are attracted to apply
- the best information is available to the Council about qualities, skills, experience and personal attributes of candidates
- information about candidates is assessed effectively and fairly during the assessment, selection and appointment process.

Allowances

Senior employees are provided with a mobile phone/blackberry and are able to claim mileage costs paid at the Inland Revenue recommended rates.

General Disclosure by Pay Band

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or more, disclosed in bands of £5,000. This table includes payments made in the year for salary, pension contributions, redundancy and compensatory added years.

Remuneration Bands	Number of Employees 2010/11	Number of Employees 2011/12
£50,000 - £54,999	41	38
£55,000 - £59,999	29	25
£60,000 - £64,999	17	21
£65,000 - £69,999	14	14
£70,000 - £74,999	15	7
£75,000 - £79,999	5	4
£80,000 - £84,999	2	8
£85,000 - £89,999	0	3
£90,000 - £94,999	3	1
£95,000 - £99,999	0	5
£100,000 - £104,999	2	1
£105,000 - £109,999	0	2
£110,000 - £114,999	0	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	1
£125,000 - £129,999	0	0
£130,000 - £134,999	2	2
£135,000 - £139,999	0	0
£140,000 - £144,999	1	0
Total	**131**	**133**

The table above includes staff that terminated employment during both 2010/11 and 2011/12. Many of the staff that left received remuneration packages that included compensation for loss of office (eg. redundancy payment and/or enhanced pension payments), and because of these payments, a number of staffs' remuneration has increased temporarily in both 2010/11 and 2011/12.

Exit Packages

The regulations require the Remuneration Report to provide information on the number of exit packages awarded, in bandings of £20,000 up to £100,000 and thereafter in bandings of £50,000, along with the total cost of the exit packages within each band. The regulations also require disclosure of the number of compulsory redundancies and other agreed departures. The cost of exit packages must pay back within three years and will then provide ongoing savings.

The total cost for 2011/12 of £3.592m (£3.038m in 2010/11) in the table includes £1.811m (£1.274m in 2010/11) for termination benefits agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement in the current year, comprising redundancy payments and pension strain costs. In addition, the table includes £1.781m (£1.764m in 2010/11) for the capitalised cost of compensatory added years agreed in the year that will be charged to the Comprehensive Income and Expenditure Statement across future years.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b + c)		(e) Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£000	£000
£0 - £19,999	0	1	14	20	14	21	121	181
£20,000 - £39,999	0	0	4	6	4	6	114	192
£40,000 - £59,999	0	0	1	10	1	10	42	489
£60,000 - £79,999	0	0	5	12	5	12	342	824
£80,000 - £99,999	0	0	0	6	0	6	0	522
£100,000 - £149,999	0	0	3	7	3	7	356	886
£150,000 - £199,999	0	0	4	3	4	3	675	498
£200,000 - £249,999	0	0	3	0	3	0	656	0
£250,000 - £299,999	0	0	0	0	0	0	0	0
£300,000 - £349,999	0	0	1	0	1	0	349	0
£350,000 - £399,999	0	0	1	0	1	0	383	0
Total	**0**	**1**	**36**	**64**	**36**	**65**	**3,038**	**3,592**

The table above details the number and cost of exit packages awarded in 2010/11 and 2011/12. Included in the cost of the exit packages are the costs to the employer, namely the cost to the Pension Fund (pension strain cost) and the full cost (capitalised cost) of the award of enhanced pension payments (compensatory added years).

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	2011/ 12 £000
Salaries	357	354
Allowances	33	33
Expenses	95	102
Total	**485**	**489**

The annual return of councillors' salaries and expenses for 2011/12 is available for any member of the public to view at Finance Services, North Ness during normal working hours.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2010/ 11 Total Remuneration £	2011/12 Salary, Fees and Allowances £	Taxable Expenses (a) £	Benefits other than Cash £	Total Remuneration £	Notes
Mr A Cluness	Convener	**27,057.96**	21,183.44	0.00		**21,183.44**	
Mr J Simpson	Leader of the Council	**20,448.42**	26,168.44	272.43		**26,440.87**	
Mrs F Grains	Chair - Audit & Standards Committee	**17,873.61**	17,822.00	159.50		**17,981.50**	
Mr L Angus	Chair - Social Services Committee	**19,537.71**	16,233.96	117.33		**16,351.29**	Chair - Social Services Committee to 03/02/2011
Mrs E Fullerton	Chair - Education and Families Committee	**16,994.20**	18,966.54	235.76		**19,202.30**	
Mr R Henderson	Chair - Harbour Board	**17,873.76**	17,822.00	238.88		**18,060.88**	
Mrs I Hughson (nee Hawkins)	Chair - Environment & Transport Committee	**20,040.00**	9,590.30	0.00		**9,590.30**	Ceased being a Councillor on 30/09/2011
Mr A Wishart	Chair - Environment & Transport Committee	**16,233.96**	17,922.77	0.00		**17,922.77**	Chair of Environment & Transport Committee from 9/12/2011
Mr A Cooper	Chair - Development Committee	**17,862.34**	18,666.17	147.71		**18,813.88**	
Mr F Robertson (c)	Chair - Planning Committee & Vice Convener of O & S VJB	**19,749.19**	19,278.96	357.09		**19,636.05**	
Mr C Smith	Chair - Social Services Committee	**17,755.92**	18,666.17	0.00		**18,666.17**	Chair - Social Services Committee from 19/05/2011
Mr A Hughson	Chair - Shetland College Board	**17,755.92**	16,434.11	0.00		**16,434.11**	Chair - Shetland College Board to 17/05/11
Mr J Budge	Chair - Licensing Committee	**16,233.96**	17,621.85	0.00		**17,621.85**	Chair - Licensing Committee from 19/05/2011

Notes:

a) Remuneration payments for positions of responsibility associated with the Council's new committee structure commencing with effect from 18 May 2011.
b) Taxable Expenses – Telephone Line Rental/Broadband.
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.
d) Mr A Wishart only receives one senior councillor payment even though he also holds the position of Chairperson, Shetland College Board.
e) Changes in Committee Structures with effect from May 2011 resulted in changes in designation for some council members.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2010/11 Total Remuneration £	2011/12 Salary, Fees and Allowances £	Taxable Expenses (a) £	Compensation for Loss of Employment (e) £	Benefits other than in Cash £	Total Remuneration £	Notes
A Buchan (b)	Chief Executive	**137,100.85**	131,150.13	322.12		24,266.74	**155,738.99**	
W Shannon	Assistant Chief Executive (old)	**67,770.00**	67,006.50	829.02			**67,835.52**	
H Sutherland (c)	Executive Director/Interim Head of Finance (old)	**94,348.36**	95,026.88	822.00			**95,848.88**	
G Greenhill (d)	Executive Director: Infrastructure (old)	**78,279.40**	52,835.80	739.35	52,767.49		**106,342.64**	Redundancy Termination 30/09/2011
R M Sinclair	Executive Manager: Capital Programmes (new)	**55,822.88**	56,947.50	369.34			**57,316.84**	Head of Service: Capital Programmes to 11/09/2011
J R Smith	Executive Manager: Performance & Improvement (new)	**65,994.09**	65,311.56	369.34			**65,680.90**	Head of Service: Organisational Development to 11/09/2011
M A Williamson (e)	Service Manager: Social Work (old)	**57,280.26**	43,098.19	721.74	53,559.59		**97,379.52**	Redundancy Retirement 31/12/2011
H Budge	Strategic Director: Children's Services (new)	**73,023.12**	75,749.70	204.94			**75,954.64**	Head of Service: Schools to 30/06/2011
N Grant	Strategic Director: Development (new)	**66,075.00**	74,017.43	204.94			**74,222.37**	Head of Service: Economic Development to 30/06/2011
P Crossland	Strategic Director: Infrastructure (new) Full Year Remuneration £80,778	**0.00**	42,921.20				**42,921.20**	Commenced with SIC 19/09/2011
Vacant	Strategic Director: Corporate Services (new) Full Year Remuneration £79,026	**0.00**	0.00	0.00			**0.00**	
C Ferguson	Strategic Director: Community Care (new)	**65,946.00**	79,725.94	204.94			**79,930.88**	Head of Service: Community Care to 30/06/2011
J Riise (f)	Executive Manager: Governance & Law (new)	**73,023.12**	78,279.63	369.34			**78,648.97**	Head of Service: Legal & Administration to 11/09/2011
Vacant	Executive Manager: Finance (Section 95 Officer) (new) Full Year Remuneration £67,005		0.00	0.00			**0.00**	Covered by H Sutherland as above for 2011/12
H Leslie	Executive Manager: Children & Families (new)	**50,188.17**	53,592.36	763.70			**54,356.06**	Service Manager: Childrens Services to 30/11/2011

Notes:

a) Taxable Expenses – includes essential car user allowance, taxable mileage and telephone line rental.
b) Mr A Buchan's remuneration includes Shetland Islands Council secondment allowance. Benefits, other than in cash, includes provided accommodation, car and return travel to Orkney.
c) Ms H Sutherland's remuneration in 2011/12 includes a long service award payment. Ms H Sutherland's remuneration in 2010/11 included a payment in respect of Acting Chief Executive in 2009/10 and 2010/11.
d) Mr G Greenhill's compensation for loss of employment includes a redundancy payment, pay in lieu of notice payment and training/coaching needs payment.
e) Mr A Williamson's compensation for loss of employment includes a redundancy payment and compensatory added years (CAYs), annual pension and lump sum amounts awarded on termination of employment.
f) Mr J Riise's remuneration in 2011/12 includes a long service award payment.
g) Management restructuring in 2011/12 has resulted in changes in designation for some senior officials. The word (old) means only part of old structure and (new) means part of new structure.

Pension Benefits – Senior Councillors

The pension entitlements for senior councillors for the year to 31 March 2012 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 2012		As at 31 March 2011	As at 31 March 2012	Increase / (Decrease)	
		£	£		£	£	£	
Mr A Cluness	Convener	8,608.90	3,749.51	Pension	2,076.86	2,789.86	713.00	
				Lump Sum	2,079.02	2,087.94	8.92	
Mr J Simpson	Leader of the Council	6,456.79	4,631.77	Pension	1,636.72	2,497.98	861.26	
				Lump Sum	1,152.07	1,275.55	123.48	
Mrs F Grains	Chair - Audit & Standards 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	Chair - Social Services Committee (Part 2010/11)	6,182.00	2,873.40	Pension	1,317.97	1,840.63	522.66	Chair of Social Services to 03/02/2011
				Lump Sum	927.16	929.67	2.51	
Mrs E Fullerton	Chair - Education & Families Committee	5,313.97	3,357.09	Pension	937.90	1,284.89	346.99	
				Lump Sum	1,146.15	1,210.50	64.35	
Mr R Henderson	Chair - Harbour Board	5,649.26	3,154.47	Pension	1,167.92	1,650.48	482.56	
				Lump Sum	1,337.53	1,416.31	78.78	
Mrs I Hughson (nee Hawkins)	Chair - Environment & Transport Committee (Part 2011/12)	6,376.06	1,697.49	Pension	1,037.50	1,242.75	205.25	Ceased being a Councillor on 30/09/2011
				Lump Sum	1,267.87	1,322.24	54.37	
Mr A Wishart	Chair - Environment & Transport Committee & Chair of Shetland College Board	5,165.11	3,172.32	Pension	1,135.03	1,598.89	463.86	Chair - Environment & Transport Committee from 9/12/2011
				Lump Sum	1,311.91	1,374.13	62.22	
Mr A Cooper	Chair - Development Committee	5,649.26	3,303.92	Pension	1,098.94	1,451.42	352.48	
				Lump Sum	1,371.09	1,400.67	29.58	
Mr F Robertson	Chair - Planning Board & Vice-Convener of O & S VJB	6,133.87	3,412.33	Pension	1,732.47	2,415.85	683.38	
				Lump Sum	1,626.71	1,704.03	77.32	
Mr C Smith	Chair - Social Services Committee	5,649.26	3,303.92	Pension	1,055.39	1,405.04	349.65	Ceased Chair - Licensing Committee on 18/05/2011. Chair - Social Services Committee from 19/05/2011.
				Lump Sum	1,316.75	1,355.90	39.15	
Mr A Hughson	Chair - Shetland College Board	5,649.26	2,908.83	Pension	1,021.09	1,335.26	314.17	Chair of Shetland College Board to 17/05/2011
				Lump Sum	1,247.81	1,257.96	10.15	
Mr J Budge	Chair - Licensing Committee	0.00	0.00	Pension	0.00	0.00	0.00	Chair - Licensing Committee from 19/05/2011. Not a member of the Pension Scheme.
				Lump Sum	0.00	0.00	0.00	

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 £538.96 in 2011/12 and £505.47 in 2010/11.

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions Year ending 31 March 2011 £	Year ending 31 March 2012 £		Accrued Pension Benefits As at 31 March 2011 £	As at 31 March 2012 £	Increase (Decrease) £	Notes
A Buchan	Chief Executive	ER Strain	14,066.63	21,179.91	Pension Lump Sum				Accrued Pension Benefits held with OIC
W Shannon	Assistant Chief Executive (old)	ER Strain	21,322.54	11,860.17	Pension Lump Sum	17,086.64 44,563.17	18,216.31 44,588.85	1,129.67 25.68	
H Sutherland	Executive Director/Interim Head of Finance (old)	ER Strain	29,960.93	15,526.18	Pension Lump Sum	26,373.73 70,405.91	28,010.79 70,862.60	1,637.06 456.69	
G Greenhill	Executive Director: Infrastructure (old)	ER Strain	24,609.51	9,351.94 20,561.26	Pension Lump Sum	2,658.30 246.16	3,572.07 249.84	913.77 3.68	Redundancy Retirement 30/09/2011
R M Sinclair	Executive Manager: Capital Programmes (new)	ER Strain	17,527.95	10,079.73	Pension Lump Sum	14,300.26 37,398.75	15,752.88 38,708.72	1,452.62 1,309.97	Head of Service: Capital Programmes to 11/09/2011
J R Smith	Executive Manager: Performance & Improvement (new)	ER Strain	10,818.58	11,560.16	Pension Lump Sum	14,575.04 37,185.99	15,645.72 37,140.42	1,070.68 (45.57)	Head of Service: Organisational Development to 11/09/2011
A Williamson	Service Manager: Social Work (old)	ER Strain	17,881.86	7,544.15 11,199.93	Pension Lump Sum	21,107.49 57,726.70	21,944.86 58,083.21	837.37 356.51	Redundancy Retirement 31/12/2011
H Budge	Strategic Director: Children's Services (new)	ER Strain	20,640.82	11,286.73	Pension Lump Sum	16,759.13 50,277.40	18,524.87 55,574.62	1,765.74 5,297.22	Head of Service: Schools to 30/06/11
N R J Grant	Strategic Director: Development (new)	ER Strain	20,782.81	13,101.10	Pension Lump Sum	7,341.67 15,497.74	9,562.28 17,574.07	2,220.61 2,076.33	Head of Service: Economic Development to 30/06/11
P Crossland	Strategic Director: Infrastructure (new)	ER Strain	N/A	7,597.04	Pension Lump Sum	0.00 0.00	715.57 0.00	715.57 0.00	Commenced with SIC 19/09/2011
Vacant	Strategic Director: Corporate Services (new)	Er Strain							
C Ferguson	Strategic Director: Community Care (new)	ER Strain	10,832.03	13,123.45	Pension Lump Sum	26,300.73 72,353.11	24,775.31 62,714.87	(1,525.42) (9,638.24)	Head of Service: Community Care to 30/06/11
J Riise	Executive Manager: Goverance & Law (new)	ER Strain	22,995.71	12,789.94	Pension Lump Sum	23,436.23 62,632.58	24,755.31 62,714.87	1,319.08 82.29	Head of Service: Legal & Administration to 11/09/2011
H Leslie	Executive Manager: Children & Families (new)	ER Strain	8,017.76	9,417.96	Pension Lump Sum	14,362.82 38,820.39	17,031.78 43,112.54	2,668.96 4,292.15	Service Manager: Childrens Services to 30/11/201

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) The Executive Manager: Governance & Law also 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 includes accrued pension benefits of £780.15 pension and £1,638.21 lump sum as at 31 March 2012. At 31 March 2011 the comparative figures were £680.98 pension and £1,588.88 lump sum.

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 Tiered Contribution Pay Rates for 2011/12 are as follows:	Contribution Rate 2011/12 %
Whole time pay:	
On earnings up to and including £18,500	5.5
On earnings above £18,500 and up to £22,600	7.25
On earnings above £22,600 and up to £30,900	8.5
On earnings above £30,900 and up to £41,200	9.5
On earnings above £41,200	12

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.

Gary Robinson ………………………………………………………….. 27 September 2012
Leader of the Council

Alistair Buchan ………………………………………………………….. 27 September 2012
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 Executive Manager - Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the audited accounts are 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 Executive Manager - Finance's Responsibilities

The Executive Manager - 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 Executive Manager - 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 Executive Manager - 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 Executive Manager - 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 2012.

……………………………………………………. **27 September 2012**
James Gray MA (Hons) CPFA
Executive Manager - Finance
(Section 95 Officer)

Primary Financial Statements

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.

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 (note 22) £000	Unusable Reserves (note 23) £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				(9,785)		(9,785)
Other Comprehensive Income and Expenditure						0	(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)		(171)		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		(489)	4,224		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)**
Movement in reserves during 2011/12:								
(Surplus) or deficit on the provision of services	34,661	(938)				33,723		33,723
Other Comprehensive Income and Expenditure							2,713	2,713
Total Comprehensive Income and expenditure	**34,661**	**(938)**	**0**	**0**	**0**	**33,723**	**2,713**	36,436
Adjustments between accounting basis & funding basis under regulations (Note 7)	(10,531)	715	13	(425)		(10,228)	10,228	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**24,130**	**(223)**	**13**	**(425)**	**0**	**23,495**	**12,941**	**36,436**
Transfers to Other Statutory						0		0
Net Transfers to/(from) Other Statutory Reserves	(24,644)	223	3,746	0	26,620	5,945	(5,945)	0
(Increase)/Decrease in 2011/12	**(514)**	**0**	**3,759**	**(425)**	**26,620**	**29,440**	**6,996**	**36,436**
Balance as at 31 March 2012	**(3,658)**	**0**	**(110,598)**	**(596)**	**(124,790)**	**(239,642)**	**(237,653)**	**(477,295)**

Total usable and unusable reserves are shown within disclosure notes 22 and 23 respectively.

Comprehensive Income and Expenditure Statement for year ended 31 March 2012

2010/11 Net Expenditure £000		Notes	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
47,800	Education Services		52,195	(6,685)	45,510
3,102	Housing Services		8,185	(5,401)	2,784
8,820	Housing Revenue Account		6,255	(6,744)	(489)
6,829	Cultural and Related Services		8,086	(773)	7,313
6,413	Environmental Services		9,402	(2,140)	7,262
2,197	Fire Services		2,264	0	2,264
11,547	Roads and Transport Services	5	25,468	(9,201)	16,267
10,931	Trading Services		31,185	(17,032)	14,153
1,461	Police Services		1,485	0	1,485
9,969	Planning and Development Services		8,894	(1,134)	7,760
32,503	Social Work		38,828	(7,066)	31,762
2,126	Central Services to the Public		2,489	(2,152)	337
7,572	Corporate and Democratic Core		8,155	0	8,155
(28,826)	Non Distributed Costs		2,038	0	2,038
122,444	**Cost of Services**		**204,929**	**(58,328)**	**146,601**
(327)	Other operating income	9			225
(23,050)	Financing and Investment income and expenditure	10			(4,413)
(108,852)	Taxation and non-specific grant income	11			(108,690)
(9,785)	**(Surplus) or Deficit on Provision of Services**				**33,723**
(15,540)	(Surplus) on revaluation of Property, Plant and Equipment assets				(6,186)
(19,382)	(Surplus) on revaluation of available for sale financial assets	23			(5,652)
23,156	Amounts recycled from the AFSFA reserve upon derecognition	23			3,705
(31,511)	Actuarial (gains)/losses on pension assets/liabilities	34			10,846
(43,277)	**Other Comprehensive Income and Expenditure**				**2,713**
(53,062)	**Total Comprehensive Income and Expenditure**				**36,436**

Balance Sheet as at 31 March 2012

1 April 2010 £000	31 March 2011 £000		Notes	31 March 2012 £000
365,329	371,433	Property, Plant and Equipment	12	373,495
2,139	3,096	Heritage Assets	13	4,768
689	436	Intangible Assets	14	558
218,959	222,739	Long Term Investments	15	193,170
13	1,066	Long Term Debtors	15	1,663
587,129	**598,770**	**Long Term Assets**		**573,654**
1,245	206	Assets held for Sale	16	392
3,609	4,023	Inventories	17	4,901
10,349	8,516	Short Term Debtors	18	12,259
20,906	7,376	Cash and Cash equivalents	19	10,654
36,109	**20,121**	**Current Assets**		**28,206**
(15,396)	(14,037)	Short Term Creditors	20	(19,899)
0	0	Provisions	21	(142)
(15,396)	**(14,037)**	**Current Liabilitie**		**(20,041)**
(4)	(10)	Provisions	21	0
(147,169)	(91,113)	Other Long Term Liabilities	34	(104,524)
(147,173)	**(91,123)**	**Long Term Liabilities**		**(104,524)**
460,669	**513,731**	**Net Assets**		**477,295**
(273,767)	(269,082)	Usable Reserves	22	(239,642)
(186,902)	(244,649)	Unusable Reserves	23	(237,653)
(460,669)	**(513,731)**	**Total Reserves**		**(477,295)**

The unaudited accounts were issued on 28 June 2012 and the audited accounts were authorised for issue on 27 September 2012.

………………………………………………………. **27 September 2012**
James Gray MA (Hons) CPFA
Executive Manager - Finance
(Section 95 Officer)

Cash Flow Statement for year ended 31 March 2012

2010/11 £000		2011/12 £000	2011/12 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(102,976)	Cash paid to and on behalf of employees	(106,720)	
(88,270)	Other operating cash payments	(84,872)	
(3,407)	Precepts Paid	(3,899)	
(194,653)			**(195,491)**
	Cash Inflows		
2,711	Housing Rents	4,086	
551	Trading	1,429	
86,894	Revenue Support Grant	77,690	
769	DWP Grants	782	
39,561	Sales of goods and services	46,236	
3,575	Other operating cash receipts	7,507	
12,220	Other Government Grant	7,455	
8,647	Council Tax income	11,604	
8,672	Non Domestic Rates Income	12,639	
163,600			**169,428**
	Movement of working capital		
(414)	(Increase)/Decrease in Stock	(878)	
1,833	(Increase)/Decrease in Debtors	(3,909)	
(1,359)	Increase/(Decrease) in Creditors	5,793	
60			**1,006**
(30,993)	**Net Cash Outflow from Operating Activities**		**(25,057)**
	INVESTING ACTIVITIES		
	Cash Outflows		
(18,048)	Purchase of Fixed Assets	(16,845)	
(238,884)	Purchase of Long Term Investments	(2,368)	
(107,700)	Purchase of Short Term Investments	0	
(364,632)			**(19,213)**
	Cash Inflows		
1,572	Sale of Fixed Assets	1,297	
253,383	Sale of Long Term Investments	36,000	
119,300	Sale of Short Term investments	0	
4,657	Capital Grant receipts	7,940	
3,183	Interest Received & Dividends	2,311	
382,095			**47,548**
17,463	**Net Cash Inflow from Investing Activities**		**28,335**
	FINANCING ACTIVITIES		
0	Cash Outflows		0
0	Cash Inflows		0
0	**Net Cash Flow from Financing Activities**		**0**
(13,530)	**NET INCREASE/(DECREASE) IN CASH**		**3,278**
20,906	Cash and Cash Equivalents at 1 April		7,376
(13,530)	Net movement of Cash and Cash Equivalents during the year		3,278
7,376	**Cash & Cash Equivalent at 31 March**		**10,654**

Refer to note 19 for an analysis of the components of cash and cash equivalents.

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; and
- 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 accounts 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 Changes in Accounting Policies and Estimates and Errors and Prior Period Adjustments

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. A change in accounting policy requires a prior period adjustment.

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 in accounting policy 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 accounts is historical cost modified by the revaluation of certain categories of non-current assets, pension liability and financial instruments.

The concept of the authority operating as a going concern is based on the premise that sufficient funding is available so 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 in order to represent a true and fair view. It is a matter of professional judgment 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.

1.4 Accruals of Income and Expenditure

a) 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 internal 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.

b) Recognition of Debtors and Creditors on the Balance Sheet

Where income 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 the Comprehensive Income and Expenditure Statement for the income that might not be collected.

1.5 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 Balance Sheet date 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.

1.6 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; and
- 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. However, it is required to make an annual contribution from revenue equal to loans fund principal charges. 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.

1.7 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.

1.8 Contingent Liabilities

Contingent liabilities are disclosed in note 35 to the accounts but not recognised in the Balance Sheet, in 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; or
- 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.

1.9 Employee Benefits

a) Accumulated Absences

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences (holidays) 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.

(b) 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 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 entitlement arises.

c) 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.

d) Post Employment Benefits

Employees of the authority may be members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government; and
- 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 in respect of Teachers' Pensions in the year.

e) The Local Government Pension Scheme

The Local Government Pension 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, projections of earnings for current employees etc.

- Liabilities are discounted to their value at current prices using a discount rate of 4.8% 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; and
  - 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 Comprehensive Income and Expenditure 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.

f) 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.

1.10 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; and
- 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.

1.11 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; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

a) 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 Cost of Services 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 Cost of Services.

b) 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; and
- 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 in the Other Comprehensive Income and Expenditure section of the Comprehensive Income and Expenditure Account.

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).

The Council invests through three fund managers, Baillie Gifford, GMO and Insight. These managers all invest on behalf of the Council into unitised products. Each manager records income and fees relating to these units differently, and the following sets out how each manager accounts for these transactions.

Baillie Gifford receives and records income during the year, and deducts their fees out of this income with the balance re-invested into the units. This was changed during the year and the manager now invoices the Council their fees, and these are paid directly from the Council to Baillie Gifford.

GMO calculate the total fund management fee as per the Investment Management Agreement, they compare this to the fixed unitised fees within the units and if the unit fees are higher than the management fee they rebate the excess fees back into the units. These rebated fees are treated as income into the fund.

Insight invoice the Council for their fees and these are paid directly from the Council to Insight. No income is generated by Insight out with the units.

1.12 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 the Balance Sheet date. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.13 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.

1.14 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 2 to 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.

1.15 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.

1.16 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 have been measured at nil since 2010/11. Due to the inactive market, penalties have been suspended but not cancelled.

1.17 Leases

Operating Leases

a) The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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).

b) 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.

1.18 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 Service Reporting Code of Practice 2011/12 (SeRCOP). 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 organization; and
- 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

1.19 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.

a) 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.

b) 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; and
- 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); and
- 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); and
- 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.

c) Impairment

Assets are assessed at each year-end as to whether there is any indication that they 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.

d) 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 and Heritage 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:	27 - 50 years
• Other Land and Buildings:	7 - 120 years
• Vehicles, Plant, Furniture and Equipment:	1 - 30 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 costs are 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.

e) 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.

1.20 Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, the museum collection and a war memorial.

As a general policy, heritage assets are recognised on the balance sheet where the authority has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the balance sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the authority's general policies on impairment.

It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items will be accounted for in accordance with authority's general provisions relating to the disposal of property, plant and equipment.

a) Historical Buildings

Held on the balance sheet at fair value, determined as the amount that would be paid for the asset in its Existing Use Value (EUV) but 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. They are depreciated on a straight line basis over their remaining useful life.

b) Museum Collection

The Authority's Museum Collection is reported in the Balance Sheet at insurance valuation, which is based on market values. These insurance valuations are updated annually.

c) War Memorial

Held on the balance sheet at Depreciated Historical Cost (DHC).

1.21 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.

1.22 Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement, with the exception of the Reserve Fund. 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.

In addition, Shetland Islands Council operates a Reserve Fund, as permitted under statute by the Zetland County Council Act 1974. Only surpluses from the Harbour Account can be credited to this reserve. The first priority of this reserve is to fund Ports and Harbours' expenditure. Beyond this, its balance may be applied to any expenditure that benefits the inhabitants of Shetland.

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.

1.23 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.

1.24 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

IFRS 7 Financial Instruments: Disclosures was amended in October 2010 to require entities to supplement disclosures for all transferred financial assets that are not derecognised where there has been some continuing involvement in a transferred asset. This amendment is to be adopted from 1 April 2012 but should have no material impact on the 2012/13 financial statements.

Application to Shetland Islands Council Accounts

Currently financial assets held by the Council are investments and loans, and all cash flows are received and retained by the Council.

3. Critical Judgments in Applying Accounting Policies

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

a) A number of legal claims are currently outstanding against the Council. These have all been accounted for as contingent liabilities as opposed to provisions, which are recognised on the Balance Sheet. There is insufficient evidence to demonstrate a current obligation and a reliable estimate has not been possible to establish.

b) One area where a long-standing issue remains unresolved is the relationship between the Council and the Shetland Charitable Trust. The Trust does not believe that a relationship whereby the Council controls the Trust exists. As a result of this they have not provided financial statements that could be used to consolidate their results into the group accounts. It is the opinion of the Executive Manager – Finance that under the requirement of the Code and definitions in IAS27 Consolidated and Separate Financial Statements, the Council does have the ability to control the Shetland Charitable Trust. As a result of this we have used publicly available information to attempt to group the results of the Trust in the 2011/12 financial statements.

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 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) 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 £33.616m however the assumptions interact in complex ways. During 2011/12, the authority's actuaries advised that the net pensions liability had increased by £19.208m as a result of updated assumptions.

b) Arrears

At 31 March 2012, the authority had a balance on sundry debtors of £3.511m within short term debtors. A review of significant balances suggested that an impairment of doubtful debts of £0.170m 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 £0.030m will eventually be written off from Council Tax charges of £8.034m levied during 2011/12.

c) 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 £0.849m has been recorded for a number of outstanding legal cases.

5. Material Items of Income and Expenditure

The Council received a capital receipt of £1.2 million for the Joint Occupational Therapy Unit during 2011/12.

Lerwick Port Authority (LPA) and Shetland Islands Council reached a negotiated settlement on the claim payable by the Council of £4.826m relating to the abandonment of a dredging project in 2005 due to the former Bressay Bridge Project. This is included in the Roads and Transport Services line of the Comprehensive Income and Expenditure Statement.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Manager - Finance on 27 September 2012. 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 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.
The Police and Fire Reform (Scotland) Bill received royal assent on 7 August 2012 that will create a single police service and a single fire and rescue service for Scotland from 1 April 2013 to replace the current regional bodies. Currently Shetland Islands Council provides funding to the Northern Joint Police Board and the Highlands and Islands Fire Board, but in future the new Scottish bodies will receive all their funding directly from the Scottish Government. The full impact of the reform process is currently being assessed.

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.

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance
The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises those resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. For housing authorities, however, the balance is not available to be applied to funding Housing Revenue Account services.

Housing Revenue Account Balance
The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part X of the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital

expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grant Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2011/12	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	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	(12,344)	(1,525)			13,869
Revaluation losses on Property Plant and Equipment	(2,411)	(1,034)			3,445
Amortisation of intangible assets	(155)				155
Capital grants and contributions applied	7,344				(7,344)
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	(1,071)	(450)			1,521
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	740	2,004			(2,744)
Capital expenditure charged against the General Fund and HRA balances	66	828			(894)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	596			(596)	0
Application of grants to capital financing transferred to the Capital Adjustment Account				171	(171)
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	405	892	(1,297)		0
Use of the Capital Receipts Reserve to finance new capital expenditure			1,310		(1,310)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(14,099)				14,099
Employer's pensions contributions and direct payments to pensioners payable in the year	11,534				(11,534)
Adjustment primarily involving the Employee Statutory Adjustment 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	(1,136)				1,136
Total Adjustments	**(10,531)**	**715**	**13**	**(425)**	**10,228**

2010/11 Comparative Figures	Usable Reserves General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	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	(11,598)	(1,532)			13,130
Revaluation losses on Property Plant and Equipment	(1,933)	(10,986)			12,919
Amortisation of intangible assets	(525)				525
Capital grants and contributions applied	4,486				(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 and Expenditure Statement	(335)	(909)			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			(2,604)
Capital expenditure charged against the General Fund and HRA balances	618	1,195			(1,813)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	171			(171)	0
Application of grants to capital financing transferred to the Capital Adjustment Account					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
Use of the Capital Receipts Reserve to finance new capital expenditure			1,572		(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				(13,961)
Employer's pensions contributions and direct payments to pensioners payable in the year	10,583	1			(10,584)
Adjustment primarily involving the Employee Statutory Adjustment 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)				82
Total Adjustments	**16,745**	**(9,454)**	**0**	**(171)**	**(7,120)**

8. Transfers to/(from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2011/12.

	Balance at 1 April 2010 £000	Transfers out 2010/11 £000	Transfers in 2010/11 £000	Balance at 31 Mar 2011 £000	Transfers out 2011/12 £000	Transfers in 2011/12 £000	Balance at 31 Mar 2012 £000
General Fund:							
General Fund Balance	**0**	26,408	(29,408)	**(3,000)**	42,885	(42,885)	**(3,000)**
Council Tax Second Homes Receipts	**0**			**0**		(511)	**(511)**
Hansel	**(83)**		(7)	**(90)**		(14)	**(104)**
Central Efficiency	**(78)**	26		**(52)**	9		**(43)**
Total	**(161)**	**26,434**	**(29,415)**	**(3,142)**	**42,894**	**(43,410)**	**(3,658)**
Capital:							
Capital Fund	**(117,625)**	12,350	(3,129)	**(108,404)**	9,946	(2,084)	**(100,542)**
Capital Efficiency/Spend to Save Reserve	**0**		(5,000)	**(5,000)**		(4,096)	**(9,096)**
Pilot Boat Renewal Fund	**(943)**	14	(13)	**(942)**		(18)	**(960)**
Usable Capital Receipts	**(13)**	1,572	(1,572)	**(13)**	1,310	(1,297)	**0**
Elimination of inter Capital Fund transfers		(6,587)	6,587	**0**			**0**
Total	**(118,581)**	**7,349**	**(3,127)**	**(114,359)**	**11,256**	**(7,495)**	**(110,598)**
Other Revenue Statutory Funds:							
Revenue Efficiency/Spend to Save Reserve	**0**		(500)	**(500)**		(10)	**(510)**
Marine Fund	**(2,974)**	621	(229)	**(2,582)**	611	(50)	**(2,021)**
Reserve Fund	**(66,752)**	27,529	(22,398)	**(61,621)**	5,677	(1,185)	**(57,129)**
Repairs & Renewals Fund	**(74,318)**	25,046	(13,628)	**(62,900)**	12,533	(1,209)	**(51,576)**
Quarry Repairs & Renewals Fund	**(150)**			**(150)**		(3)	**(153)**
Housing Repairs & Renewals Account	**(10,577)**	489	(1,947)	**(12,035)**	7	(231)	**(12,259)**
Insurance Fund	**(254)**	67	(35)	**(222)**		(71)	**(293)**
Potential Contingent Liabilities	**0**		(11,400)	**(11,400)**	10,770	(219)	**(849)**
Elimination of inter Revenue Fund transfers	**0**	(26,829)	26,829	**0**			**0**
Total	**(155,025)**	**26,923**	**(23,308)**	**(151,410)**	**29,598**	**(2,978)**	**(124,790)**
Housing Revenue Account	**0**	489	(489)	**0**	938	(938)	**0**
Capital Grants Unapplied	**0**	0	(171)	**(171)**	171	(596)	**(596)**
Total Usable Reserves	**(273,767)**	**61,195**	**(56,510)**	**(269,082)**	**84,857**	**(55,417)**	**(239,642)**

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 General Fund Balance Reserve was established at the end of 2010/11 to defray General Fund expenditure.

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 £0.611m 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 is to set aside funds to meet the financial obligations that may arise if known contingent liabilities materialise.

The Hansel Fund and the Central Energy Efficiency Fund are earmarked general fund reserves that were established several years ago. The Central Energy 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.

A new reserve, Council Tax Second Homes Receipts, for the receipts from reducing the discount on second homes council tax was created in 2011/12. This has been set up to fund housing expenditure.

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 Capital Receipts Reserve was established for the purpose of financing capital expenditure. All receipts from the sale of assets are credited to the reserve; these can then be used to finance subsequent capital expenditure.

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.

9. Other Operating Income

31 March 2011 £000		31 March 2012 £000
(327)	(Gains)/losses on the disposal of non-current assets	225
(327)	**Total**	**225**

10. Financing and Investment Income and Expenditure

31 March 2011 £000		31 March 2012 £000
3,383	Pensions interest cost and expected return on pensions assets	1,771
(2,291)	Interest receivable and similar income	(1,067)
(986)	Other investment income	(2,257)
(23,156)	Realised gains in relation to Available for Sale financial asse	(2,860)
(23,050)	**Total**	**(4,413)**

11. Taxation and Non -Specific Grant Income

31 March 2011 £000		31 March 2012 £000
(8,629)	Council tax income	(8,752)
(8,672)	Non domestic rates	(14,308)
(86,894)	Non ring fenced government grants	(77,690)
(4,657)	Capital grants and contributior	(7,940)
(108,852)	**Total**	**(108,690)**

12. Property, Plant and Equipment

Movement in 2011/12	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 2011	60,588	142,876	53,906	147,196	5,862	695	22,360	433,483
- additions	2,013	546	2,039	1,752			10,368	16,718
revaluation increases/(decreases) recognised in the Revaluation Reserve	(599)	992		82				475
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,217)	(3,224)	(954)			(150)		(5,545)
derecognition – disposals	(468)	(218)	(1,028)	(1,433)			(100)	(3,247)
assets reclassified (to)/ fro Assets Held for Sale	(267)	(125)						(392)
other movements in cost or valuation	(6)	3,062	14,971	3,310	332	(42)	(21,783)	(156)
At 31 March 2012	60,044	143,909	68,934	150,907	6,194	503	10,845	441,336
Accumulated Depreciation and Impairment								
at 1 April 2011	(1,571)	(12,850)	(17,924)	(29,564)	(8)	(133)	-	(62,050)
depreciation charge	(1,574)	(4,388)	(4,441)	(3,391)		(62)		(13,856)
depreciation written out to the Revaluation Reserve	184	3,838						4,022
depreciation written out to the Surplus/Deficit on the Provision of Services	37	2,045	3			19		2,104
derecognition – disposals	19		855	1,059				1,933
other movements in depreciation and impairment	6							6
At 31 March 2012	(2,899)	(11,355)	(21,507)	(31,896)	(8)	(176)	0	(67,841)
Net Book Value								
at 31 March 2012	57,145	132,554	47,427	119,011	6,186	327	10,845	373,495
at 31 March 2011	59,017	130,026	35,982	117,632	5,854	562	22,360	371,433

Comparator 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 Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2010	62,082	129,667	49,876	145,837	5,857	251	22,838	416,408
- additions	1,839	716	2,750	1,213	1	2	11,486	18,007
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,700	(119)		4	0	352	12,563
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)				(1,313)	(13,058)
assets reclassified (to)/from Assets Held for Sale	(212)							(212)
other movements in cost or valuation	(34)	8,796	1,428	146		442	(11,003)	(225)
At 31 March 2011	60,588	142,876	53,906	147,196	5,862	695	22,360	433,483
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(9,067)	(13,911)	(26,223)	(8)	(13)		(51,079)
depreciation charge	(1,579)	(3,967)	(4,169)	(3,341)		(62)		(13,118)
depreciation written out to the Revaluation Reserve	1,726	114	155					1,995
depreciation written out to the Surplus/Deficit on the Provision of Services	139							139
Eliminated on reclassification to Assets Held for Sale	6							6
other movements in depreciation and impairment at 31 March 2010	(6)	70	1			(58)		7
at 31 March 2011	(1,571)	(12,850)	(17,924)	(29,564)	(8)	(133)	0	(62,050)
Net Book Value								
at 31 March 2011	59,017	130,026	35,982	117,632	5,854	562	22,360	371,433
at 31 March 2010	60,225	120,600	35,965	119,614	5,849	238	22,838	365,329

a) Capital Commitments

At 31 March 2012, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years, budgeted to cost £5.744m. Similar commitments at 31 March 2011 were £14.531m. The major commitments are:

- Walls Piers £1.887m
- Joint Occupational Therapy Centre £1.492m
- Shetland College Phase 3 £0.770m
- B9071 Bixter to Aith Phase 2 £0.550m

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) Revaluation 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, 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
Carried at historic cost				130,185	6,194		10,845	147,224
valued at fair value a at 1 April of year:								
2011 - 2012	60,044	52,998	14,257	150		59		127,508
2010 - 2011		16,520	330			112		16,962
2009 - 2010		50,184	2,817			332		53,333
2008 - 2009		18,512	2,187					20,699
2007 - 2008		5,695	49,343	20,572				75,610
Total Cost or Valuation	60,044	143,909	68,934	150,907	6,194	503	10,845	441,336

Council Dwelling Beacon Valuations are assessed for revaluation annually resulting in the full valuation figure in the current year.

13. Heritage Assets

	Historic Buildings £000	Museum Collection £000	War Memorials £000	Total Assets £000
Net Value				
At 1 April 2010	1,464	615	60	**2,139**
Revaluations		969		**969**
Depreciation	(12)			**(12)**
At 31 March 2011	**1,452**	**1,584**	**60**	**3,096**
Net Value				
At 1 April 2011	1,452	1,584	60	**3,096**
Revaluations		1,685		**1,685**
Depreciation	(13)			**(13)**
At 31 March 2012	**1,439**	**3,269**	**60**	**4,768**

a) Historic Buildings

The two historic buildings classified as heritage assets are the Dunrossness Crofthouse Museum and the Bod of Gremista. The Dunrossness Crofthouse Museum is a restored 19th century croft house with thatched roof, outbuildings and a watermill. The property was originally built in the 1850s and has been restored to provide an example of a typical croft house dwelling, including period furniture and other artifacts. The property is open for public viewing during the months of May to September. The Bod of Gremista is a two-storey rectangular house built around 1790 to provide family accommodation and a store for fishing and fish curing activities. The property was restored in the 1980s and is now run by Shetland Amenity Trust as a community museum displaying period furnishings and other artifacts and displays. The property is open for public viewing during the months of May to September.
The valuation process for these assets is the same as for Other Land & Buildings, as set out in Note 12 parts (b) and (c).

b) Museum Collection

The authority's museum collection is reported in the Balance Sheet at insurance valuation, which is based on market values. These insurance valuations are updated annually.

Agricultural Implements – These artifacts comprise mostly 20th century items. Most are factory produced, so are not intrinsically unique to Shetland. Condition is variable, although in the main good. There are some larger items, such as threshing machines and ploughs. Most items are small hand tools and equipment to do with livestock and crops. Most of the large items are in storage, and overall only a small percentage is on display. New acquisitions are infrequent. The items are not readily marketable in the commercial sense.

Costume Jewellery – Clothes, jewellery, watches, knitwear and textiles. This is a large proportion of the collection, and one of the areas that is growing constantly. These items have a clearer commercial worth, in the sense that there is a lively craft interest in costume. Being garments, items are all small, and mostly in very good condition. Many items are on display, but the greater bulk is in storage. Pieces are often used in temporary shows. High profile items are the Fair Isle garments which are unique to Shetland.

Archaeology – Composed of artifacts assemblages from excavations, such as Underhoull and Clickimin, as well as individual pieces from private donors. The collection is growing, but growth is uneven. Excavation groups expand the collection in large blocks but do not occur often. Archaeology includes items of specialised interest and includes various high profile items, like Pictish carvings. The vast majority is in store, as most things are duplicated and nondescript, e.g. potsherds. Items are frequently consulted by researchers.

Art – Watercolours, oil paintings, textile artworks, drawings and sculptures. Growth is small but even, a couple of items a month. Readily translatable to market value, but each piece is unique, so irreplaceable. Condition overall very good. Stored centrally in one room, save for display items. Vast majority are 20th century items, but most significant are the 19th century oil paintings.

Maps – Maps and charts. Collection rarely added to, as there are few gaps in the collection. Condition overall good. Few items on display, but often used for reference. Many pieces rare and replacement unlikely.

Household Items – Includes household implements, furniture, furnishings, fixtures and fittings. Some larger items such as minor furnishings.

Social History – Large category, and items diverse. Includes toys, games, music, sport, telecommunications, domestic service, cooking and cleaning. Range of materials and condition multitudinous, and collection steadily growing. Some larger items such as radios and prams.

Institutions – Educational and church/religious objects. Relatively small category, with emphasis on badges, programmes, insignia, signs and office equipment. Additions fairly infrequent.

War – Items from armed services and war relics. Encompasses uniforms and equipment, insignia, weapons and aeroplane debris. Condition mainly favourable. Most items in storage. Nearly all are generic objects, but local provenance vitally important. Lively collector market means elements of financial worth applicable.

Tools – Covers tradesmen's tools and scientific implements. The museum holds many of the former, mostly for carpentry, also blacksmiths' and stonemasons' tools. Mostly hand tools, and condition generally good. Few items inherently rare, their value to the Museum being their provenance. Scientific and other tools fewer in number. Quite a large proportion on display. This category is expanded infrequently.

Maritime – Broad category. Model boats; several large examples of commercial worth. Fishing gear; several larger items, condition variable. Seamen's effects; tools, garments, ship equipment – of potential commercial worth (but provenance, as always, makes each irreplaceable). Shipwreck material; diversity of items, condition often fair, and several large bulky artifacts.

Trade – Commercial goods and tools associated with businesses. Includes many bulky items (shelving, cabinets, signs). Greater bulk concerns equipment (scales, tills, barrels) and goods (bottles, packets, jars). Small proportion on display. Limited financial value as such. Most items mass–produced, so not unique to Shetland. Condition of some larger items requires work.

Natural History – Stuffed animals, fossils, geological specimens, egg collections and organic material. Most of collection in storage. Infrequently used by researchers. Herbarium is large and important collection, and irreplaceable. Bird collection contains some significant items. Geology also extensive collection, and only replaceable with very great effort. Negligible commercial value.

Currency – Currently, notes, coins and medals. Small section on display; vast majority in storage. All items have clearly recognisable commercial value to collections. The medals are individually inscribed, so are irreplaceable. The coins, although mass-produced, have (like everything in the Museum) their local connotations, so are unique in their own way.

Archived Books – The Archives collection of published works, mainly books and pamphlets from the 17th to the 21st centuries, comprise modern publications about Shetland, purchased regularly, and antiquarian works, some of them parts of bigger donated collections, including those formed by E S Reid Tait and Provost Goudie of Lerwick. The more modern books are available on open shelves in the search room, invigilated at all times by an archivist; the older and more valuable material is held in the Archives repository, and access to it is via requisition slips signed by visitors. This asset was not previously recognised in the Balance Sheet and is therefore fully recognised in 2011/12 as a revaluation gain in the Revaluation Reserve Account.

c) War Memorial

The Authority's War Memorial is reported in the Balance Sheet at depreciated historical cost. The Lerwick War Memorial is a First World War monument built around 1923 with Second World War memorials added in the 1970s.
The valuation process for this asset is the same as for Community Assets, as set out in Note 12 parts (b) and (c).

d) Heritage Assets – 5 Years of Transactions

There has been one purchase of a heritage asset during the last 3 years costing £0.025m, which has been shown in the Balance Sheet. There were no donations, disposals or impairments. It is not practicable to provide information prior to 1 April 2009.

e) Heritage Assets Change in Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the authority. As set out in our summary of significant accounting policies, the authority now requires heritage assets to be carried in the Balance Sheet at valuation.

For 2011/12, the authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets or other land and buildings assets (at valuation) in the property, plant and equipment classification in the Balance Sheet. The authority's accounting policies for recognition and measurement of heritage assets are set out in the authority's summary of significant accounting policies (see Note 1).

In applying the new accounting policy, the authority has identified that the assets that were previously held as community assets at £1.644m and other land and buildings assets at £1.464m within property, plant and equipment should now be recognised as heritage assets. These assets relate to the museum collection, the war memorial and historic buildings. The 1 April 2010 and the 31 March 2011 Balance Sheets and the 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the heritage assets is presented at its valuation at £3.108m. The element that was previously recognised in property, plant and equipment has been reclassified.
- The Balance Sheet has been fully restated for 1 April 2010. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010 £000	Restated Opening Balances as at 1 April 2010 £000	Restatement £000
Property, Plant and Equipment	367,468	365,329	(2,139)
Heritage Assets	-	2,139	2,139

Comprehensive Income and Expenditure Statement

There has been no restatement of any of the lines of the Comprehensive Income and Expenditure Statement as there has been no revaluation or impairment of these assets.

Movement in Reserves Statement – Unusable Reserves 2010/11

There has been no change in the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy.

Effect on Balance Sheet 31 March 2011

	As Previously Stated 31 March 2011 £000	As Restated 31 March 2011 £000	Restatement 2011 £000
Property, Plant and Equipment	374,529	371,433	(3,096)
Heritage Assets	-	3,096	3,096

The effect on the change in accounting policy in 2010/11 has been that heritage assets are recognised at £3.096m on the Balance Sheet.

14. 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 are purchased licences. 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.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.155m charged to revenue in 2011/12 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

There are no items of capitalised software that are individually material to the financial statements and there are no outstanding contractual commitments for the acquisition of intangible assets.

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

Years	Purchased Licences
3	Webroster
5	Financial Management Systems
5	Payroll/HR/Pension Systems
5	Housing Stock Management System
5	Libraries Systems
5	Planning Systems
5	GIS Innogistic System
5	Client Records System
5	Building/DLO Stores System
5	Microsoft Licences
5	Council Tax/Housing Benefits/Rents
5	Risk Assessment Software
7	Occupational Therapy Stock Control System
8	Facility Management System

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

31 March 2011 £000		31 March 2012 £000
	Balance at start of year	
2,086	Gross carrying amounts	2,089
(1,397)	Accumulated amortisation	(1,653)
689	**Net carrying amount at start of year**	**436**
41	Purchases	127
0	Other disposals	0
(525)	Amortisation for the period	(155)
231	Other changes	150
436	**Net carrying amount at end of year**	**558**
	Comprising:	
2089	Gross carrying amounts	2287
(1,653)	Accumulated amortisation	(1,729)
436		558

15. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term 31 March 2011 £000	Current 31 March 2011 £000		Long-Term 31 March 2012 £000	Current 31 March 2012 £000
		Financial Assets:		
		Investments:		
222,739	0	Available for sale financial assets	193,170	0
222,739	**0**	**Total Investments**	**193,170**	**0**
		Debtors:		
1,051	271	Loans and receivables	1,663	401
15	1	Financial assets carried at contract amounts	0	0
1,066	**272**	**Total Debtors**	**1,663**	**401**
		Financial Liabilities:		
		Creditors:		
0	(119)	Accrued Interest liability	0	0
0	**(119)**	**Total Creditors**	**0**	**0**

b) Income, Expense, Gains and Losses

31 March 2011				31 March 2012		
Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000		Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
0	25	**25**	Interest expense	0	0	**0**
516	0	**516**	Impairment losses	69	0	**69**
0	957	**957**	Fee expenses	0	895	**895**
516	**982**	**1,498**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**69**	**895**	**964**
(54)	(4,259)	**(4,313)**	Interest & dividend income	(77)	(2,257)	**(2,334)**
0	(23,156)	**(23,156)**	Gains on de-recognition	0	(2,860)	**(2,860)**
(54)	**(27,415)**	**(27,469)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(77)**	**(5,117)**	**(5,194)**
0	(19,382)	**(19,382)**	Gains on revaluation	0	(5,652)	**(5,652)**
0	23,156	**23,156**	Amounts recycled	0	3,705	**3,705**
0	**3,774**	**3,774**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES**	**0**	**(1,947)**	**(1,947)**
462	**(22,659)**	**(22,197)**	**Net (Gain)/Loss for the Year**	**(8)**	**(6,169)**	**(6,177)**

There were gains for available for sale financial assets on revaluation of £5.652m as at 31 March 2012 (£19.382m at 31 March 2011) and therefore no impairment has been identified and the Council did not carry out an impairment review.

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; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2011			31 March 2012	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,322	1,322	Loans and Receivables	2,064	2,064
16	16	Long-Term Debtors (mortgages)	0	0

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.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

16. Assets Held for Sale

31 March 2011 £000		31 March 2012 £000
1,245	**Balance outstanding at start of year**	**206**
	Assets newly classified as held for sale:	
206	Property, Plant and Equipment	392
	Assets declassified as held for sale:	
(1,245)	Assets sold	(206)
206	**Balance outstanding at year-end**	**392**

17. Inventories

	Ports & Harbours 2010/11 £000	Ports & Harbours 2011/12 £000	Trading Operations 2010/11 £000	Trading Operations 2011/12 £000	Infrastructure 2010/11 £000	Infrastructure 2011/12 £000	Total 2010/11 £000	Total 2011/12 £000
Balance outstanding at start of year	**2,383**	**2,717**	**752**	**755**	**474**	**551**	**3,609**	**4,023**
Purchases	960	1,359	1,752	2,969	1,419	1,358	4,131	5,686
Recognised as an expense in the year	(626)	(732)	(1,736)	(2,651)	(1,342)	(1,397)	(3,704)	(4,780)
Written off Balances	0	0	(13)	(12)	0	(16)	(13)	(28)
Reversals of write offs in previous years	0	0	0	0	0	0	0	0
Balance outstanding at year end	**2,717**	**3,344**	**755**	**1,061**	**551**	**496**	**4,023**	**4,901**

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

18. Short-Term Debtors

31 March 2011 £000		31 March 2012 £000
1,290	Central Government Bodies	2,510
389	Other Local Authorities	2,609
67	NHS Bodies	301
106	Public Corporation and Trading Funds	848
6,664	Other Entities and Individuals	5,991
8,516	**Total**	**12,259**

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 2011 £000		31 March 2012 £000
(402)	Opening balance - General Fund	(413)
108	Miscellaneous Invoices written off	32
24	Council Tax written off	18
(143)	(Charge)/Credit to General Fund for provision	0
(413)	**Closing Balance**	**(363)**
(175)	Opening balance - Housing Revenue Account	(155)
2	Miscellaneous Invoices written off	5
38	Rents written off	30
(20)	Change in Housing Revenue Account provision	0
(155)	**Closing Balance**	**(120)**

19. Cash and Cash Equivalents

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

31 March 2011 £000		31 March 2012 £000
22	Cash held by the Authority	24
7,251	Bank current accounts	10,629
103	Short-term certificates of deposit	1
7,376	**Total**	**10,654**

20. Short-Term Creditors

31 March 2011 £000		31 March 2012 £000
(3,252)	Central Government Bodies	(4,031)
(277)	Other Local Authorities	(3,144)
(33)	NHS Bodies	(108)
(344)	Public Corporations and Trading Funds	(775)
(10,131)	Other entities and individuals	(11,841)
(14,037)	**Total**	**(19,899)**

21. Provisions

Provisions are made where an event has taken place that gives the Council 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.

The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, participating authorities will submit the annual report on their emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

2010/11			2011/12	
Short-term	Long-term		Short-term	Long-term
Carbon Reduction Commitment £000	Equal Pay Claims £000		Carbon Reduction Commitment £000	Equal Pay Claims £000
0	**(4)**	**Balance at 1 April**	**0**	**(10)**
0	(6)	Additional provisions made	(142)	0
0	0	Amounts used	0	10
0	**(10)**	**Balance at 31 March**	**(142)**	**0**

22. Usable Reserves

The movements in the authority's usable and unusable reserves are detailed in the Movement in Reserves Statement.

Reconciliation of Usable Funds to the balance sheet

31 March 2011 £000		31 March 2012 £000
(3,144)	General Fund Balance	(3,658)
(114,357)	Capital Receipts Reserve/Capital Funds	(110,598)
(171)	Capital Grants Unapplied	(596)
(151,410)	Other Revenue Statutory Funds	(124,790)
(269,082)	**Total balance of usable reserves at 31 March**	**(239,642)**

23. Unusable Reserves

Reconciliation of Unusable Funds to the balance sheet

31 March 2011 £000		31 March 2012 £000
(64,271)	Revaluation Reserve	(67,923)
(19,376)	Available for Sale Financial Instruments Reserve	(21,323)
(253,562)	Capital Adjustment Account	(255,514)
91,113	Pensions Reserve	104,524
1,447	Employee Statutory Adjustment Account	2,583
(244,649)	**Total balance of unusable reserves at 31 March**	**(237,653)**

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; or
- 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 2011 £000		31 March 2012 £000	£000
(53,504)	**Balance at 1 April**		**(64,271)**
(29,007)	Upward revaluation of assets	(6,848)	
13,467	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	662	
(15,540)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(6,186)
1,636	Difference between fair value depreciation and historical cost depreciation	1,771	
404	Accumulated gains on assets sold or scrapped	763	
2,733	Prior year difference between ledger and asset register	0	
4,773	Amount written off to the Capital Adustment Account		2,534
(64,271)	**Balance at 31 March**		**(67,923)**

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 2011 £000		31 March 2012 £000
(23,150)	**Balance at 1 April**	**(19,376)**
(19,382)	Upward revaluation of assets	(6,528)
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	876
(19,382)		(5,652)
23,156	Removal of previously unrealised gains in relation to assets sold	3,705
(19,376)	**Balance at 31 March**	**(21,323)**

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 2011 £000		31 March 2012 £000
147,169	**Balance at 1 April**	**91,113**
(31,511)	Actuarial (gains) and losses on pensions assets and liabilities	10,846
(13,961)	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	14,099
(10,584)	Employer's pensions contributions and direct payments to pensioners payable in the year	(11,534)
91,113	**Balance at 31 March**	**104,524**

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2011 £000		31 March 2012 £000	£000
(258,782)	Balance at 1 April		(253,562)
	Reversal of items relating to capital expenditur debited or credited to the Comprehensive Income and Expenditure Statement:		
13,130	Charges for depreciation and impairment of Non-Current assets	13,869	
12,919	Revaluation losses on Property, Plant and Equipment	3,445	
525	Amortisation of Intangible assets	155	
1,244	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	1,521	
27,818			18,990
(4,773)	Adjustment amounts written out of the Revaluation Reserve		(2,534)
23,045	Net written out amount of the cost of Non-Current assets consumed in the year		16,456
	Capital financing applied in the year:		
(1,572)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,310)	
(4,486)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(7,344)	
0	Application of grants to capital financing from the Capita Grants Unapplied Account	(171)	
(2,604)	Statutory provision for the financing of capital investmen charged against the General Fund and HRA balances	(2,744)	
(1,813)	Capital expenditure charged against the General Fund and HRA balances	(894)	
(10,475)			(12,463)
(7,350)	Capital Fund Reserve		(5,945)
(253,562)	**Balance at 31 March**		**(255,514)**

e) Employee Statutory Adjustment Account

This 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.

31 March 2011 £000		31 March 2012 £000
1,365	**Balance at 1 April**	**1,447**
(1,365)	Settlement or cancellation of accrual made at the end of the preceding year	(1,447)
1,447	Amounts accrued at the end of the current year	2,583
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
1,447	**Balance at 31 March**	**2,583**

24. Amounts reported for Resource Allocation Decisions

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

Decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Service committees. 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; and
- 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 2011/12	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Executive £000	Boards (Harbour & College) £000	Total £000
Employee expenses	37,321	28,560	3,137	17,204	7,992	9,960	104,174
Operating costs	8,629	10,374	13,245	23,910	10,387	6,057	72,602
Transfer Payments	1,327	6,946	5,485	867	351	159	15,135
Total expenditure	**47,277**	**45,880**	**21,867**	**41,981**	**18,730**	**16,176**	**191,911**
Total income	(2,323)	(20,012)	(2,996)	(16,055)	(2,784)	(19,175)	(63,345)
Net expenditure	**44,954**	**25,868**	**18,871**	**25,926**	**15,946**	**(2,999)**	**128,566**

Income and Expenditure Analysis Comparative Figures 2010/11	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Executive £000	Boards (Harbour & College) £000	Total £000
Employee expenses	37,701	28,863	2,729	17,645	6,393	13,223	106,554
Operating costs	11,319	10,415	7,273	23,189	4,116	2,981	59,293
Transfer Payments	1,539	6,442	9,305	628	1,314	41	19,269
Total expenditure	**50,559**	**45,720**	**19,307**	**41,462**	**11,823**	**16,245**	**185,116**
Total income	(2,530)	(21,131)	(2,970)	(15,216)	(4,171)	(19,713)	(65,731)
Net expenditure	**48,029**	**24,589**	**16,337**	**26,246**	**7,652**	**(3,468)**	**119,385**

31 March 2011 £000	Summary reconcilation between Budget reported and Comprehensive Income and Expenditure Statement	31 March 2012 £000
119,385	Net expenditure in the Income and Expenditure Analysis	128,566
5,846	Net expenditure of services and support services not included in the Analysis and not reported to management for decision making	(93)
(2,787)	Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis	18,128
122,444	**Cost of Services in Comprehensive Income and Expenditure Statement**	**146,601**

Detailed reconciliation between Budget reported and Comprehensive Income and Expenditure Statement

2011/12	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
Employee expenses	104,174		(101)	2,048	106,121
Other service expenses	87,737		109	14,380	102,226
Support service recharges				(16,751)	(16,751)
Depreciation, amortisation and impairment				17,469	17,469
Interest Payments				988	988
Precepts & Levies					0
Gain or Loss on Disposal of Fixed Assets					0
Total expenditure	**191,911**	**0**	**8**	**18,134**	**210,053**
Fees, charges & other service income	(55,023)		(101)	(10)	(55,134)
Interest and investment income	(221)			4	(217)
Income from council tax	(15)				(15)
Government grants and contributions	(8,086)				(8,086)
Total Income	**(63,345)**	**0**	**(101)**	**(6)**	**(63,452)**
Cost of Services	**128,566**	**0**	**(93)**	**18,128**	**146,601**

Comparative Figures 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
Employee expenses	106,554	4,552		(18,241)	92,865
Other service expenses	78,562	5,176	5		83,743
Support service recharges					0
Depreciation, amortisation and impairment				26,574	26,574
Interest Payments					0
Precepts & Levies			310	3,682	3,992
Gain or Loss on Disposal of Fixed Assets					0
Total expenditure	**185,116**	**9,728**	**315**	**12,015**	**207,174**
Fees, charges & other service income	(65,731)	(2,181)	(60)	(14,802)	(82,774)
Interest and investment income		125			125
Income from council tax					0
Government grants and contributions		(2,081)			(2,081)
Total Income	**(65,731)**	**(4,137)**	**(60)**	**(14,802)**	**(84,730)**
Cost of Services	**119,385**	**5,591**	**255**	**(2,787)**	**122,444**

25. Trading Operations

The authority has established two trading units where the 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 2011/12 are as follows:

	2009/10		2010/11		2011/12	
	£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 breakeven over a 3 year rolling period.						
Turnover	(6,518)		(7,760)		(7,511)	
Expenditure	6,188		7,562		7,139	
Surplus		(330)		(198)		(372)
Cumulative surplus - over last three financial years		**(240)**		**(374)**		**(900)**
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 breakeven over a 3 year rolling period.						
Turnover	(4,880)		(4,713)		(4,171)	
Expenditure	4,595		4,588		4,226	
Surplus		(285)		(125)		55
Cumulative surplus - over last three financial years		**(148)**		**(190)**		**(355)**
Net (surplus)/deficit on trading operations:		**(615)**		**(323)**		**(317)**

The table above is presented exclusively to show whether each trading organisation met its statutory financial target. The figures for 2009/10 are based on UK GAAP in line with the legislative requirement for those years. The 2010/11 and 2011/12 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 the authority's services to the public (e.g. refuse collection), whilst others are support services tthe 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 2011 £000		31 March 2012 £000
(37)	Net (Surplus)/Deficit on Services to the public incl. in Cost of Services	441
(286)	Support services recharged to Expenditure of Continuing Operations	(758)
(323)	**Net (surplus)/deficit on trading operations**	**(317)**

26. 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.

Shetland Heat, Energy and Power Ltd (SHEAP) provide heating in the Lerwick area. The Council provide a service that allows them to take credit and debit card payments through the Council's income system. The Council charge them 5% of any amount paid through the system.

Shetland Box Office is a service delivered by Shetland Islands Council and Shetland Arts to event promoters in Shetland. Promoters are charged a fee for the public sale of tickets for events and festivals. Shetland Islands Council is therefore providing an agency service for the promoters to the general public.

31 March 2011 £000		31 March 2012 £000
33	Expenditure incurred in collection service for Scottish Water	27
(62)	Commission payable by Scottish Water	(65)
0	Expenditure incurred in collection service for SHEAP	0
(3)	Income payable by SHEAP	(3)
0	Expenditure incurred in collection service for Shetland Box Office	0
0	Income payable by Shetland Box Office	(1)
7	Expenditure incurred in payroll services to other organisations	7
(7)	Income payable by other organisation for payroll services	(7)
(32)	**Net surplus arising on the agency arrangements**	**(42)**

27. 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 2011 £000		31 March 2012 £000
242	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	240
5	Fees payable in respect of other services provided by Audit Scotland during the year (related to IFRS - prior year restatement)	0
0	Rebate relating to prior year accounts	(21)
247	**Total**	**219**

28. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

31 March 2011 £000		31 March 2012 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,629)	Council tax income	(8,752)
(8,672)	Non domestic rates	(14,308)
(86,894)	Non ring fenced government grants	(77,690)
(4,657)	Capital grants and contributions	(7,940)
(108,852)	**Total**	**(108,690)**
	Credited to Services	
(178)	NHS	(688)
(788)	Council Tax Benefits Subsidy	(748)
(2,855)	Housing Benefit Subsidy	(2,887)
(1,233)	Housing Support Grant	(993)
(42)	ERDF & ESF	(56)
(319)	Training Grants	(281)
(69)	Central - Government Grants	(2)
(206)	Cultural - Government Grants	(170)
(2,824)	Education - Government Grants	(2,779)
(126)	Environment - Government Grants	(85)
(136)	Planning & Development - Government Grants	(476)
(477)	Roads & Transport - Government Grants	(50)
(468)	Social Work - Government Grants	(394)
(9,721)	**Total**	**(9,609)**

29. 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 28.

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 £4.446m (£7.529m in 2010/11) to these bodies during 2011/12.

c) Officers

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

The Executive Manager - Sport and Leisure was previously responsible for the grant payable to Shetland Golf Club under a three-year service level agreement and was also a member of the golf club. This responsibility transferred during 2011/12 to the Community Planning and Development Service. In order to ensure that no undue influence had occurred in prior years with regard to the transaction, the assessment was undertaken by another member of staff and the Executive Director presented the report for consideration by Council Members.

d) Local Government Pension Scheme

The Local Government Pension Scheme is administered locally by Shetland Islands Council for the benefit of employees. The Council has made payments to the Local Government Pension Scheme as detailed in Note 34 Defined Benefit Pension Schemes.

30. 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 2011 £000		31 March 2012 £000
55,140	Opening Capital Financing Requirement	55,363
	Capital Investment:	
18,007	Property, Plant and Equipment	16,718
41	Intangible Assets	127
	Sources of Finance:	
(1,572)	Capital Receipts	(1,310)
(4,486)	Government Grants and Other Contributions	(7,516)
(7,350)	Funding from Reserves	(5,945)
	Sums set aside from Revenue:	
(1,813)	Direct Revenue Contributions	(894)
(2,604)	Loans Fund Principal	(2,744)
55,363	**Closing Capital Financing Requirement**	**53,799**
	Explanation of Movements in Year:	
223	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,564)
223	**Increase/(Decrease) in Capital Financing Requirement**	**(1,564)**

31. Leases

Finance Leases

During 2010/11 and 2011/12 the Council did not have any finance leases as lessee.

Operating Leases

a) The Authority as a Lessee

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe oil terminal where the Council lease land from Shetland Charitable Trust for £1.226m a year and subleases it to BP for the same amount. This lease arrangement is due to run until 2025 and had not been included in lease notes to previous accounts.

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

31 March 2011 £000		31 March 2012 £000
2,474	Not later than one year	2,374
9,274	Later than one year and not later than five years	9,130
18,682	Later than five years	17,219
30,430	**Total**	**28,723**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2011 £000		31 March 2012 £000
2,908	Minimum lease payments	2,824
(1,538)	Sublease payments receivable	(1,365)
1,370	**Total**	**1,459**

b) The Authority as a Lessor

Finance Leases

During 2010/11 and 2011/12 the Council did not have any finance leases as lessor.

Operating Leases

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 minimum sublease payments expected to be received in future years are:

31 March 2011 £000		31 March 2012 £000
(1,312)	Not later than one year	(1,287)
(5,200)	Later than one year and not later than five years	(5,108)
(12,072)	Later than five years	(10,628)
(18,584)	**Total**	**(17,023)**

The total value of rental income, excluding subleases, recognised during the period was £0.425m (2010/11 - £0.331m).

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

31 March 2011 £000		31 March 2012 £000
(223)	Not later than one year	(294)
(621)	Later than one year and not later than five years	(668)
(97)	Later than five years	(165)
(941)	**Total**	**(1,127)**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 and 2011/12 no contingent rents were receivable by the Council.

32. Termination Benefits

The Council terminated 65 employee contracts in 2011/12 (36 in 2010/11), incurring liabilities of £2.041m (£1.480m in 2010/11). This figure includes one off termination payments made to staff (eg. redundancy payments and enhanced pension lump sum payments) and also one off pension fund employer costs (pension strain cost). Of the 65 contracts, 33 formed part of the Blueprint for Education review and 8 were part of the Ports of the Future project.
Termination benefits differ from the exit packages disclosed in the remuneration report. This is because termination benefits show the in-year liabilities, including any enhanced pension lump sum payment, whereas exit packages show the full capitalised cost adding on any future years enhanced pension costs to the Council.

33. 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 2011/12, the Council paid £2.481m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£2.618m and 14.9% in 2010/11). 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 2011/12 these amounted to £0.800m (£0.740m for 2010/11), representing 4.77% of teachers' pensionable pay (4.21% for 2010//11). These costs are accounted for on a defined benefit basis.

34. 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:

2010/11 £000	Local Government Pension Scheme	2011/12 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
11,561	Current service cost	10,039
(30,072)	Past service cost	727
1,167	Settlements and curtailments	1,562
	Financing and Investment Income and Expenditure:	
17,900	Interest cost	16,999
(14,517)	Expected return on scheme assets	(15,228)
(13,961)	**Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**14,099**
	Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(31,511)	Actuarial (gains) and losses	10,846
(45,472)	**Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**24,945**
	Movement in Reserves Statement	
(31,511)	Actuarial losses or (gains)	10,846
(13,961)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	14,099
	Actual amount charged against the General Fund Balance for pensions in the year:	
(10,584)	Employers' contributions and direct payments to pensioners payable in the year	(11,534)
(56,056)	**Movement in the year on the Pension Reserve**	**13,411**

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2012 a loss of £81.566m (31 March 2011 was 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):

2010/11 £000		2011/12 £000
342,879	**Opening balance at 1 April**	305,998
11,561	Current service cost	10,039
17,900	Interest Cost	16,999
3,593	Contributions by scheme participants	3,482
(33,309)	Actuarial gains and losses	2,517
(7,721)	Benefits paid	(9,567)
(30,072)	Past service costs	727
1,167	Curtailments	1,562
305,998	**Closing balance at 31 March**	**331,757**

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

2010/11 £000		2011/12 £000
195,710	Opening balance at 1 April	214,885
14,517	Expected rate of return	15,228
(1,798)	Actuarial gains and losses	(8,329)
10,584	Employer contributions	11,534
3,593	Contributions by scheme participants	3,482
(7,721)	Benefits paid	(9,567)
214,885	**Closing balance at 31 March**	**227,233**

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 £2.054m (2010/11 £12.756m).

d) Scheme History

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

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present value of liabilities:					
Local Government Pension Scheme	197,917	193,332	342,879	305,998	331,757
Discretionary Benefits	0	0	0	0	0
Fair value of assets in the Loca Government Pension Scheme	**179,810**	**134,353**	**195,710**	**214,885**	**227,233**
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme	1,208	(40,844)	(122,943)	(68,445)	(77,897)
Discretionary Benefits	(19,315)	(18,135)	(24,226)	(22,668)	(26,627)
Total	**(18,107)**	**(58,979)**	**(147,169)**	**(91,113)**	**(104,524)**

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £331.757 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 £104.524 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 2013 is £11.834 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 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 31 March 2012.

The principal assumptions used by the actuary have been:

2010/11		2011/12
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity investments	6.2%
4.9%	Bonds	4.0%
5.2%	Other	4.0%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
21.5	Men	23.0
24.9	Women	25.8
	Longevity at 65 for future pensioners (in years):	
23.5	Men	24.9
27.0	Women	27.7
2.8%	Rate of inflation	3.3%
5.1%	Rate of increase in salaries	4.8%
2.8%	Rate of increase in pensions	2.5%
5.5%	Rate for discounting scheme liabilities	4.8%
70%	Take-up of option to convert annual pension into retirement lump sum	70%

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:

2010/11		2011/12
80%	Equity investments	81%
9%	Debt instruments	8%
11%	Other assets	11%

f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in each of the last five years can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	2007/08	2008/09	2009/10	2010/11	2011/12
Differences between the expected and actual return on assets	(15.6%)	(47.6%)	23.57%	(0.84%)	(3.67%)
Experience gains and losses on liabilities	0.06%	(4.19%)	1.85%	(0.13%)	(5.47%)

The actuarial present value of promised retirement benefits calculated similarly to the defined benefit obligation under IAS19, is £351 million at 31 March 2012 (£299m at 31 March 2011).

35. Contingent Liabilities

At 31 March 2012, the authority had contingent liabilities of £0.849m (£11.400m at 31 March 2011). There are a number of projects for which the Council is currently in legal dispute. These claims are being contested and are at present unresolved and not admitted.
The contingent liability at 31 March 2011 contained £8.091m relating to pension benefits for Shetland Towage staff who transferred to Shetland Islands Council Pension Scheme. This was valued by the Council's actuary at £7.600m and now forms part of the Council's total pension liability of £104.524m.

36. 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; and
- 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.

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; or
- 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 2011/12.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2012, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Estimated maximum exposure at 31 March 2011 £000	Amount at 31 March 2012 A £000	Historical experience of default (expressed as % of A) B %	Historical experience adjusted for market conditions at 31 March 2012 C %	Estimated maximum exposure to default and uncollectability at 31 March 2012 A*C £000
Deposits with Banks	0	11,450	0	0	0
Customers	26	92	25	25	23

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 £1.309m of the £3.500m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2011 £000		31 March 2012 £000
36	Less than three months	769
143	Three to six months	61
104	Six months to one year	197
164	More than one year	282
447	**Total**	**1,309**

Liquidity Risk

The authority has external investments with fund managers amounting to £193 million at 31 March 2012. 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 2012/13. All creditors are due to be paid in less than one year.

Market Risk

a) 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 2012 the composition of these funds has been diversified between the following asset classes:

- UK Equities - 35%
- Overseas Equities - 39%
- UK Government Bonds - 10%
- UK Corporate Bonds – 10%
- Other Bonds - 6%

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 £0.700m for 2012/13.

b) Price risk

The authority had £193 million of investments as at 31 March 2012 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 £7.141m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2011/12.

c) Foreign exchange risk

The authority has £75.270m 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 an 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

2010/ 11 £000		2011/12 £000	£000
	Expenditure		
2,317	Repairs and maintenance	2,195	
529	Supervision and management	551	
12,518	Depreciation and impairment of non-current assets	2,559	
20	Movement in the allowance for bad debts	0	
194	Other expenditure	950	
15,578	**Total expenditure**		**6,255**
	Income		
(5,411)	Dwelling rents	(5,625)	
(116)	Non-Dwelling rents	(119)	
(1,233)	Housing Support Grant	(993)	
2	Other Income	(7)	
(6,758)	**Total income**		**(6,744)**
8,820	**HRA share of other amounts included in the whole authority Net Cost of Services but not allocated for specific services**		**(489)**
	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
125	HRA services' share of Corporate and Democratic Core		225
8,945	**Net Cost/(Income) of HRA Services**		**(264)**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
100	(Gain) or loss on sale of HRA non-current assets		(443)
901	Interest payable and similar charges		0
(4)	Interest and investment income		(231)
1	Pension interest cost & expected return on pension assets		0
998	**Net HRA share of operating expenditure**		**(674)**
9,943	**(Surplus) or deficit for the year on HRA services**		**(938)**

c) Movement on the Housing Revenue Account Statement

2010/11 £000		2011/12 £000
0	Balance on the HRA at the end of the previous year	0
9,943	Surplus or (deficit) on the HRA Income and Expenditure Statement	(938)
	Adjustment between accounting basis and funding basis under statute	
(1,532)	Charges for depreciation and impairment of non-current assets	(1,525)
(10,986)	Revaluation losses on Property, Plant and Equipment	(1,034)
(909)	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	(450)
1,969	Statutory provision for the financing of capital investment	2004
1,195	Capital expenditure charged against HRA balances	828
808	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	892
1	Employer's pensions contributions and direct payments to pensioners payable in the year	0
489		(223)
(489)	Transfers to or (from) reserves	223
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.

31 March 2011 Number	Housing Stock	31 March 2012 Number
95	1 Apartment	103
417	2 Apartment	403
564	3 Apartment	543
678	4 Apartment	683
39	5 Apartment	38
2	8 Apartment	2
1,795	**Total**	**1,772**

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 and the amount of arrears has decreased per property.

31 March 2011 £000		31 March 2012 £000
119	**Rent Arrears**	**102**
325	Number of properties in arrears (Number)	289
18.1%	Properties in arrears as share of total stock (%)	16.3%
£366	Average amount per property in arrears (£)	£353

3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2011/12:

2010/11 £000		2011/12 £000	2011/12 £000
(175)	**Balance as at 1st April**		**(155)**
	Bad rent debt written off:		
27	Over £1,000 (Council approved)	20	
11	Under £1,000 (delegated authority)	10	
38			30
2	Miscellaneous bad debt written off		5
(135)			(120)
(20)	Contribution to/(from) Housing Revenue Account		0
(155)	**Balance as at 31st March**		**(120)**

4) Void Rents

The following table summarises the income lost due to voids in 2011/12. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2010/11 £000		2011/12 £000
2	Ladies Drive Void Rents and Charges	1
67	General Needs Void Rents and Charges	44
36	Sheltered Housing Void Rents and Charges	27
20	Refurbishment Properties Void Rents and Charges	37
125	**TOTAL**	**109**

Council Tax Income Account

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

2010/ 11 £000		2011/ 12 £000
(9,847)	**Gross Council Tax levied and contributions in lieu**	**(9,946)**
(3)	Council Tax benefits (net of Government grant)	(3)
1,162	Other discounts and reductions	1,167
34	Write-offs of uncollectable debts and allowance for impairment	0
25	Adjustment to previous years' community charge and council tax	30
(8,629)	**Transfer to General Fund**	**(8,752)**

a) Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2011/12 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.

b) Charge setting

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

c) 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 2011/12

	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	£212,000.00 to infinity	
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)		3,057	1,792	2,621	1,690	1,185	219	56	1	**10,621**
Gross Tax Base (Properties x Weighting)		18,342	12,544	20,968	15,210	13,035	2,847	840	18	**83,804**
Adjusted Properties (Band D Equivalents)		2,038	1,394	2,330	1,690	1,448	316	93	2	**9,312**
Vacant Properties (Number.):										
Mandatory Standard Exemptions		(164)	(66)	(71)	(45)	(9)	(3)	(2)	(1)	**(361)**
Chargeable Dwellings subject to Disabled Reduction (Number)		(12)	(5)	(12)	(12)	(6)	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	2,887	1,734	2,549	1,638	1,171	217	53	0	**10,261**
Types of Property (Number):										
Single Discount (25%)	6	1,226	708	967	361	174	21	7	0	**3,470**
Double Discount (50%)	0	289	108	67	45	23	2	0	0	**534**
No Discount (0%)	6	1,371	917	1,516	1,233	973	194	46	0	**6,256**
	12	2,886	1,733	2,550	1,639	1,170	217	53	0	**10,260**
Properties Subject to Council Tax (Number)	11	2,435	1,502	2,275	1,526	1,115	211	51	0	**9,126**
Net Tax Base (Properties x Weighting)	55	14,610	10,514	18,198	13,736	12,265	2,740	769	0	**72,887**
Adjusted Properties (Band D Equivalents)	6	1,623	1,168	2,022	1,526	1,363	304	85	0	**8,097**
COUNCIL TAX 2011/12:										
General Fund Charge										
Tax Yield (£	7,722	1,709,370	1,230,138	2,129,166	1,607,141	1,435,005	320,551	89,944	0	**8,529,037**
Charge per Property (£	**702**	**702**	**819**	**936**	**1,053**	**1,287**	**1,521**	**1,755**	**2,106**	

Non-Domestic Rate Income Account

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

2010/11 £000		2011/12 £000
17,912	Gross rates levied and contributions in lieu	18,645
(3,751)	Reliefs and other deductions	(4,291)
0	Payment of interest	0
(4)	Write-offs of uncollectable debts and allowance for impairment	92
14,157	Net non-domestic rate income	14,446
(83)	Adjustment to previous years' national non-domestic rates	(218)
14,074	**Contribution to non-domestic rate pool**	**14,228**
(8,795)	Distribution from non-domestic rate pool	(14,308)
123	Adjustment for years prior to the pool	0
(8,672)	**Transfer to Comprehensive Income & Expenditure Statement**	**(14,308)**

There has been a change in the distribution basis for non-domestic rates from 2011/12. The amount of non-domestic rate income distributed to the Council by the Scottish Government is now aligned to the amount collected by the Council. The distribution basis in 2010/11 was based on population.

a) 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.

Category	Number of Subjects	Rateable Value £000
Commercial	558	6,618
Industrial	494	24,635
Other	860	12,369
TOTAL	**1,912**	**43,622**

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 2011/12 is 42.6p (up from 40.7p) with a large business supplement of 0.7p for all subjects with a rateable value above £35,000.

The large business supplement contributes to the cost of the Small Business Bonus Scheme, which 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 £25,000 or less.

Trust Funds Administered by the Council

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

2010/11 £000		2011/12 £000
(16,855)	Shetland Development Trust	(12,468)
(649)	Zetland Educational Trust	(652)
(52)	Gilbertson Trust	(53)
(3)	Samuel Mullay Bequest	(3)
(5)	Others (4 Trusts)	(3)
(17,564)	**Total**	**(13,179)**

The Zetland Educational Trust, with an income of £14,500 and expenditure of £11,624, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £955, 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 essentially redundant due to their low annual income; spend was incurred within their remit of £1,617.

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 2012 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.

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 2012.

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, 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 has the ability to control 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 four entities, which fall under the criteria of subsidiaries:

- Shetland Charitable Trust;
- Shetland Towage;
- Shetland Development Trust; and
- Zetland Transport Partnership.

Shetland Charitable Trust, Shetland Development Trust and Zetland Transport Partnership have been consolidated into the Group Statements as subsidiaries. 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 three 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; and
- Orkney and Shetland Valuation Joint Board.

2) Method of Consolidation

In accordance with the Code, the subsidiaries have been fully consolidated and have a financial year-end of 31 March 2012. 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 three associates have been consolidated at their financial year-ends of 31 March 2012 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 2011/12 that was as follows:

- Northern Joint Police Board – In 2011/12 the Council contributed 6.05% of NJPB operating costs (6.15% in 2010/11);
- Highlands and Islands Fire Board – In 2011/12 the Council contributed 10.23% of HIFB operating costs (10.08% in 2010/11);
- Orkney and Shetland Valuation Joint Board – The Council contributed 51.4% of the Board's operating costs (51.7% in 2010/11); and

With the exception of Shetland Charitable Trust and 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 2012. The accounts of Shetland Charitable Trust and Shetland Development Trust 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.

Shetland Charitable Trust

The Trustees of Shetland Charitable Trust have taken legal advice regarding the inclusion of the Trust in the Council's group accounts. This states that there are no legal grounds for consolidation and as a result, in the past, they have not provided a set of financial statements for inclusion in the Council's group accounts.

It is teh section 95 officer's belief that under the requirements of the Code consolidation is required as the Shetland Charitable Trust meets the accounting definition for grouping. Therefore publicly available financial information on Shetland Charitable Trust has been used as the basis for grouping its results for the year ended 31 March 2012 and its financial position as at 31 March 2012.

Group Movement in Reserves Statement 2011/12

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Council's share of Group usable reserves £000	Total Usable Reserves £000	Council's unusable reserves £000	Council's share of Group unusable reserves £000	Total Unusable Reserves £000	£000
Balance at 31 March 2011	(3,144)	0	(114,357)	(171)	(151,410)	(236,217)	(505,299)	(244,649)	23,903	(220,746)	(726,045)
Movement in Reserves during 2011/12											
(Surplus) or deficit on the provision of services	34,661	(938)	0	0	0	6,023	**39,746**	0	0	**0**	**39,746**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	2,713	4,803	**7,516**	**7,516**
Total Comprehensive Income and Expenditure	**34,661**	**(938)**	**0**	**0**	**0**	**6,023**	**39,746**	**2,713**	**4,803**	**7,516**	**47,262**
Adjustments between accounting basis & funding basis under regulations	(10,531)	715	13	(425)	0	(789)	**(11,017)**	10,228	789	**11,017**	**0**
Adjustment for a change in the Council's share of equity in Associates	0	0	0	0	0	0	**0**	0	0	**0**	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**24,130**	**(223)**	**13**	**(425)**	**0**	**5,234**	**28,729**	**12,941**	**5,592**	**18,533**	**47,262**
Transfers to/from Earmarked Reserves	(24,644)	223	3,746	0	26,620	(36)	**5,909**	(5,945)	36	**(5,909)**	**0**
(Increase)/Decrease in 2011/12	**(514)**	**0**	**3,759**	**(425)**	**26,620**	**5,198**	**34,638**	**6,996**	**5,628**	**12,624**	**47,262**
Balance at 31 March 2012	**(3,658)**	**0**	**(110,598)**	**(596)**	**(124,790)**	**(231,019)**	**(470,661)**	**(237,653)**	**29,531**	**(208,122)**	**(678,783)**

Group Movement in Reserves Statement 2010/11

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve / Capital Funds	Capital Grants Unapplied	Other Revenue Statutory Funds	Council's share of Group usable reserves	Total Usable Reserves	Council's unusable reserves	Council's share of Group unusable reserves	Total Unusable Reserves	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010	**(161)**	**0**	**(118,581)**	**0**	**(155,025)**	**(235,920)**	**(509,687)**	**(186,902)**	**37,161**	**(149,741)**	**(659,428)**
Movement in Reserves during 2010/11											
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	(1,685)	**(11,470)**	0	0	**0**	**(11,470)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(43,277)	(11,250)	**(54,527)**	**(54,527)**
Total Comprehensive Income and Expenditure	**(19,728)**	**9,943**	**0**	**0**	**0**	**(1,685)**	**(11,470)**	**(43,277)**	**(11,250)**	**(54,527)**	**(65,997)**
Adjustments between accounting basis & funding basis under regulations	16,745	(9,454)	0	(171)	0	0	**7,120**	(7,120)	0	**(7,120)**	**0**
Adjustment for a change in the Council's share of equity in Associates	0	0	0	0	0	1,124	**1,124**	0	(1,744)	**(1,744)**	**(620)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(2,983)**	**489**	**0**	**(171)**	**0**	**(561)**	**(3,226)**	**(50,397)**	**(12,994)**	**(63,391)**	**(66,617)**
Transfers to/from Earmarked Reserves	0	(489)	4,224	0	3,615	264	**7,614**	(7,350)	(264)	**(7,614)**	**0**
(Increase)/Decrease in 2010/11	**(2,983)**	**0**	**4,224**	**(171)**	**3,615**	**(297)**	**4,388**	**(57,747)**	**(13,258)**	**(71,005)**	**(66,617)**
Balance at 31 March 2011	**(3,144)**	**0**	**(114,357)**	**(171)**	**(151,410)**	**(236,217)**	**(505,299)**	**(244,649)**	**23,903**	**(220,746)**	**(726,045)**

Group Comprehensive Income and Expenditure Account for year ended 31 March 2012

2010/11 Net Expenditure £000		2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
48,054	Education Services	52,455	(6,685)	45,770
3,102	Housing Services	8,185	(5,401)	2,784
8,820	Housing Revenue Account	6,255	(6,744)	(489)
12,719	Cultural and Related Services	12,672	1,185	13,857
6,591	Environmental Services	9,605	(2,140)	7,465
2,197	Fire Services	2,264	0	2,264
11,547	Roads and Transport Services	25,600	(9,333)	16,267
8,495	Trading Services	31,499	(20,900)	10,599
1,461	Police Services	1,485	0	1,485
9,398	Planning and Development Services	9,800	(233)	9,567
38,327	Social Work	44,227	(7,066)	37,161
2,126	Central Services to the Public	2,489	(2,152)	337
8,298	Corporate and Democratic Core	8,935	0	8,935
(29,052)	Non Distributed Costs	2,074	0	2,074
(3,582)	Associates Accounted for on an Equity Basis	9,557	(1,601)	7,956
128,501	**Cost of Services**	**227,102**	**(61,070)**	**166,032**
(327)	Other operating income			225
(33,901)	Financing and investment income and expenditure			(11,175)
(108,852)	Taxation and non-specific grant income			(108,690)
853	Tax Expenses			438
2,256	Share of (surplus) or deficit on provision of services by Associates			(7,084)
(11,470)	**(Surplus) or deficit on Provision of Services**			**39,746**
(15,540)	(Surplus) on revaluation of Property, Plant and Equipment assets			(6,303)
(19,382)	(Surplus) on revaluation of available for sale financial assets			(5,652)
23,156	Amounts recycled from AFS reserve upon derecognition			3,705
(31,771)	Actuarial (gains)/losses on pension assets/liablilities			15,816
(10,990)	Share of other comprehensive income and expenditure of Associates and Joint Ventures			(50)
(54,527)	**Other Comprehensive Income and Expenditure**			**7,516**
(65,997)	**Total Comprehensive Income and Expenditure**			**47,262**

Group Balance Sheet as at 31 March 2012

1 April 2010 £000	31 March 2011 £000		Notes	31 March 2012 £000
378,206	387,030	Property, Plant and Equipment	3	391,830
2,139	3,096	Heritage Assets		4,768
16,986	15,151	Investment Property	4	14,863
10,807	9,608	Intangible Assets	5	8,786
401,456	402,382	Long-term Investments	6	366,727
4,337	4,331	Long-term Debtors	6	4,409
813,931	**821,598**	**Long-Term Assets**		**791,383**
1,245	206	Assets Held for Sale		392
3,645	4,065	Inventories		4,955
12,014	11,614	Short-term Debtors	7	14,996
32,516	21,174	Cash and Cash Equivalents	8	25,397
49,420	**37,059**	**Current Assets**		**45,740**
(18,909)	(17,078)	Short-term Creditors	9	(23,569)
(1,147)	(1,138)	Provisions		(1,146)
(20,056)	**(18,216)**	**Current Liabilitie**		**(24,715)**
(4)	(10)	Provisions		0
(148,768)	(92,226)	Other Long-term Liabilities		(105,767)
(35,095)	(22,160)	Liabilities in Associates/Joint Ventures		(27,858)
(183,867)	**(114,396)**	**Long-Term Liabilities**		**(133,625)**
659,428	**726,045**	**Net Assets**		**678,783**
(509,687)	(505,299)	Usable Reserves		(470,661)
(149,741)	(220,746)	Unusable Reserves		(208,122)
(659,428)	**(726,045)**	**Total Reserves**		**(678,783)**

Group Cash Flow Statement for the year ended 31 March 2012

2010/11 £000		2011/12 £000	2011/12 £000
	OPERATING ACTIVITIES		
	Cash Outflows		
(108,516)	Cash paid to and on behalf of employees	(111,156)	
(93,627)	Other operating cash payments	(88,926)	
(3,407)	Precepts Paid	(3,899)	
(642)	Taxation	(751)	
(206,192)			**(204,732)**
	Cash Inflows		
2,711	Housing Rents	4,086	
551	Trading	1,429	
86,894	Revenue Support Grant	77,690	
769	DWP Grants	782	
40,511	Sales of goods and services	48,815	
3,600	Other operating cash receipts	5,741	
12,220	Other Government Grants	7,455	
8,647	Council Tax income	11,604	
8,672	NDR Income	12,639	
164,575			**170,241**
	Movement of working capital		
(414)	(Increase)/Decrease in Stock	(878)	
1,464	(Increase)/Decrease in Debtors	(3,909)	
(1,186)	Increase/(Decrease) in Creditors	5,793	
(136)			**1,006**
(41,753)	**Net Cash Outflow from Operating Activities**		**(33,485)**
	INVESTING ACTIVITIES		
	Cash Outflows		
(22,316)	Purchase of Fixed Assets	(21,029)	
(251,120)	Purchase of Long-term Investments	(122,593)	
(112,549)	Purchase of Short-term Investments	(1,856)	
(385,985)			**(145,478)**
	Cash Inflows		
1,572	Sale of Fixed Assets	1,297	
282,521	Sale of Long-term Investments	163,250	
119,300	Sale of Short-term investments	3,279	
4,657	Capital Grant receipts	7,941	
8,346	Interest Received & Dividends	7,419	
416,396			183,186
30,411	**Net Cash Inflow from Investing Activities**		**37,708**
	FINANCING ACTIVITIES		
0	Cash Outflows	0	
0	Cash Inflows	0	
0	**Net Cash Flow from Financing Activities**		**0**
(11,342)	**NET INCREASE/(DECREASE) IN CASH**		**4,223**
32,516	Cash and Cash Equivalents at 1 April		21,174
(11,342)	Net movement of Cash and Cash Equivalents during the year		4,223
21,174	**Cash & Cash Equivalent at 31 March**		**25,397**

c) Notes to the Group Accounts

1) Subsidiaries

The Group Accounts include the consolidation of the accounts of Shetland Charitable Trust (SCT), Shetland Development Trust (SDT) and Zetland Transport Partnership (ZetTrans) as subsidiaries of the Council.

Shetland Charitable Trust (SCT)

The SCT is both a charity and a trust. The governing trust deed requires that the trustees act in the best interest of the inhabitants of Shetland. Shetland Charitable Trust carries out some charitable activities itself, but mostly achieves its objects by funding other charities in Shetland. The Council has the ability to exercise control as 22 of the 24 trustees are councillors.

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.

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 Council has the ability to exercise control as 6 of the 8 members are councillors.

2) Associates

The Group financial statements include the consolidation of the investments in Northern Joint Police Board (NJPB), Highland and Islands Fire Board (HIFB) and Orkney & Shetland Valuation Joint Board (OS&VJB) as associates.

Northern Joint Police Board (NJPB)

The NJPB was established at local government reorganisation in 1975 and provides policing services to the Highlands and Islands. In 2011/12 the Council contributed 6.05% of NJPB operating costs (6.15% in 2010/11) and its share of the year-end net liability of £21.067 million (£17.750 million in 2010/11) 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	2011/12 £000
Gross Income	(4,757)	(4,942)
Gross Expenditure	3,966	5,502
Net (Surplus)/Deficit	(791)	560
Non-Current Assets	2,855	3,190
Current Assets	931	931
Current Liabilities	(443)	(544)
Non-Current Liabilities	(21,093)	(24,644)
Capital and Reserves	17,750	21,067

Highland and Islands Fire Board (HIFB)

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

In 2011/12 the Council contributed 10.23% of HIFB operating costs (10.08% in 2010/11) and its share of the yearend net liability of £6.214 million (£4.146 million in 2010/11) 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	2011/12 £000
Gross Income	(3,058)	(3,437)
Gross Expenditure	2,639	3,754
Net (Surplus)/Deficit	(419)	317
Non-Current Assets	4,714	4,712
Current Assets	486	535
Current Liabilities	(432)	(481)
Non-Current Liabilities	(8,914)	(10,980)
Capital and Reserves	4,146	6,214

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.

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 6 members of the Board out of 12 and contributed 51.4% of the Board's operating costs (51.7% in 2010/11) and its share of the year-end net liability of £0.577 million (£0.264 million in 2010/11) 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	2011/12 £000
Gross Income	(307)	(305)
Gross Expenditure	190	300
Net (Surplus)/Deficit	(117)	(5)
Non-Current Assets	0	0
Current Assets	12	7
Current Liabilities	(18)	(11)
Non-Current Liabilities	(258)	(572)
Capital and Reserves	264	577

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2012 (2011: nil).

3) Group Property, Plant and Equipment

Movement in 2011/12	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 2011	60,588	168,310	55,694	164,041	5,862	695	26,275	481,465
- additions	2,013	546	2,039	1,924			14,378	20,900
revaluation increases/(decreases) recognised in the Revaluation Reserve	(599)	992		82				475
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,217)	(3,224)	(954)			(150)		(5,545)
derecognition – disposals	(468)	(218)	(1,028)	(1,433)			(100)	(3,247)
assets reclassified (to)/ fro Assets Held for Sale	(267)	(125)						(392)
other movements in cost or valuation	(6)	3,062	14,971	3,310	332	(42)	(21,783)	(156)
At 31 March 2012	60,044	169,343	70,722	167,924	6,194	503	18,770	493,500
Accumulated Depreciation and Impairment								
at 1 April 2011	(1,571)	(32,605)	(18,733)	(41,385)	(8)	(133)	-	(94,435)
depreciation charge	(1,574)	(5,452)	(4,559)	(3,651)		(62)		(15,298)
depreciation written out to the Revaluation Reserve	184	3,838						4,022
depreciation written out to the Surplus/Deficit on the Provision of Services	37	2,045	3			19		2,104
derecognition – disposals	19		855	1,059				1,933
other movements in depreciation and impairment	6	(2)						4
At 31 March 2012	(2,899)	(32,176)	(22,434)	(43,977)	(8)	(176)	0	(101,670)
Net Book Value								
at 31 March 2012	57,145	137,167	48,288	123,947	6,186	327	18,770	391,830
at 31 March 2011	59,017	135,705	36,961	122,656	5,854	562	26,275	387,030

Comparative Movements 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	155,111	51,413	162,226	5,857	251	23,287	460,227
- additions	1,839	716	3,001	1,669	1	2	14,952	22,180
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,700	(119)		4		352	12,563
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)				(1,313)	(13,058)
derecognition – disposals								0
assets reclassified (to)/ fr Assets Held for Sale	(212)							(212)
other movements in cost or valuation	(34)	8,786	1,428	146		442	(11,003)	(235)
At 31 March 2011	60,588	168,310	55,694	164,041	5,862	695	26,275	481,465
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(27,737)	(14,603)	(37,803)	(8)	(13)	-	(82,021)
depreciation charge	(1,579)	(5,052)	(4,286)	(3,582)		(62)		(14,561)
depreciation written out to the Revaluation Reserve	1,726	114	155					1,995
depreciation written out to the Surplus/Deficit on the Provision of Services	139							139
derecognition – disposals								0
other movements in depreciation and impairment		70	1			(58)		13
At 31 March 2011	(1,571)	(32,605)	(18,733)	(41,385)	(8)	(133)	0	(94,435)
Net Book Value								
at 31 March 2011	59,017	135,705	36,961	122,656	5,854	562	26,275	387,030
at 31 March 2010	60,225	127,374	36,810	124,423	5,849	238	23,287	378,206

4) Group Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

Group 31 March 2011 £000		Group 31 March 2012 £000
16,986	**Balance at start of the year**	**15,151**
95	Additions	2
(344)	Disposals	(38)
(1,586)	Net gains/(losses) from fair value adjustments	(252)
15,151	**Balance at end of the year**	**14,863**

Investment properties are held by Shetland Leasing and Property Developments Ltd which is a subsidiary of Shetland Charitable Trust.

5) Group Intangible Assets

Group 31 March 2011 £000		Group 31 March 2012 £000
	Balance at start of year	
20,645	Gross carrying amounts	20,647
(9,838)	Accumulated amortisation	(11,039)
10,807	**Net carrying amount at start of year**	**9,608**
41	Purchases	127
0	Disposals	0
(1,471)	Amortisation for the period	(1,099)
231	Other changes	150
9,608	**Net carrying amount at end of year**	**8,786**

Included in the group intangible assets is a Fish Quota for £7,902,000 and a Fishing Boat Licence for £326,000, both relating to Shetland Development Trust. The costs of these assets are amortised over a period of 20 years, being their estimated useful lives.

6) Group Financial Assets

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

Group Long-Term 31 March 2011 £000	Group Current 31 March 2011 £000		Group Long-Term 31 March 2012 £000	Group Current 31 March 2012 £000
		Financial Assets:		
		Investments:		
400,157	0	Available for sale financial assets	364,235	0
2,225	0	Unquoted equity investment at cost	2,492	0
402,382	**0**	**Total Investments**	**366,727**	**0**
		Debtors:		
4,316	271	Loans and receivables	4,409	401
15	1	Financial assets carried at contract amounts	0	0
4,331	**272**	**Total Debtors**	**4,409**	**401**
		Financial Liabilities:		
		Creditors:		
0	(119)	Accrued Interest Liability	0	0
0	**(119)**	**Total Creditors**	**0**	**0**

Shetland Development Trust and Shetland Charitable Trust have 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
Shetland Development Trust		
Cost at 31/03/2012	7,055	4,152
Total provision at 31/03/12	(6,820)	(2,066)
Net Value	**235**	**2,086**
Shetland Charitable Trust		
Cost at 31/03/2012	2,858	719
Total provision at 31/03/12	(601)	(59)
Net Value	**2,257**	**660**

7) Group Short-Term Debtors

Group 31 March 2011 £000		Group 31 March 2012 £000
1,290	Central Government Bodies	2,543
389	Other Local Authorities	2,609
67	NHS Bodies	301
106	Public Corporations and Trading Funds	848
9,762	Other Entities and Individuals	8,695
11,614	**Total**	**14,996**

8) Group Cash and Cash Equivalents

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

Group 31 March 2011 £000		Group 31 March 2012 £000
22	Cash held by the Authority	24
19,674	Bank current accounts	22,341
1,478	Short-term certificates of deposit	3,032
21,174	**Total**	**25,397**

9) Group Short-Term Creditors

Group 31 March 2011 £000		Group 31 March 2012 £000
(3,252)	Central Government Bodies	(4,045)
(277)	Other Local Authorities	(3,144)
(33)	NHS Bodies	(108)
(344)	Public Corporations and Trading Funds	(775)
(13,172)	Other Entities and Individuals	(15,497)
(17,078)	**Total**	**(23,569)**

10) Financial Impact

The inclusion of the six organisations (subsidiaries 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 £678.783m is an increase of £201.488m from the Council's net worth of £477.295m. This is mainly due to the inclusion of the Shetland Charitable Trust that added £216.878m to the balance sheet. This is partially offset by the downward impact on net worth from the pension liabilities of the Police and Fire Boards.

11) Remuneration Report

No remuneration report has been compiled for the Group as the Shetland Development Trust and ZetTrans do not have any senior employees or make payments to senior councillors. No information is available for Shetland Charitable Trust.

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 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account 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 2011/12 (the 2011/12 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 125 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 Executive Manager - Finance and auditor

As explained more fully in the Statement of Responsibilities on Page 35, the Executive Manager - Finance 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 Shetland Islands Council and its group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; 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.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2012 and of the income and expenditure of the group and the 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 2011/12 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 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.

David McConnell, CPFA
Assistant Director
Audit Scotland
7th Floor, Plaza Tower
East Kilbride, G74 1LW

27 September 2012

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. Revenue Expenditure

This is expenditure incurred during the year on running costs such as staff, building costs, transport and supplies and services.

10. 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.

11. Outturn

This is the actual expenditure and income for the year.

12. Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

13. Actuarial

Relating to the work of an actuary. The Council uses an actuary to calculate its pension liability.

14. Contingent Liability

A contingent liability is defined as either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority; or
- a present obligation that arises from past events but is not recognised because it is not probable that the obligation will require to be settled, or the amount of the obligation cannot be measured with sufficient reliability.

15. Contingent Asset

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

16. Depreciation

Depreciation is a method of allocating the cost of a tangible asset over its useful life.

17. Amortisation

Amortisation is a method of allocating the cost of an intangible asset over its useful life.

18. Impairment

An asset is impaired when its value in the balance sheet exceeds the higher of its net sale value or value in use. An impairment loss would then be recognised.

Shetland Islands Council

Report to those charged with governance on the 2011/12 audit

AUDIT SCOTLAND

Prepared for the Audit & Standards Committee
September 2012

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

Summary

Introduction

1. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

2. ISA 260 requires us to highlight:
   - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff
   - the overall scope and approach to the audit, including any expected limitations, or additional requirements
   - expected modifications to the audit report
   - management representations requested by us
   - unadjusted misstatements, other than those that are clearly trivial
   - material weaknesses in internal control identified during the audit
   - qualitative aspects of accounting practice and financial reporting, including accounting policies
   - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2011/12 that require reporting under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of Shetland Islands Council and no responsibility to any third party is accepted.

Status of the Audit

4. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued to the Executive Manager - Finance on 31 August 2012. The more significant issues arising were discussed with the Executive Manager - Finance at a meeting on 3 September 2012.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan presented to the Audit and Standards Committee on 16 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

6. Last year we reported on the poor quality of the financial statements, inadequate working papers and the difficulties this presented for our audit. We are pleased to report that this year the financial statements were submitted on time and to the expected quality. The working papers provided were of a high standard. As a result of these improvements we were able to conduct our audit more efficiently.

Audit opinion & representations

7. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report on 28 September 2012 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

8. All errors identified during the audit have been corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.

9. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Executive Manager - Finance who should sign it and return it to us with the signed accounts prior to the independent auditor's opinion being certified.

Accounting and internal control systems

10. 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 accounts.

Matters arising

11. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

12. **Shetland Charitable Trust** - This year is the first year that the accounts of Shetland Charitable Trust (SCT) have been included in the group accounts. This is a very significant change to the council's group financial statements and is one we support. The council obtained the relevant financial information from SCT's 2011/12 audited financial statements.

13. Under ISA600 'Using the work of another auditor' we are required to consider a number of matters relating to the audit of any components included within the financial statements of the council. These matters include the auditor's professional competence and their audit opinion, the component's governance and internal control arrangements and accounting policies.

    As the consolidation of the SCT's final audited financial statements was effected at a very late stage in the audit process, and was not formally sponsored by the SCT, we did not obtain our standard assurances on the above matters in this case.

Resolution: Using information maintained by Audit Scotland and supplemented by our review of the SCT's audited financial statements and the external auditor's report on the audit, we have been able to obtain sufficient of the assurances required by IAS 600.

14. **Bad Debt Provision.** In previous years the council determined the level of bad debt provision based on the age profile of existing debt and the likelihood of collection. In 2011/12 there was a revised approach to determining an appropriate level of bad debt provision. We asked for an explanation to support the lowering of the bad debt provision to ensure that the adjustment was appropriate.

Resolution: The Executive Manager - Finance explained that the level of bad debt provision was reviewed and considered to be too high based on recent collection rates and actual debt written off. As a result the council has decided to reduce the level of bad debt until it is more in line with actual write-offs, and we concur with this approach

15. **Valuation of Council Houses**. As in previous years, the valuation date for the council's housing stock was the first day of the accounting period (i.e.1st April 2011). The date of valuation does not allow the cost of any improvement works during the reporting year to be considered. During 2011/12 there were improvement works to council houses to the value of £1.8 million. This cost has been capitalised under componentisation.

Resolution: The council has agreed that in future years the revaluation date for non-current assets will be at the end of the previous financial year.

16. **Investment Income** - The council invests in unitised products through three fund managers and each fund manager records income and fees relating to these units differently. The treatment and disclosure of investment income and fees is not consistent.

Resolution: The council have included an additional explanation of investment income and fees in the notes to the financial statements. Going forward, the council intends to review the current arrangements.

17. **Grant Payments**. Our review of a sample of year-end grant payments made by the council identified that some payments had been incorrectly posted to 2012/13 instead of 2011/12.

Resolution: The council reviewed all year-end grant payments and identified a total of £66,389 of expenditure that required to be accrued into 2011/12. The financial statements have been updated to include this accrual.

18. **Heritage Assets.** A new section has been added to the Code that requires authorities to account for tangible heritage assets in accordance with FRS 30 Heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits value to be measured in any way which is appropriate and relevant. In accordance with this Code requirement, the council have recognised assets to the value of £4.768 million.

Resolution: We are satisfied as to the approach adopted by the council in the implementation of FRS 30 and that, as this is a change in accounting policy, the previous year's figures have been appropriately restated in accordance with IAS 8.

Outstanding Information

19. As part of the completion of our audit we seek written assurances from the Executive Manager - Finance on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 will be provided to the Executive Manager - Finance. This should be signed and returned by the Executive Manager - Finance prior to the independent auditor's opinion being certified.

20. A completed Whole of Government Accounts (WGA) template is required to be submitted to us incorporating all changes to the financial statements, in advance of the deadline date of 30 September 2012.

Acknowledgements

21. We would like to express our thanks to the staff of Shetland Island's Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

APPENDIX A: Proposed Independent Auditor's Report

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

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- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement 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.

David McConnell, CPFA
Assistant Director
Audit Scotland
7th Floor, Plaza Tower
East Kilbride, G74 1LW

27 September 2012