Agenda Item
**1**

# Shetland Islands Council

**Audit & Standards Committee** **23 September 2013**

| | |
|---|---|
| **Committee Work Programme – Update (formerly Matters Arising)** | |
| **Report No: IP-16-13-F** | |
| **Performance & Improvement Adviser** | **Corporate Services** |

## 1 Summary

1.1 This report is a standing item on the Audit & Standards Committee agenda. It provides Members with an update on items from previous meetings, items raised by Members and any forthcoming or overdue "Work Programme" items.

## 2 Decision Required

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

## 3 Previous Items

**Procurement**

3.1 The 7 March 2013 meeting of the Audit & Standards Committee requested a report on "the processes and standard procedures followed by all Directorates in relation to procurement within the Council" (Min Ref 5/13).

3.2 As Members may be aware, revised contract Standing Orders were approved by Council in August 2013 that took effect from 1 September 2013. All directorates are required to follow these contract Standing Orders. Further details will be issued to managers shortly by the Capital Programme Service as to the key changes.

**Mareel**

3.3 The 7 March 2013 meeting of the Audit & Standards Committee requested a "full and comprehensive report on Mareel" (Min Ref 5/13).

3.4 The requested report will be presented at a future meeting.

**Committee Refresher Training**

3.5 The 9 May 2013 meeting of the Audit & Standards Committee agreed that "Audit and Standards Committee Refresher Training would be arranged for Members on the Committee during early June 2013" (Min Ref 07/13).

3.6 An on-line survey is underway, based on Audit Scotland's "Questions for Councillors". All Members have been invited to complete the survey in the next month.

3.7 Once the results of the survey are collated, this will be used to identify specific training needs. It is intended to arrange Member training during November 2013.

**Cash Security**

3.8 The 9 May 2013 meeting of the Audit & Standards Committee requested a report "on cash security within the Council, to include ferry fares and school meals" (Min Ref 13/13).

3.9 Appendix A contains the Council's current Cash Handling Procedures which are applicable to the areas mentioned. These procedures were updated in June 2013, circulated to all staff by email and posted on the Council's intranet.

**Anderson High School – Knab Site**

3.10 The 9 May 2013 meeting of the Audit & Standards Committee requested a report "on the £5m spent on the Anderson High School project at the Knab site" (Min Ref 13/13).

3.11 The requested report will be presented at a future meeting.

**Community Care Staffing Levels**

3.12 The 27 June 2013 meeting of the Audit & Standards Committee requested " that more detail is provided on the number of full time equivalent posts created, when they were created and the number of individuals hired to make up the FTE hours, since delegated authority was given in July 2009" (Min Ref 17/13).

3.13 The requested report will be presented at a future meeting.

## 4 Future Items

4.1 The 13 December 2012 meeting of the Council approved the process of inviting Chairs and Vice Chairs from the relevant Council Committees to attend Audit & Standards Committee meetings and discuss their Committee's work (Min Ref 26/12).

4.2 It may be appropriate to re-examine this arrangement as part of the forthcoming review of Governance arrangements.

## 5 Implications

Strategic

5.1 Delivery On Corporate Priorities – This report is in line with Section 4 of the Council's 2012/13 Improvement Plan, "We ensure the Council exhibits good governance and maintains strong internal accountability".

5.2 Community /Stakeholder Issues – NONE

5.3 Policy And/Or Delegated Authority – As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations, the remit of the Audit and Standards Committee includes promoting good internal control, financial management, risk, governance and performance management.

5.4 Risk Management – Failure to undertake a robust approach to Audit & Standards may risk the Council not following its own improvement plan.

5.5 Equalities, Health and Human Rights – NONE.

5.6 Environmental – NONE.

Resources

5.7 Financial – No direct implications.

5.8 Legal and Administration– No direct implications

5.9 Human Resources – No direct implications.

5.10 Assets And Property – No direct implications.

## 6 Conclusions

6.1 This report gives the Members of the Audit & Standards Committee an update on outstanding items and an opportunity to suggest items for the 2013/14 "Work Programme".

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For further information please contact:

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12 September 2013

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Appendix A – Cash Handling Procedures

# Cash Handling Procedures

ISSUED BY: Revenues & Safety & Risk Section

June 2013

# CASH HANDLING RECOMMENDATIONS

## INTRODUCTION

It is recognised that there are many sites, sections and locations within the Council that handle and store cash, cheques, tokens, vouchers and other similar items. The standards of security surrounding these activities vary greatly. These procedures aim to provide guidelines and standards of security to help employees carry out cash-handling duties in a safe and secure manner, without restricting operations. These measures should also ensure adequate insurance cover is retained.

## 1. Definition of 'Money'

Please note that 'money' means coinage, bank and currency notes, bills of exchange, luncheon vouchers, cheques, giro cheques, giro cash cheques, bankers drafts, national giro drafts, money orders, postal orders, current postage stamps, unused franking machine units, credit company sales vouchers, credit cards, purchasing cards, spend cards, clients' money, Value Added Tax purchase invoices and trading stamps, belonging to Shetland Islands Council or for which the Council has accepted responsibility and held in connection with the business of the Council.

## 2. Insurance Limits

- Insurance limits for cash:
    - *Locked metal cabinets*: **£500** in total for the premises or building, regardless of the number of cabinets.
    - *Safes*: **£10,000** in total for the premises or building, regardless of the number of safes.
    - *Not in safe or metal cabinet but being supervised by, or in the possession of, an employee*: **£10,000**.
    - *Not in a safe or in a locked metal cabinet and unattended*: **NO INSURANCE COVER**

- Insurance limits for non-negotiable money (e.g. crossed cheques):
    - *Safes*: **£200,000**
    - *Not in safe or metal cabinet but being supervised by, or in the possession of, an employee*: **£200,000**
    - *Locked metal cabinets*: **NO INSURANCE COVER**
    - *Not in a safe or in a locked metal cabinet and unattended*: **NO INSURANCE COVER**

- Requests may be made to Insurance Section for temporary increases to these limits but this should only be done after all other reasonably practicable alternatives have been considered to ensure that the limits are adhered to.

## 3. Security of Money

- Cash should not be left unattended.
- Due to the potential for loss due to misuse, we would strongly recommend that any Council credit cards/purchasing cards be treated in the same way as cash.
- Personal funds, staff collections or sponsorship money should be taken home by a relevant person when the property is unoccupied. Alternatively, it may be placed in a locked metal cabinet or safe. They should not be kept in locked desks. **Non-Council money is NOT insured.**
- Desks, cabinets, cupboards should be left open and no valuables kept in them. Consideration should be given to removing confidential papers from such places to more secure, metal, receptacles.
- Internal doors, office doors, etc should be locked where possible.
- Many secured or locked receptacles may be referred to as safes when in fact these receptacles are secure cupboards, strong boxes or strong cabinets. The level of money insured on the premises is higher if it is kept in a proper safe. You must not assume that any cabinet is a safe. If in doubt, seek confirmation from Insurance section.
- Where possible all small safes should be anchored to the floor in accordance with manufacturers recommended guidelines.
- Key security: All safe keys, detachable key bits or combination code numbers must be under the control of the authorised users at all times and never left in the premises where the safe is located when the building is unattended.
- For occasional events e.g. jumble sales, where extra money may be held temporarily: Insurance section should be made aware of any event where it is expected that the safe limit will be exceeded (an email would suffice)
- Regardless of the amount held, procedures should be in a place to have the money banked as soon as possible and practicable.

## 4. Dispatch or Disbursement of Cash

Where a regular exchange of monies takes places, e.g. salary, council tax, student bursary, a system or mechanism of direct electronic money transfer should be established. Where this is not possible, a crossed cheque would be an appropriate method.

Always use the safest, most secure and appropriate method. Send and receive cash equivalents in a safe and secure manner. Money should not be sent in the mail, either internally or externally.

## 5. Receipt of Money

The principles behind these recommendations are based on the phrase "for the avoidance of doubt", i.e.

• From the clients point of view that the funds, which have been received by the various Council Departments, have been fully and correctly applied to the intended accounts for the benefit of the client.

• From the Councils point of view that all the funds, which have been received from clients, are wholly applied to the clients intended accounts without any loss of value, as swiftly as possible and that no monies have been "lost".

## 6. Recommendations

With these points in mind the following list of recommendations has been drawn up. It is not intended to be a complete list of recommendations to be "set in stone", since some situations may require some local interpretation of the recommendations. **However point 16 is "set in stone" and must be adhered to at all times.**

1. All cash handling to be performed only by designated staff who have been given clear guidelines as to the procedures, responsibilities and financial regulations involved. **Ideally any cash or general post received by Departments / Schools etc. should be handled only when there is more than one employee present, this being demonstrated by two signatures on the Banking report, pay-in counterfoil or sealable Bank of Scotland deposit bag.**

2. Only official approved stationery e.g. receipts and pay-in slips should be used, receipts to be sequentially numbered and kept secure in a locked drawer/cabinet when not in use.

3. Issue of receipt books to cash handlers is controlled and recorded by Cashiers. The receipt books require to be returned to cashiers once fully utilised

4. The cash handler's office should be sufficiently secure to prevent unauthorised access. Cash containers should be locked when unattended.

5. All monies received should be processed on the day of receipt and recorded accordingly.

6. Records should show date and details of transactions, a sequential transaction number and identity of cash handler.

7. All monies received should be paid into the bank or the Finance Cashiers Office at the very earliest opportunity preferably the same day. If passed to Cashiers a list should be sent with the payments, which will be checked and signed by them and a copy returned as confirmation of payments received. If banked the list should be forwarded to Cashiers with bank slip numbers. This must include who the payment is from, how much it is for, and a payment reference so that it can be allocated immediately to the correct fund or ledger code.

8. All transaction records should be kept securely filed in date order for the required period of time.

9. Procedures should be in place to account for VAT as applicable.

10. Transaction records should identify methods of payments, i.e. Cash, Cheque, Debit/Credit cards (if applicable), and daily totals for each cash payment method.

11. At the close of the business day/period all monies should be reconciled and any shortages/overages recorded. Monies should then be banked and proof of banking i.e. E-Return submitted or stamped counterfoil should be attached to the Banking Report, and forwarded to the Finance Cashiers Office at Office Headquarters.

12. For areas with regular banking the preferred method of informing Finance of banked money, either at the bank or Post Office, is via E-Returns, which is an electronic banking report that saves the need for paper to be passed around the Council and also ensures income is promptly posted to the correct ledger codes. If you think this may help you, contact the Finance Cashiers Office for advice.

13. All Imprests - petty cash/cash floats/temporary cash (cash received in advance for specific event) should be requested from Financial Accountancy, this includes any increases/decreases of Imprest cash monies should be checked and balanced monthly, with cash floats being checked at least monthly.

    Temporary cash should be paid back as soon as possible after the event. As per item 7 above all income received should be banked timeously and allocated to appropriate ledger codes. In no circumstances should cash received be used to supplement/create petty cash or cash float. Employees should seek permission to utilise petty cash, and only after purchasing the goods, assuming evidence of purchase should they seek a cash re-imbursement. Any queries on unidentified remittances received should be swiftly pursued and resolved. If they are not able to be resolved they should be passed to the relevant Cost Centre Manager. The Security of cash is imperative and should be dealt with as per section 3 above. Applying these principles will ensure that imprests are managed appropriately and actual cash is kept to a minimum on premises.

14. With the increasing use of Debit and Credit cards, fraud has been dramatically increasing, both in number and value. It is imperative that records of customer card transactions are destroyed as soon as the information has been used. There is no reason to keep card details after the transaction has been validated. The details on an authorisation slip can be used to allow illegal access to the customer Credit/Debit Card account.

15. There is now an online facility that allows cards payments to be taken over the phone for Invoice, rent and Council Tax payments. This can also be set up to take payments for miscellaneous items, currently there are college course fees, ferry fares etc. If you think this may be helpful to you contact the Senior Revenues Officer to discuss.

16. Unless received direct by the Finance Cashiers Office, no payment for more than £5,000 should be accepted in cash for any single transaction. If you are in doubt contact the Finance Cashiers Office.

## 7. Instructions for Transporting Cash

Appropriate training should be given to staff that are expected to carry and transfer cash. This should include Personal Safety Training and should stress that in the event of an attack, money should be handed over without resistance.

Where possible, and in particular for regular banking and cash collection journeys, the route and times should be varied.

Unless completely unavoidable, the transit of cash should be by vehicle and the doors locked at all times. If possible the vehicle should be varied.

The Finance Cashiers Office have a supply of sealable Bank of Scotland deposit bags for service areas to use, which helps make the transit of money to the bank more secure.

For further information on Cash Handling please contact Insurance section on 744597. For further information on new payment methods or Income procedures contact Revenues on 744654.

Agenda Item
**2**

Shetland Islands Council

**Audit and Standards Committee** **23 September 2013**

| | |
|---|---|
| **Audit Scotland Reports** | |
| **Report No: IP-17-13-F** | |
| **Report from: Performance and Improvement Adviser** | **Corporate Services** |

## 1.0 Summary

1.1 This report contains links to ALL public reports produced by Audit Scotland, that are not part of separate reports to this Committee. It covers all reports issued 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 in Appendix A 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 Audit Scotland will be at the meeting and are happy to answer questions from Members directly.

## 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 – As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations, the Audit and Standards Committee remit includes consideration of all 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 linked reports provide valuable information for Committees and officers throughout the Council.

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For further information please contact:
*Jim MacLeod, Performance & Improvement Adviser*
*01595 744672*
*12 September 2013*

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List of Appendices

Appendix A – List of Linked Reports

END

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
| --- | --- | --- |
| Transport for health and social care – impact report<br>http://www.audit-scotland.gov.uk/docs/health/2013/ir_130613_transport_health.pdf | Development Committee | **Raising awareness and communication of key messages**<br>At one month after publication there were 20 media items, which is low, particularly as we anticipated that the nature of the report would generate interest. There were, however, a lot of major news items to compete with at the time. In contrast, within the first month of publication there had been 1,219 downloads of the main report, key messages and podcast, which is twice the average for performance audit and best value reports. |
| Community Health Partnerships – impact report<br>http://www.audit-scotland.gov.uk/docs/health/2013/ir_130613_chp.pdf | Social Services Committee | **Parliamentary questions**<br>Alex Salmond was asked questions about CHPs at First Minister's Questions on the day the report was published. The First Minister noted that the CHP report indicated that there are serious problems in some areas with a lack of integration of health and social care. He also noted *"that is exactly why the Government has established such integration as a priority".* |
| A review of telehealth in Scotland – impact report<br>http://www.audit-scotland.gov.uk/docs/health/2013/ir_130613_telehealth.pdf | Social Services Committee | **Raising awareness and communication of key messages**<br>The report received a reasonable level of media coverage following publication, including coverage on television, national radio and newspapers, and on the web. The Director of Performance Audit appeared on BBC Reporting Scotland, STV news, and BBC Radio Scotland (Good Morning Scotland). |

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
|---|---|---|
| 2012/13 Transparency and Quality Report<br>http://www.audit-scotland.gov.uk/docs/corp/2013/as_1213_quality_report.pdf | Audit and Standards Committee | **Review of audit outputs**<br>A sample of annual audit reports was reviewed by Audit Strategy for their compliance with the Code of Audit Practice, and as an assessment of the quality of reporting to the audited bodies. For the 2011/12 audits, one report for each audit provider for each sector was reviewed.<br>The key findings from the product read exercise were that reports were on the whole compliant with the Code and were of a good quality. Examples of good and poor practice will be reported back to auditors in time to be addressed for the 2012/13 annual reports. |
| Audit Scotland Annual Report and accounts 2012/13<br>http://www.audit-scotland.gov.uk/docs/corp/2013/as_annual_report_1213.pdf | Audit and Standards Committee | **Caroline Gardner, Accountable Officer :** "I am very conscious of the need to demonstrate that Audit Scotland delivers value for money and makes a real contribution to public services. We have continued to deliver on our promise to reduce the cost of audit by at least 20 per cent in real terms over the four years to 2014/15. We reduced audit fees to public bodies by ten per cent, in the last completed audit year (2011/12), and will continue with reductions in the 2012/13 audit year." |
| Audit Scotland Annual Review 2012/13<br>http://www.audit-scotland.gov.uk/docs/corp/2013/as_annual_review_1213.pdf | Audit and Standards Committee | Our auditors work closely with public bodies. We hold bodies to account for their use of public money and provide assurance to the public that organisations spend properly and get value for money. |

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
|---|---|---|
| | | Our auditors work with organisations to help them improve and provide feedback on performance. We bring an objective, professional view and a commitment and enthusiasm to improving public services. |
| Accounts Commission Annual Report 2012/13 and Action Points<br>http://www.audit-scotland.gov.uk/docs/corp/2013/ac_annual_report_1213.pdf | Audit and Standards Committee | As well as scrutiny, the Commission values its pivotal role in helping local authorities improve and achieve Best Value in the services they provide to their communities.<br><br>We include recommendations and key messages in individual reports but also seek to encourage good practice on a broader front through our 'How councils work' series.<br><br>Two reports in the series were published providing practical advice on cost information and managing performance in councils.<br><br>Both attracted interest and significant downloads from our website.<br><br>It is encouraging that councillors and council officers value these reports and that they can point to demonstrable impact in improving services for the public. |
| Accounts Commission Strategy<br>http://www.audit-scotland.gov.uk/docs/corp/2013/ac_strategy_1316.pdf | Audit and Standards Committee | "Councils face a period of continuing challenge and change with budget reductions and rising demand for services. The 2012 local government |

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
|---|---|---|
| | | elections<br>meant change for many councils in terms of political leadership and political direction. About a third of councils have changed their chief executives over the past two years. In our 2013 report An overview of local government in Scotland, we acknowledge that budgets are tightening and councils anticipate even tougher times over the next few years.” |
| Scotland’s key transport infrastructure projects<br>http://www.audit-scotland.gov.uk/docs/central/2013/nr_130621_transport_projects.pdf | Environment and Transport Committee | “Investing in major infrastructure projects, including roads, railways and bridges, is a priority for the Scottish Government and a central element of its<br>strategy to promote economic recovery in Scotland.” |
| Developing financial reporting in Scotland<br>http://www.audit-scotland.gov.uk/docs/central/2013/nr_130704_financial_reporting.pdf | Executive Committee | “Unlike most other public bodies, councils are permitted to accumulate cashbacked reserves which are used to ensure stability in cash flow, to build up funds for predicted cost pressures, and as a contingency for unforeseen expenditure. Councils may also take advantage of beneficial interest rates and borrow in advance of immediate need to fund planned investment. Councils often put these cash reserves on deposit or invest in shares and equity in order to generate extra income from interest and dividend returns.”<br><br>“Councils owned £0.6 billion in shares and equity and also had £0.5 billion on deposit at March 2012. The Scottish |

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
|---|---|---|
| | | Government permits councils to invest funds provided that investments are managed in such a way to minimise the risk<br>to the sum invested and to maximise returns.12 To help manage these funds, the<br>Scottish Government requires councils to prepare an Annual Investment Strategy<br>for each year detailing an assessment of the level of risks associated with each investment and how they are to be controlled. Councils are also required to produce an Annual Investment Report providing an objective evaluation of<br>performance against their investment strategy” |
| Housing in Scotland<br>http://www.audit-scotland.gov.uk/docs/local/2013/nr_130711_housing_overview.pdf | Social Services Committee | “Councils should:<br>• ensure housing strategies and the associated plans and investment decisions<br>are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants<br>• review the way housing services are designed and delivered in light of<br>the recent reductions in the number of people assessed as homeless and councils’ duties to homeless people<br>• review the differences in performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address future liabilities and maintain the value of the assets.” |

Appendix A – List of Linked Reports

| Report Title | Appropriate Body | Excerpt |
|---|---|---|
| | | |
| Scotland's colleges<br>http://www.audit-scotland.gov.uk/docs/central/2013/nr_130829_scotlands_colleges.pdf | Shetland College Board | "The reclassification of colleges as public bodies from April 2014 will require them to operate within the same annual budget limits as other Scottish Government bodies." |
| | | |

Agenda Item
**3**

# Shetland Islands Council

**Audit & Standards Committee** **23 September 2013**

| | |
|---|---|
| **Statutory Performance Indicators 2012-13** | |
| **Report No.: IP-15-13-F** | |
| **Performance Improvement Adviser** | **Corporate Services** |

## 1.0 Summary

1.1 The purpose of this report is to present the Statutory Performance Indicators for 2012-13. It is a requirement that these Indicators are published prior to 30 September 2013.

## 2.0 Decision Required

2.1 I recommend that the Audit and Standards Committee reviews the Performance Indicators for 2012-13 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, with the percentage change from the previous year to this year.

3.2 In comparison to 2011-12; 29 indicators have improved, 22 have declined and 9 have stayed the same. In addition, 2 indicators (in SPI13) have changed definitions and are recorded differently from previous years.

3.3 Statutory Performance Information on all other Scottish Local Authorities will be available in October. 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 2012-13. 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.

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For further information please contact:
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*6 September 2013*

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List of Appendices
Appendix A: Statutory Performance Indicators 2012-13

END

# Appendix A: Statutory Performance Indicators 2012-13

Shetland Islands Council

Report Type: PIs Report

Generated on: 16 September 2013

| | | % = difference between 11/12 and 12/13 | | | | |
|---|---|---|---|---|---|---|
| SPI Number | Title | 2009/10 | 2010/11 | 2011/12 | 2012/13 | |
| | | Value | Value | Value | Value | Value vs Previous (%) |
| SPI01.a.iii | The average number of working days per employee lost through sickness absence for: teachers | 6.9 | 6.2 | 6.7 | 5.8 | -13.43% |
| SPI01.b.iii | The average number of working days per employee lost through sickness absence for: other Local Government Employees | 12.2 | 12.2 | 13.0 | 12.2 | -6.15% |
| SPI02.a.iii | Percentage of council employees in top 2% of earners that are women | 13.0 | 12.1 | 24.6 | 22.8 | -7.32% |
| SPI02.b.iii | Percentage of council employees in top 5% of earners that are women | 20.3% | 23.8% | 21.3% | 23.8% | 11.74% |
| SPI03c | % of council buildings in which all public areas are suitable for and accessible to disabled people | 63.9% | 63.9% | 63.9% | 70.6% | 10.49% |
| SPI04.ai | Weighted rent rebate caseload | 1,199 | 1,170 | 1,143 | 1,167 | 2.1% |
| SPI04.bi | Weighted private rented sector caseload | 141 | 147 | 119 | 117 | -1.68% |
| SPI04.ci | Weighted registered social landlord caseload | 270 | 306 | 360 | 402 | 11.67% |
| SPI04.di | Weighted Council Tax Benefit caseload | 2,028 | 1,997 | 1,926 | 1,936 | 0.52% |
| SPI04.ei | The gross administration cost per benefits case | £74.39 | £77.31 | £76.36 | £75.83 | -0.69% |
| SPI05a | Cost of collecting council tax per dwelling | £16.21 | £14.39 | £12.81 | £15.75 | 22.95% |
| SPI06.a.i | Income due from council tax for the year net reliefs and rebates | £7,784,814 | £7,899,977 | £8,033,710 | £8,126,724 | 1.16% |
| SPI06.b.i | % of income due from council tax for the year that was received by the end of the year | 96.5% | 96.4% | 96.5% | 96.5% | 0% |
| SPI07c | % of invoices sampled and paid within 30 days | 87.1% | 85.5% | 81.9% | 84.9% | 3.66% |
| SPI08aii | The proportion of operational accommodation that is in a satisfactory condition. | 78.8% | 90.7% | 94.1% | 97.9% | 4.04% |
| SPI08bii | The proportion of operational accommodation that is suitable for its current use. | 66.4% | 70.5% | 72.2% | 77.1% | 6.79% |
| SPI09ai | Number of people aged 65+ receiving homecare | 415 | 450 | 419 | 396 | -5.49% |
| SPI09bi | Total number of homecare hours provided as a rate per 1,000 population aged 65+ | 819.6 | 923.7 | 740.1 | 627.3 | -15.24% |
| SPI09ci2 | Percentage of homecare clients aged 65+ receiving personal care | 55.4% | 57.1% | 55.8% | 56.3% | 0.9% |
| SPI09cii2 | Percentage of homecare clients aged 65+ receiving a service during evening/overnight | 28.7% | 31.3% | 27.2% | 27.3% | 0.37% |
| SPI09ciii2 | Percentage of homecare clients aged 65+ receiving a service at weekends | 46.5% | 46.7% | 42.7% | 41.2% | -3.51% |
| SPI10b | Number of attendances per 1,000 population to all pools | 11,210 | 11,767 | 10,783 | 10,341 | -4.1% |
| SPI10d | The number of attendances per 1,000 population for - other indoor sports and leisure facilities, excluding pools in a combined complex | 14,537 | 15,015 | 14,950 | 14,915 | -0.23% |

| | | % = difference between 11/12 and 12/13 | | | | |
|---|---|---|---|---|---|---|
| SPI Number | Title | 2009/10 | 2010/11 | 2011/12 | 2012/13 | |
| | | Value | Value | Value | Value | Value vs Previous (%) |
| SPI11ai | The number of visits to/usages of council funded or part funded museums per 1000 population | 6,052 | 8,173 | 9,391 | 9,696 | 3.25% |
| SPI11bi | The number of visits to/usages of council funded or part funded museums that were in person per 1000 population | 3,919 | 4,121 | 4,045 | 4,112 | 1.66% |
| SPI12ai | Number of Library visits per 1000 population | 8,597 | 7,920 | 10,040 | 9,402 | -6.36% |
| SPI13.a.i3 | Average time (weeks) to deal with all Major Development [Planning] applications | | | | .0 | |
| SPI13.a.ii3 | Average time (weeks) to deal with all Local Development [Planning] applications | | | | 19.7 | |
| SPI14.d.iii | Percentage of [Housing] response repairs completed within target time | 83.6% | 84.7% | 92.1% | 84.7% | -8.04% |
| SPI15.ia | Tolerable standard - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 100% | 100% | 100% | 100% | 0% |
| SPI15.iia | Free from serious disrepair - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 84% | 100% | 100% | 100% | 0% |
| SPI15.iiia | Energy efficient - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 86.5 | 86.8 | 86.6 | 87.0 | 0.46% |
| SPI15.iva | Modern facilities and services - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 98.9% | 98.9% | 98.9% | 99.1% | 0.2% |
| SPI15.va | Healthy, safe and secure - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 100% | 100% | 100% | 100% | 0% |
| SPI15.via | Total dwellings meeting SHQS - Percentage. The number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria. | 84.5% | 85.9% | 85.7% | 86.2% | 0.58% |
| SPI16.a | Percentage of rent due in the year that was lost due to voids | 1.9% | 2.2% | 1.9% | 1.6% | -15.79% |
| SPI17.a.viii | Not low demand stock: Average time to re-let houses | 34 | 31 | 20 | 23 | 15% |
| SPI17.b.x | Low demand stock: Average time to re-let houses | 203 | 189 | 115 | 102 | -11.3% |
| SPI17.c.ii.2 | Low demand stock: Average period these houses had been un-let at year end | 244 | 216 | 142 | 193 | 35.92% |
| SPI18.a.iii | Current tenants' arrears as a percentage of net rent due in the year | 3.7% | 3.5% | 3.7% | 3.7% | 0% |
| SPI18.b.iii | % of current tenants owing more than 13 weeks rent excluding those owing less than £250 | 4.0 | 3.9 | 2.0 | 2.1 | 5% |
| SPI18.c.ii.2 | Percentage of those tenants giving up their tenancy during the year that were in rent arrears. | 44.1 | 42.0 | 30.3 | 33.7 | 11.22% |
| SPI18.d.iv | Average number of weeks rent owed by tenants leaving in arrears | 9.0 | 7.6 | 10.5 | 8.5 | -19.05% |
| SPI18.e.ii.2 | Percentage of former tenant arrears written off or collected during the year | 59.1% | 61.6% | 43.3% | 42.6% | -1.62% |
| SPI19.a.P.ii2 | Homelessness (permanent) % of decision notifications issued within 28 days of date of initial presentation. Council duty to secure permanent accommodation for household - ii. | 82.8% | 78.4% | 89.2% | 94.6% | 6.05% |

| | | % = difference between 11/12 and 12/13 | | | | |
|---|---|---|---|---|---|---|
| SPI Number | Title | 2009/10 | 2010/11 | 2011/12 | 2012/13 | |
| | | Value | Value | Value | Value | Value vs Previous (%) |
| SPI19.a.P.iv2 | Homelessness (permanent) the % who are housed. Council duty to secure permanent accommodation for household - iii. | 84.8% | 68.4% | 74.7% | 60.9% | -18.47% |
| SPI19.a.P.vii | Homelessness (permanent) % of cases reassessed within 12 months of completion of duty. Council duty to secure permanent accommodation for household - iv. | 8.6% | 9.2% | 3.8% | 5.4% | 42.11% |
| SPI19.a.T.ii2 | Homelessness (temporary) % of decision notifications issued within 28 days of date of initial presentation. Council duty to secure temporary accommodation, provide advice and guidance or take reasonable measures to retain accommodation - ii. | 79.7% | 77.8% | 79.2% | 88.2% | 11.36% |
| SPI19.a.T.vi | Homelessness (temporary) % of cases reassessed within 12 months of completion of duty. Council duty to secure temporary accommodation, provide advice and guidance or take reasonable measures to retain accommodation - iv. | 7.3 | 14.6 | 8.0 | .0 | -100% |
| SPI19.b | The proportion of those provided with permanent accommodation in council stock who maintained their tenancy for at least 12 months. | 90% | 72% | 88% | 90% | 2.27% |
| SPI20ai | Domestic noise complaints a) The number of complaints of domestic noise received during the year: i) settled without the need for attendance on site | 261 | 296 | 371 | 371 | 0% |
| SPI20aii | Domestic noise complaints a) The number of complaints of domestic noise received during the year: ii) requiring attendance on site | 2 | 1 | 2 | 8 | 300% |
| SPI20aiii | Domestic noise complaints a) The number of complaints of domestic noise received during the year: iii) dealt with under Part V of the Antisocial Behaviour etc (Scotland) Act 2004. | .0 | .0 | .0 | .0 | |
| SPI20bi | For those in SPS6aii (the number of domestic noise complaints received during the year requiring attendance on site) the average time (hours) between the time of the complaint and attendance on site. | 12.0 | .0 | .1 | 48.0 | 47900% |
| SPI20bii | For those in SPS6aiii (the number of domestic noise complaints received during the year dealt with under part V of the Antisocial Behaviour etc (Scotland) Act, 2004) the average time (hours) between the time of the complaint and attendance on site | .0 | .0 | .0 | .0 | |
| SPI21aiii | % of trading standards consumer complaints that were dealt with in 14 days | 84.7 | 90.9 | 91.8 | 91.3 | -0.55% |
| SPI21biii | % of trading standards business advice requests that were dealt with in 14 days | 91.7% | 92.4% | 90.9% | 91.8% | 0.99% |
| SPI22v | Percentage of road network that should be considered for maintenance treatment - Overall | 39.3% | 40.7% | 43.7% | 42.5% | -2.75% |
| SPI23ai | Net cost of refuse collection per premise | £76.43 | £77.97 | £106.51 | £153.98 | 44.57% |
| SPI23bi | Net cost of refuse disposal per premise | £64.39 | £54.95 | £47.90 | £58.14 | 21.38% |
| SPI24 | % of household waste collected by the authority that was recycled and composted | 19.3 | 17.8 | 17.0 | 14.1 | -17% |
| SPI25vii2 | The cleanliness index achieved following inspection | 76 | 73 | 75 | 76 | 1.33% |

Agenda Item

**4**

# Shetland Islands Council

**Audit and Standards Committee** **23 September 2013**
**Pension Fund Consultative Panel** **(Date to be set)**

| | |
|---|---|
| **Pension Fund Final Audited Accounts 2012/13** | |
| **F-046-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 2012/13 for noting and to receive Audit Scotland's Annual Report on the 2012/13 Audit.

## 2.0 Decision Required

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

a) the final signed and audited Pension Fund accounts for 2012/13; and

b) Audit Scotland's Annual Report on the 2012/13 Audit

## 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 2013.

## 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 Consultative Panel 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.

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 has now confirmed that it anticipates certifying the accounts as being a true and fair statement of the Pension Fund's financial position at 31 March 2013. Audit Scotland have also provided an ISA 260 report on the 2012/13 accounts.

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List of Appendices

Appendix 1: Pension Fund Final Audited Accounts 2012/13.

Appendix 2: Pension Fund report to those charged with governance on the 2012/13 audit by Audit Scotland.

END

# Shetland Islands Council

# Pension Fund
# Annual Report and Account
# 2012-13

## Securing the Best for Shetland

## Contents



Inside cover photograph of Spiggie Beach – Andrew J Shearer

## Foreword

Welcome to the Shetland Islands Council Pension Fund Accounts for 2012/13.

The Local Government Pension Scheme (Scotland Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulations 2010) requires administering authorities to prepare a Pension Fund annual report for the financial year running from 1 April to 31 March.

The principal financial statements within the statement of accounts are the Fund Account and the Net Assets Statement as explained below:

**The Fund Account (Page 15)** – is the revenue account of the Pension Fund. The Fund Account discloses the size and type of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period. This covers dealings with members, employers and others directly involved with the scheme. Also incorporated here are returns on investments, which include both investment income and gains and losses on investments.

**The Net Assets Statement (Page 16)** – discloses the size and type of net assets of the scheme at the end of the financial year.

These statements do not take account of the obligations to pay pensions and benefits, which fall due after the end of the year. These obligations, as required by IAS26, are disclosed by the actuarial position of the Fund, which is revealed in the Actuarial Statement sections of this report (notes 17 and 18). The financial statements should therefore be read in conjunction with that information.

At 31 March 2013, the value of the Fund stood at £306m, supporting 5,557 members, an increase of £46m on the previous year, despite the volatile economic situation and unsettled market conditions.

### Future Influences

Reform of the Local Government Pension Scheme in Scotland, based on a career average rather than final salary, is under development. Plans for England and Wales have already been announced, with the framework for Scotland remaining under development. An implementation date of April 2015 is expected. The move towards a career average salary is likely to have significant implications for the Fund in relation to the transition to and administration of a new scheme, as well as implications in relation to the Fund's assets, liabilities, and future funding requirements.

Auto enrolment commenced for some of the Fund employers from 1 May 2013. The Council (being the largest employer) utilised the "transitional delay period" to defer auto-enrolment for existing eligible jobholders who were not members of the Local Government Pension Scheme, until 30 September 2017.

I would like to take this opportunity to thank all the staff and advisers who contribute to the successful management of the Shetland Islands Council Pension Fund.

James Gray MA (Hons) CPFA
Executive Manager - Finance
23 September 2013

# Administrative and Management Arrangements

## Scheme Management and Advisors

The Council's Executive Manager - Finance is the officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973 (the "section 95 officer").

The Section 95 officer has responsibility for:

a) the financial accounting of the Fund;

b) the preparation of the Pension Fund Annual Report; and

c) being the principal adviser on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is undertaken by the Treasury Section within Finance Services.

The day-to-day benefits administration for the Fund is managed by the Pensions and Payroll Sections within Finance Services.

The Pensions and Payroll Sections ensure that members of the scheme are kept up-to-date by means of an annual mail-shot which includes relevant information, for example, revised Pension Scheme booklets, Pension Fund Accounts, etc.  Pension seminars, in conjunction with the Council's Additional Voluntary Contributions (AVC) provider, take place at least once a year. The Council's Corporate Induction training sessions ensure that new employees are aware of the benefits of the LGPS. The Council's later life training sessions are aimed at communicating the benefits of the scheme to members whose retirement is imminent.

### Investment Managers

| Manager | Mandate |
|---|---|
| BlackRock | Passive Equities and Bonds |
| Schroders | Property (Fund of Funds) |

### Investment Advisor
Hymans Robertson

### Custodian
Northern Trust

### AVC Providers
Prudential
Equitable Life (closed to new members)

### Fund Actuary
Hymans Robertson

### Banker
Bank of Scotland

## External Auditor
Audit Scotland

## Performance Measurement
WM Company

## Risk Management

The Pension Fund Consultative Panel discusses, comments and makes recommendations to the Executive Committee on all Pension matters relating to the operation of the Pension Scheme. This panel has representatives from admitted bodies, employers, employees, beneficiaries and councillors.

The overview of the financial performance of the Pension Fund rests with the Executive Committee. The Executive Committee is made up of the Convener, the Political Leader, the Chairs and Vice Chairs of each of the main committees and an additional Councillor.

The ultimate responsibility for the governance of Shetland Islands Council Pension Fund rests with the full Council. The Council takes specific decisions regarding the investment strategies and major funding policy decisions.

The custodian is responsible for the safekeeping of the Pension Fund's assets while the external fund managers are responsible for the management of those assets. The investment risk is managed, as set out in the Statement of Investment Principles below, through investing in a diversified range of asset classes, over a long-term investment horizon.

The Council is the main employer in the Pension Fund, which reduces the risks of late payments. All contributions from external payroll providers are balanced monthly.

WM Company provide independent fund manager performance analysis on a quarterly basis. The overall Pension Fund investment performance is reported through the Pension Fund Consultative Panel to the Executive Committee at the mid-year point and again after the end of the financial year.

## Funding Strategy Statement (FSS)

The Regulations on the management of the Pension Fund require the administering authority to prepare, maintain and publish a written Funding Strategy Statement (the FSS). Details of the FSS are found in note 17.

The purpose of the FSS is to:

- establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as near constant employer contribution rates as possible; and
- take a prudent longer term view of funding those liabilities.

## The Statement of Investment Principles

The Shetland Islands Council meeting of 21 March 2012 approved the Shetland Islands Council Pension Fund Statement of Investment Principles. This Statement includes an introduction, administration details, objective of the Fund, types of investments, balance between different types of investment, risk, expected return on investments, realisation of investments, responsible investment, securities lending and compliance. The Council also complied with the six Myners Principles, which were contained in a schedule to the Statement of Investment Principles.

The Statement of Investment Principles is available for viewing at Finance Services.

## Monitoring Arrangements

The fund managers give an annual presentation (apart from years when Local Authority elections are held) to the Council and the members of the Pension Fund Consultative Panel in May each year. This performance review meeting covers the previous financial year and allows the Council and Pension Panel to meet the fund managers, hear their presentations and ask them questions.

Visits are made every November to each fund manager to review the six monthly investment position. The Council also receives audited quarterly performance books from the fund managers, which are used to produce a quarterly performance review report. The fund managers also provide unaudited weekly Fund values, which are used to inform council officers and councillors of the general investment position.

## Access to Information

The Committee papers and minutes are available via the Council committee management system website http://www.shetland.gov.uk/coins/.

This Annual Report and Accounts is available via the Council's website http://www.shetland.gov.uk/about_finances. A full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.

# Investment Policy and Performance Report

## Investment Policy

The investment policy, along with the Council's approach to the management of risk for the Fund as a whole and in respect of the investment managers, is outlined in the Statement of Investment Principles.

The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. The fund managers, acting in the best financial interests of the Fund, have delegated powers for the acquisition and realisation of investments, but as part of their investment process they are expected to consider all factors, including the social, environmental and ethical policies of companies in which they may invest to the extent that these may materially affect the long term prospects of such companies.

The Pension Fund asset allocation is diversified between equities, bonds, property and cash and is measured against a customised benchmark as follows:

| Asset Class | Allocation % | Benchmark |
|---|---|---|
| UK Equities | 40 | FTSE All Share |
| Overseas Equities | 40 | MSCI Relevant Indices |
| UK Gilts | 5 | FTSE Gilts All Stocks |
| UK Corporate Bonds | 5 | Iboxx £ non Gilts |
| Property | 10 | IPD Pooled Property |
| Total | 100 | |

The Pension Fund has two fund managers. The main fund manager is BlackRock which has a passive mandate investing in equities and bonds. The other fund manager is Schroders which has a mandate to invest in property.

At the end of March 2013 BlackRock invested 93% and Schroders 7% of the Pension Fund assets.

## Investment Performance

Investment performance is monitored against this benchmark return on a quarterly and annual basis.

For the year to 31 March 2013 the Fund had a return of 15.0% compared to the benchmark return of 14.6%.

The Pension Fund's investment return for the financial year to 31 March 2013 is shown for each investment area in the following table:

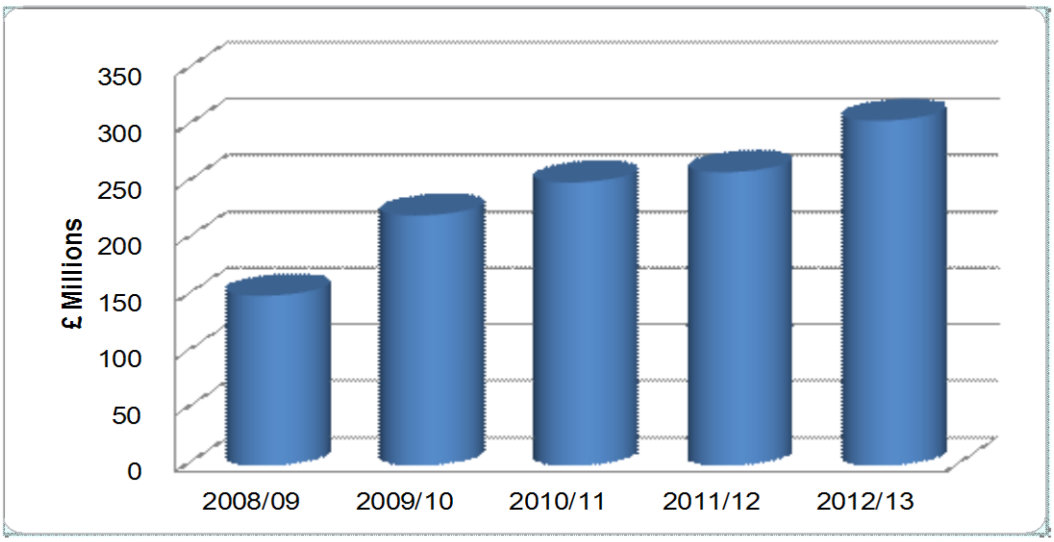
| Asset Class | Asset Allocation<br>% | Investment Return 2012/13<br>% |
|---|---|---|
| UK Equities | 40 | 16.8 |
| North America | 10 | 18.2 |
| Continental Europe | 13 | 17.4 |
| Japan | 10 | 14.2 |
| Total Pacific (ex Japan) | 9 | 26.2 |
| UK Government Bonds | 4 | 4.9 |
| Corporate Bonds | 4 | 12.1 |
| Cash | 3 | 0.5 |
| Property | 7 | 0.5 |
| Total | 100 | 15.0 |

The total investment return of 15% for 2012/13 is calculated from a combination of the quarterly investment returns during 2012/13. The investment return is calculated quarterly from the investment return of each asset class and the asset allocation at that time.

The table below shows the Pension Fund performance over the last five years, and the annualised return over three and five years:

| | 2008/09<br>% | 2009/10<br>% | 2010/11<br>% | 2011/12<br>% | 2012/13<br>% | 3 Year Annualised<br>% | 5 Year Annualised<br>% |
|---|---|---|---|---|---|---|---|
| Fund Return | -25.6 | 39.7 | 6.5 | 0.9 | 15 | 7.3 | 5.1 |
| Benchmark | -21.9 | 38.8 | 7.3 | 1.3 | 14.6 | 7.6 | 6.2 |
| Performance | -3.7 | 0.9 | -0.8 | -0.4 | 0.4 | -0.3 | -1.1 |

The table below shows the market value of the Pension Fund over the last five years:

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## Governance Compliance Statement

### Introduction

This Statement documents the governance arrangements for the pension scheme administered by Shetland Islands Council.

### Administering Authority

Shetland Islands Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Shetland Isles geographic area.

### Regulatory Framework

The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with these regulations.

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty partly directly and partly through the Executive Committee. For consultation purposes, the Council has in place a Pension Fund Consultative Panel comprising three councillors, one representative of the Admitted Bodies' employers, three employee representatives (one representing the Admitted Bodies' employees) and a pensioner and deferred members' representative. The Panel is advised by relevant officers of the Council as appropriate and meets approximately twice a year.

The financial transactions are conducted in compliance with the Council's Financial Regulations.

The Pension Fund is invested in compliance with the Council's Statement of Investment Principles.

### Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

- business is conducted in accordance with the law and appropriate standards;
- is safeguarded and properly accounted for; and
- is invested economically, efficiently and effectively.

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Fund. The management of the Pension Fund is a service in its own right, governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the FSS and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the Fund;
- performance management arrangements, especially for Fund investments and customer responsiveness;
- good systems of internal control to safeguard assets and ensure best value;

- engagement with stakeholders and clear policy on representative roles and responsibilities;
- Governance Statement;
- risk register and business continuity plans;
- support for cash and treasury management;
- training plan; and
- independent and objective scrutiny.

To this end, the Pension Fund is managed within the overall governance arrangements of Shetland Islands Council. The Council has recently refreshed its decision-making arrangements and the governance of the Pension Fund is included within those arrangements. The Shetland Islands Council meeting of 20 September 2012 refreshed the Code of Corporate Governance to ensure compliance with best practice.

### Governance Framework

The governance framework consists of the systems, processes, cultures and values by which the Pension Fund is directed and controlled. It describes the way in which staff and representatives inform all the stakeholders and ask for their views on any key issues. It is important to monitor the achievements of the Fund, particularly with regard to the long-term investment strategy. From a service point of view, as with other service areas, there is a need to ensure that the service is delivered efficiently and effectively and in line with all the characteristics of a best value service.

Critical to the success of a well managed Pension Fund is appropriate internal control arrangements. The systems of internal financial control are intended to ensure that:

- assets are safeguarded;
- transactions are authorised and properly recorded; and
- material errors or irregularities are either prevented or detected within a reasonable timescale.

The system is based on a framework of skilled staff who are aware of their responsibilities, good management information, financial regulations and effective systems and procedures.

Within Shetland Islands Council, there is a need to focus on the controls required to ensure clear separation of duties, due to the small number of staff directly employed to work on the Pension Fund. The Pension Fund relies on the same systems of internal control as those which are in place for Shetland Islands Council (which have been assessed as generally adequate and effective).

The effective arrangements include:

- an appropriate level of knowledge for committee members to ensure that they have adequate under-pinning knowledge to oversee the governance of the Pension Fund business;
- clear objectives, good decision making at committee level, clear delegations to committee and staff, with appropriate, independent scrutiny of decision making and performance;
- a clear set of objectives for the Fund, as described in the FSS and Investment Principles;

- good performance monitoring arrangements, with committee members being able to directly question those responsible for all aspects of the business on a regular basis;
- a clear statement of risk, combined with effective risk management arrangements;
- an annual review of compliance against regulation, guidance and best practice arrangements;
- the Monitoring Officer ensuring compliance with regulation and guidance;
- clear monitoring arrangements;
- compliance with LGPS Investment Regulations;
- compliance with the CIPFA / Myners investment principles;
- appropriate custodian arrangements for investments;
- codes of conduct to support good relationships between committee members and staff who support the work of the Pension Fund;
- a demonstrable best value service, including good use of benchmarking data on the cost and quality of service provided; and
- effective internal control arrangements.

The governance framework cannot eliminate all risks of failure to meet policy objectives. An effective framework can, however, provide a reasonable (but not absolute) assurance of effectiveness.

## Review of Effectiveness

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

- direct feedback from stakeholders;
- effective performance reporting arrangements and management information;
- financial and budget monitoring reports;
- performance indicators and benchmarking data, on cost and quality of service;
- specific internal audit reviews;
- self assessment exercises against performance standards;
- the annual report and accounts; and
- external audit observations, comments and recommendations for improvement.

The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit and Standards Committee. The Internal Audit service operates in accordance with CIPFA's Code of Practice for Internal Audit. The service works to an Annual Plan, based on the approved Audit Strategy and an annual assessment of the known and potential risks.

The Internal Audit service reports directly to the Chief Executive.

The annual financial statement of Shetland Islands Council Pension Fund is subject to external audit. The external auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.

Each year, the external auditors undertake an assessment of the internal controls in operation in the Council, to determine whether they can place reliance on them in the preparation of the final accounts.

The Local Government Pension Scheme (LGPS) regulations require LGPS administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement.

The Governance Compliance Statement set out below describes the extent to which the governance arrangements comply with best practice and any actions required to implement improvements.

| Principle | Compliance and Comments |
|---|---|
| **Structure** | |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Yes |
| That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Yes |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Yes |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | Yes |
| **Committee Membership and Representation** | |
| All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>i) employing authorities (including non-scheme employers, e.g., admitted bodies);<br>ii) scheme members (including deferred and pensioner scheme members);<br>iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis). | <br><br>i) Yes<br>ii) Yes<br>iii) Yes, e.g. engaging with an actuary or investment manager when professional advice required. |

| Principle | Compliance and Comments |
|---|---|
| Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Yes |
| **Selection and role of lay members** | |
| That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Yes |
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Yes |
| **Voting** | |
| The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Yes |
| **Training/Facility time/Expenses** | |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Yes<br>A Member Development Programme is in place. The Constitution clearly sets out the scope of approved duties. There is supplementary guidance to ensure Members' expenses are reimbursed in line with regulatory requirements. |
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | No<br>The policies for employer representatives and staff representatives are necessarily different and cannot be equally applied. |
| That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | Yes<br>A Member Development Programme is being implemented. All member development is being monitored and logged centrally. Personal development plans are in place for 18 out of 22 Members. |
| **Meetings (frequency/quorum)** | |
| That an administering authority's main committee or committees meet at least quarterly. | Yes, the Executive Committee meets at least six times per annum with pension matters forming only part of their business. |

| Principle | Compliance and Comments |
| --- | --- |
| That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | Yes |
| That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Not applicable |
| **Access** | |
| That subject to any rules in the Councils' constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Yes |
| **Scope** | |
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Yes |
| **Publicity** | |
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Yes<br>The Annual Newsletter is available to all Members.The Annual Report and Accounts will be made available on-line. |

## Certification

It is our opinion that the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of the principal objectives of the Pension Fund will be identified and actions taken to avoid or mitigate their impact.

……………………………………… 
Mark Boden

Chief Executive

**Date: 23 September 2013**

………………………………………
James Gray

Executive Manager - Finance

**Date: 23 September 2013**

## Statement of Responsibilities for the Statement of Accounts

### The Administering Authority's Responsibility

The Authority is required to:

- make arrangements for the proper administration of its Pension Fund and to ensure that the proper officer has the responsibility for the administration of those affairs; in this Authority 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; and

- approve the Financial Statements 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 Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

It is the responsibility of the 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; and

- complied with the local authority Code.

The Executive Manager - Finance has also:

- kept proper accounting records which were up to date; and

- 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 Pension Fund at the reporting date and its income and expenditure for the year ended 31 March 2013.

………………………………………………………..
James Gray MA (Hons) CPFA
Executive Manager – Finance
(Section 95 Officer)

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# Pension Fund Account 2012/13

| 2011/12 £000 | | Notes | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the scheme** | | | |
| (15,922) | Contributions | 7 | (17,323) | |
| (2,269) | Transfers in from other pension funds | 8 | (762) | |
| (26) | Other income | | (27) | |
| (18,217) | | | | (18,112) |
| 10,860 | Benefits payable | 9 | 10,209 | |
| 213 | Payments to and on account of leavers | 10 | 624 | |
| 203 | Administrative expenses | 11 | 207 | |
| 9 | Other payments | | 3 | |
| 11,285 | | | | 11,043 |
| (6,932) | **Net (additions)/withdrawals from dealing with members** | | | (7,069) |
| | **Returns on investments** | | | |
| (761) | Investment income | 12 | (849) | |
| (1,541) | (Profits) and losses on disposal of investments and change in market value of investments | 15b | (38,600) | |
| 463 | Investment management expenses | 13 | 442 | |
| (1,839) | **Net returns on investments** | | | (39,007) |
| (8,771) | **Net (increase)/decrease in the net assets available for benefits during the year** | | | (46,076) |

## Net Assets Statement as at 31 March 2013

| 2011/12 £000 | | Notes | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|---|
| 249,129 | Investment Assets | 14 | 294,661 | |
| 10,567 | Cash Deposits | 14 | 10,610 | |
| 259,696 | | | | 305,271 |
| 2,698 | Current Assets | 19 | | 1,868 |
| (2,255) | Current Liabilities | 20 | | (924) |
| 260,139 | **Net assets of the fund available to fund benefits at the period end** | | | 306,215 |

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

The audited accounts were authorised for issue on 23 September 2013.

……………………………………………
James Gray MA (Hons) CPFA
Executive Manager – Finance
(Section 95 Officer)

## Notes to the Accounts

### 1. Description of Fund

The Shetland Islands Council Pension Fund is part of the Local Government Pension Scheme and is administered by Shetland Islands Council. The Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary. The underlying statutory powers underpinning the scheme, are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2008 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended); and
- the LGPS (Management and Investment of Funds) Regulations 2010.

It is a contributory defined pension scheme administered by Shetland Islands Council to provide pensions and other benefits for pensionable employees of scheduled bodies, Shetland Islands Council, Orkney and Shetland Valuation Joint Board and admitted bodies within Shetland. Teachers are not included as they have a separate national pension scheme.

The Fund is overseen by the Pension Fund Consultative Panel, which is a Panel of the Shetland Islands Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shetland Islands Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 19 employer organisations with active members within Shetland Islands Council Pension Fund including the Council itself, as detailed below:

| 31 March 2012 | | Shetland Islands Council Pension Fund | | 31 March 2013 |
|---|---|---|---|---|
| | 19 | Number of employers with active members | | 19 |
| | | **Number of employees in scheme** | | |
| 2,664 | | Shetland Islands Council | 2,507 | |
| 352 | | Other employers | 351 | |
| | **3,016** | **Total** | | **2,858** |
| | | **Number of pensioners/dependants** | | |
| 1,093 | | Shetland Islands Council | 1,187 | |
| 74 | | Other employers | 80 | |
| | **1,167** | **Total** | | **1,267** |
| | | **Deferred pensioners** | | |
| 1,100 | | Shetland Islands Council | 1,221 | |
| 194 | | Other employers | 211 | |
| | **1,294** | **Total** | | **1,432** |
| | **5,477** | **Scheme Total** | | **5,557** |

## c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2008 and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2011 set these employers’ contribution rates which range from 16.9% to 29.7% of pensionable pay.

## d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

| | Service pre 1 April 2009 | Service post 31 March 2009 |
|---|---|---|
| Pension | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| Lump Sum | Automatic lump sum of 3 x salary.<br><br>In addition, part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br><br>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to Shetland Islands Council scheme handbook available from Office Headquarters, 8 North Ness Business Park, Lerwick, Shetland.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from retail prices to consumer prices index. This change took effect from 1 April 2011.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

### a) Accounting Standards Issued, not Adopted

Accounting standards issued but not adopted by the code in 2012/13 are:

- Amendments to IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)
- Amendments to IAS 19 Employee Benefits (June 2011)

There should be no material impact of not adopting these standards in 2012/13. These will be adopted in the 2013/14 Statement of Accounts.

## 3. Summary of Significant Accounting Policies

### Fund account - revenue recognition

### a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accrual basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets. Amounts not due until future years are classed as long-term financial assets.

### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

### c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues.

ii) Distributions from pooled funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Fund account - expense items

### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of the investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All costs relating to staff of the pensions administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

### g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

One of the investment managers invests using a fund of funds approach and within these unit trusts managers levy charges.

Any fees due but unpaid are disclosed in the net assets statement as current liabilities.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs, representing management time spent by officers on investment management, are charged to the Fund in accordance with Council policy.

### Net assets statement

### h) Financial assets

Financial assets are included in the net assets statement on a bid market value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the value of the asset are recognised by the Fund.

The values of investments shown in the net assets statement are determined as follows:

Pooled investment vehicles
These are valued at closing bid price if both bid and offer prices are published; or if single priced, at closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

### i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the market rates at the date of transaction. End-of-year market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchase and sales outstanding at the end of the reporting period.

### j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the net assets statement (Note 18).

### l) Additional voluntary contributions

Shetland Islands Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Equitable Life (closed to new members) as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 22).

## 4. Critical Judgements in Applying Accounting Policies

### Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5. 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 Council 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 net assets statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Actuarial present value of promised retirement benefits | 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 fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance, 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £41.318m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £13.078m, and a one-year increase in assumed life expectancy would increase the liability by approximately £11.900m. |

## 6. Events after the Balance Sheet Date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

## 7. Contributions Receivable

By category

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| (11,149) | Employers - normal | (13,168) |
| (738) | Employers - augmentation | (328) |
| (4,035) | Members - normal | (3,827) |
| **(15,922)** | **Total** | **(17,323)** |

By authority

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| (13,678) | Administering authority | (15,094) |
| (100) | Scheduled bodies | (120) |
| (2,144) | Admitted bodies | (2,109) |
| **(15,922)** | **Total** | **(17,323)** |

## 8. Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 0 | Group transfers | 0 |
| (2,269) | Individual transfers in | (762) |
| **(2,269)** | **Total** | **(762)** |

## 9. Benefits Payable

By category

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 6,132 | Pensions | 7,144 |
| 4,308 | Commutation and lump sum retirement benefits | 2,745 |
| 420 | Lump sum death benefits | 320 |
| **10,860** | **Total** | **10,209** |

By authority

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 10,147 | Administering authority | 9,408 |
| 87 | Scheduled bodies | 69 |
| 626 | Admitted bodies | 732 |
| **10,860** | **Total** | **10,209** |

## 10. Payments to and on Account of Leavers

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 37 | Refunds to members leaving service | 14 |
| 35 | Payments for members joining state scheme | 11 |
| 141 | Individual transfers | 599 |
| **213** | **Total** | **624** |

## 11. Administrative Expenses

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 101 | Staff time allocations | 121 |
| 49 | Support services and system costs | 49 |
| 5 | Printing and publications | 1 |
| 0 | Governance costs | 3 |
| 14 | Actuarial fees | 1 |
| 34 | External audit fees | 32 |
| **203** | **Total** | **207** |

## 12. Investment income

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| (602) | Pooled property unit trusts - UK | (668) |
| (47) | Pooled property unit trusts - Overseas | (72) |
| (73) | Interest on cash deposits | (57) |
| (39) | Other | (52) |
| **(761)** | **Total** | **(849)** |

## 13. Investment Expenses

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 195 | Management fees | 208 |
| 200 | Unit trust manager charges | 163 |
| 31 | Custody fees | 35 |
| 36 | Performance monitoring service | 33 |
| 1 | Actuarial fees - investment consultancy | 3 |
| **463** | **Total** | **442** |

## 14. Investments

| Market Value 31 Mar 2012 £000 | | Market Value 31 Mar 2013 £000 |
|---|---|---|
| | **Investment assets** | |
| 208,266 | Pooled funds | 249,810 |
| 21,690 | Fixed income unit trusts | 25,446 |
| 19,156 | Pooled property unit trusts | 19,378 |
| 10,562 | Cash deposits | 10,610 |
| 17 | Recoverable withholding tax | 27 |
| 5 | Investment income due | 0 |
| **259,696** | **Total investment assets** | **305,271** |

## 14a. Reconciliation of movements in investments

| | Market Value 01/04/2012 | Purchases during the year | Sales during the year | Change in market value during the year | Market Value 31/3/2013 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Investment assets** | | | | | |
| Pooled funds | 208,266 | 4,465 | (267) | 37,346 | 249,810 |
| Fixed income unit trust | 21,690 | 1,837 | 0 | 1,919 | 25,446 |
| Pooled property unit trusts | 19,156 | 3,678 | (2,791) | (665) | 19,378 |
| | 249,112 | 9,980 | (3,058) | 38,600 | 294,634 |
| Recoverable withholding tax | 17 | | | | 27 |
| | 249,129 | | | | 294,661 |
| Other investment balances: | | | | | |
| Cash deposits | 10,562 | | | | 10,610 |
| Investment income due | 5 | | | | 0 |
| **Net investment assets** | **259,696** | **9,980** | **(3,058)** | **38,600** | **305,271** |

| | Market Value 01/04/2011 £000 | Purchases during the year £000 | Sales during the year £000 | Change in market value during the year £000 | Market Value 31/3/2012 £000 |
|---|---|---|---|---|---|
| **Investment assets** | | | | | |
| Pooled funds | 199,082 | 13,000 | (3,062) | (754) | 208,266 |
| Fixed income unit trust | 22,663 | 0 | (3,385) | 2,412 | 21,690 |
| Pooled property unit trusts | 18,215 | 3,730 | (2,672) | (117) | 19,156 |
| Currency | 0 | | | | 0 |
| | 239,960 | 16,730 | (9,119) | 1,541 | 249,112 |
| Recoverable withholding tax | 24 | | | | 17 |
| | 239,984 | | | | 249,129 |
| Other investment balances: | | | | | |
| Cash deposits | 10,634 | | | | 10,562 |
| Dividends receivable | 0 | | | | 5 |
| **Net investment assets** | **250,618** | **16,730** | **(9,119)** | **1,541** | **259,696** |

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

## 14b. Analysis of investments

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| | **Additional analysis** | |
| 102,901 | Pooled funds (UK) | 122,169 |
| 105,365 | Pooled funds (Overseas) | 127,641 |
| 10,893 | Fixed income unit trusts (UK bonds) | 13,332 |
| 10,797 | Fixed income unit trusts (UK corp bonds) | 12,114 |
| 15,650 | Pooled property unit trust (UK) | 16,265 |
| 3,506 | Pooled property unit trust (Overseas) | 3,113 |
| **249,112** | **Total investment assets** | **294,634** |

Investments analysed by fund manager (including investment assets and external cash):

| Market Value 31 Mar 2012 £000 | % | | Market Value 31 Mar 2013 £000 | % |
|---|---|---|---|---|
| 239,342 | 92 | BlackRock | 284,971 | 93 |
| 20,354 | 8 | Schroders | 20,300 | 7 |
| **259,696** | | | **305,271** | |

The following investments represent more than 5% of the net assets of the scheme:

| Market Value 31 Mar 2012 £000 | % | | Market Value 31 Mar 2013 £000 | % |
|---|---|---|---|---|
| 34,704 | 13.4 | BlackRock Europe ex UK index | 40,742 | 13.3 |
| 23,131 | 8.9 | BlackRock Japan index | 28,908 | 9.5 |
| 24,815 | 9.6 | BlackRock North American index | 29,335 | 9.6 |
| 22,715 | 8.7 | BlackRock Pacific Rim index | 28,656 | 9.4 |
| 102,424 | 39.4 | Aquila Life UK equity index | 121,957 | 40.0 |

## 15. Financial Instruments

### 15a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| 31 Mar 2012 | | | | 31 Mar 2013 | | |
|---|---|---|---|---|---|---|
| Available for sale financial assets £000 | Receivables £000 | Financial liabilities £000 | | Available for sale financial assets £000 | Receivables £000 | Financial liabilities £000 |
| | | | **Financial assets** | | | |
| 208,266 | - | | Pooled funds | 249,810 | - | |
| 21,690 | - | | Fixed income unit trusts | 25,446 | - | |
| 19,156 | - | | Pooled property unit trusts | 19,378 | - | |
| - | 11,473 | | Cash | - | 11,160 | |
| 17 | - | | Recoverable withholding tax | 27 | - | |
| - | 40 | | Prepayments | - | - | |
| - | 1,752 | | Debtors | - | 1,318 | |
| **249,129** | **13,265** | **0** | | **294,661** | **12,478** | **0** |
| | | | **Financial liabilities** | | | |
| - | - | - | Other investment balances | - | - | - |
| - | - | (2,221) | Creditors | - | - | (924) |
| **0** | **0** | **(2,221)** | | **0** | **0** | **(924)** |
| **249,129** | **13,265** | **(2,221)** | | **294,661** | **12,478** | **(924)** |

### 15b. Net gains and losses on financial instruments

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| | **Financial assets** | |
| (1,541) | Available-for-sale financial assets | (38,600) |
| **(1,541)** | **Total** | **(38,600)** |

### 15c. Value of financial instruments

| 31 Mar 2012 | | | 31 Mar 2013 | |
|---|---|---|---|---|
| Book value £000 | Market value £000 | | Book value £000 | Market value £000 |
| | | **Financial assets** | | |
| 180,656 | 249,129 | Available-for-sale financial assets | 187,608 | 294,661 |
| **180,656** | **249,129** | **Total** | **187,608** | **294,661** |

## 16. Nature and Extent of Risks Arising from Financial Instruments

### Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Council. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

### Market risk

Market risk is the risk of loss from fluctuations in equity, bond and property prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market condition, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industrial sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate this price risk through diversification and the selection of investments, which is monitored by the Council and the fund managers to ensure it is within limits specified in the Fund investment strategy.

### Other Council price risk - sensitivity analysis

In agreement with the Fund's performance analyst and following analysis of historical data and expected investment return, during the financial year, the Council has determined that the following movements in market price risk are deemed reasonably possible for the financial year 2013/14 reporting period:

| Asset Type | Potential market movements (+/-) |
|---|---|
| Pooled funds (UK) | 12.97% |
| Pooled funds (Overseas) | 12.99% |
| Fixed income unit trust (UK bonds) | 5.50% |
| Fixed income unit trust (UK corp bonds) | 4.63% |
| Pooled property unit trusts (UK) | 1.82% |
| Pooled property unit trusts (Overseas) | 7.56% |
| Cash | 0.02% |
| Investment income due | 0.00% |

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Funds' asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

| Asset Type | Value as at 31 March 2013<br>£000 | Percentage Change<br>% | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 10,610 | 0.02% | 10,612 | 10,608 |
| **Investment portfolio assets:** | | | | |
| Pooled funds (UK) | 122,169 | 12.97% | 138,014 | 106,324 |
| Pooled funds (Overseas) | 127,641 | 12.99% | 144,222 | 111,060 |
| Fixed income unit trust (UK bonds) | 13,332 | 5.50% | 14,065 | 12,599 |
| Fixed income unit trust (UK corp bonds) | 12,114 | 4.63% | 12,675 | 11,553 |
| Pooled property unit trusts (UK) | 16,265 | 1.82% | 16,561 | 15,969 |
| Pooled property unit trusts (Overseas) | 3,113 | 7.56% | 3,348 | 2,878 |
| Recoverable withholding tax | 27 | 0.00% | 27 | 27 |
| **Total assets** | **305,271** | | **339,524** | **271,018** |

| Asset Type | Value as at 31 March 2012<br>£000 | Percentage Change<br>% | Value on Increase<br>£000 | Value on Decrease<br>£000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 10,567 | 0.00% | 10,567 | 10,567 |
| **Investment portfolio assets:** | | | | |
| Pooled funds (UK) | 102,901 | 15.20% | 118,542 | 87,260 |
| Pooled funds (Overseas) | 105,365 | 15.00% | 121,170 | 89,560 |
| Fixed income unit trust (UK bonds) | 10,893 | 5.50% | 11,492 | 10,294 |
| Fixed income unit trust (UK corp bonds) | 10,797 | 5.10% | 11,348 | 10,246 |
| Pooled property unit trusts (UK) | 15,650 | 5.40% | 16,495 | 14,805 |
| Pooled property unit trusts (Overseas) | 3,506 | 12.80% | 3,955 | 3,057 |
| Recoverable withholding tax | 17 | 0.00% | 17 | 17 |
| **Total assets** | **259,696** | | **293,586** | **225,806** |

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2013 is set out below:

| 31 Mar 2012<br>£000 | | 31 Mar 2013<br>£000 |
|---|---|---|
| | **Asset type** | |
| 10,567 | Cash and cash equivalents | 10,610 |
| 906 | Cash balances | 550 |
| **11,473** | **Total** | **11,160** |

## Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is viewed as a reasonable level of risk sensitivity for the Fund under current interest rate circumstances. The Fund's performance analyst has also agreed that the long-term average rates are expected to move less than 110 basis points (hence 100 basis points used in the examples below) from one year to the next and experience suggests that such movements are possible.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

| Asset Type | Carrying amount as at 31 March 2013 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and cash equivalents | 10,610 | 106 | (106) |
| Cash balances | 550 | 6 | (6) |
| **Total change in assets available** | **11,160** | **112** | **(112)** |

| Asset Type | Carrying amount as at 31 March 2012 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and cash equivalents | 10,567 | 106 | (106) |
| Cash balances | 906 | 9 | (9) |
| **Total change in assets available** | **11,473** | **115** | **(115)** |

## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£ sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than £ sterling.

The following table summarises the Fund's currency exposure as at 31 March 2013 and as at the previous period end:

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| | **Asset type** | |
| 105,365 | Pooled Funds - overseas equities | 127,641 |
| 3,506 | Pooled Property Unit Trusts - overseas | 3,113 |
| **108,871** | **Total** | **130,754** |

## Currency risk - sensitivity analysis

Following analysis of data provided by the Council's performance analysts, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.2%. This analysis assumes that all other variables, in particular interest rates, remain constant. A 5.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset Type | Carrying amount as at 31 March 2013 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +5.2% | -5.2% |
| | £000 | £000 | £000 |
| Pooled Funds - overseas equities | 127,641 | 134,278 | 121,004 |
| Pooled Property Unit Trusts - overseas | 3,113 | 3,275 | 2,951 |
| **Total change in assets available** | **130,754** | **137,553** | **123,955** |

| Asset Type | Carrying amount as at 31 March 2012 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +9.2% | -9.2% |
| | £000 | £000 | £000 |
| Pooled Funds - overseas equities | 105,365 | 115,059 | 95,671 |
| Pooled Property Unit Trusts - overseas | 3,506 | 3,829 | 3,183 |
| **Total change in assets available** | **108,871** | **118,888** | **98,854** |

## Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they meet the Council's credit criteria. The Council has also set limits on the value of these deposits which can be placed with any bank or financial institution, apart from the bank the Council uses for its daily operations.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The

Fund's cash holding under its treasury management arrangements at 31 March 2013 was £11.160m (31 March 2012: £11.473m). This was held with the following institutions:

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| | **Fund manager deposits** | |
| 9,844 | BlackRock - Liquidity Heritage Fund | 9,891 |
| 705 | Schroders cash | 683 |
| 18 | BlackRock cash | 36 |
| | **Bank current accounts** | |
| 906 | Bank of Scotland Plc | 550 |
| **11,473** | **Total** | **11,160** |

### Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to all its Pension Fund cash holdings. The Fund also has an overdraft facility to cover any unexpected short-term cash needs. The overdraft facility has not been used over the past five years and therefore the Fund's exposure to credit risk is considered negligible.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013, the value of illiquid assets was £19.4m, which represented 6.6% of the Fund assets (31 March 2012: £19.2m, which represented 7.4% of the Fund assets).

### Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 17. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation for the current accounting period took place as at 31 March 2011.

The funding policy is set out in the Shetland Islands Council Funding Strategy Statement (FSS), dated March 2012 for accountancy periods.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund and the solvency of individual employers’ share of the Fund;

- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund, so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer ceasing participation or defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

### Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £251 million, were sufficient to meet 91% (88% at 31 March 2008 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £25 million (2008 valuation: £26 million).

The common rate of contribution payable by each employing authority under regulation 32(4)(a) of the Administration Regulations for the period 1 April 2012 to 31 March 2015 is 18.8% of pensionable pay, (i.e. the rate which all employers in the Fund pay).

Individual employers' rates are adjusted under regulation 32(4)(b) from the common contribution rate. The contribution rates payable for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its FSS.

The payment due by the Shetland Islands Council during this period includes an employer's rate of 18.7% and £2 million per annum for the next 2 years to meet a funding shortfall arising from the transfer of pension benefits associated with former Shetland Towage employees. The Council is due to pay a final £1.6 million deficit contribution in the year ending 31 March 2016.

Copies of the 2011 valuation report and Funding Strategy Statement are available on request from the Shetland Islands Council, Administering Authority to the Fund.

### Principal actuarial assumptions and method used to value the liabilities

Full details of the methods used are described in a valuation report from the actuaries, Hymans Robertson LLP, available on request from the Shetland Islands Council, Administering Authority to the Fund.

### Method

The liabilities were assessed using an accrued benefits method which take into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2011 valuation were as follows:

| Financial assumptions | 31 March 2011 | |
|---|---|---|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 6.0% | 3.2% |
| Pay increases * | 5.1% | 2.3% |
| Price inflation/Pension increases | 2.8% | 0.0% |

*plus an allowance for promotional increases. Short term growth was assumed to be 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.

### Mortality assumptions

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| Mortality assumption at age 65 | Males | Females |
|---|---|---|
| Current Pensioners | 23.0 years | 25.8 years |
| Future Pensioners | 24.9 years | 27.7 years |

### Historic mortality assumptions

Life expectancies for the prior year-end are based on the PFA92 and PMA92 tables. The allowances for future life expectancies are shown in the table below:

| Year Ended | Prospective Pensioners | Pensioners |
|---|---|---|
| 31 March 2011 | year of birth, medium cohort and 1% p.a. minimum improvements from 2007 | year of birth, medium cohort and 1% p.a. minimum improvements from 2007 |

Mortality loadings were applied to the PFA92 and PMA92 tables based on membership class.

### Commutation assumption

An allowance is included for future retirements to elect to take 70% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 85% of the maximum tax-free cash post-March 2009 service.

## 18. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The actuary has also used ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £432 million (31 March 2012: £351 million). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2011.

### Assumptions used

The assumptions used are those adopted for the Administering Authority's IAS 19 report as required by the Code of Practice. These are given below:

| 31 March 2012 % p.a. | Year ended | 31 March 2013 % p.a. |
|---|---|---|
| 2.5% | Inflation/pension increase rate | 2.8% |
| 4.8% * | Salary increase rate | 5.1% |
| 4.8% | Discount rate | 4.5% |

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015, reverting to the long term rate thereafter.

## 19. Current Assets

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| | **Debtors:** | |
| 328 | • Contributions due - employees | 311 |
| 1,140 | • Contributions due - employers | 965 |
| 253 | • Transfer values receivable | 35 |
| 31 | • Sundry debtors | 7 |
| 40 | Prepayments | 0 |
| 906 | Bank current accounts | 550 |
| **2,698** | **Total** | **1,868** |

The significant majority of debtors are other local authorities.

### Analysis of debtors

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 25 | Central government bodies | 9 |
| 1,300 | Other local authorities | 1,105 |
| 427 | Other entities and individuals | 204 |
| **1,752** | **Total** | **1,318** |

## 20. Current Liabilities

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| (305) | Sundry creditors | (104) |
| (1,950) | Benefits payable | (820) |
| **(2,255)** | **Total** | **(924)** |

### Analysis of creditors

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| (8) | Central government bodies | (1) |
| (656) | Other local authorities | (616) |
| (34) | Public corporations and trading funds | (32) |
| (1,557) | Other entities and individuals | (275) |
| **(2,255)** | **Total** | **(924)** |

## 21. Unfunded Pension

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 566 | Added years pension | 631 |

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows local authorities to pay additional pension on a voluntary basis. Additional pension in respect of added years enhancement is awarded from the body or service where the employee retired and costs are paid directly.

## 22. Additional Voluntary Contributions

| 31 Mar 2012 £000 | | 31 Mar 2013 £000 |
|---|---|---|
| 4,094 | Prudential | 4,067 |
| 100 | Equitable Life | 107 |
| **4,194** | **Total** | **4,174** |

AVC contributions of £0.598m were paid directly to Prudential during the year (2011/12 £0.673m).

## 23. Related Party Transactions

### Shetland Islands Council

The Shetland Islands Council Pension Fund is administered by Shetland Islands Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.175m (2011/12 £0.169m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council incurred the pensioners' payment costs and was then reimbursed by the Fund.

In addition the Council is the single largest employer of members of the Pension Fund and contributed £11.830m to the Fund (2011/12 £10.192m).

The investments of the Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations.

All monies owing to and due from the Fund were paid in the year.

### Governance

There is one member of the Pension Fund Consultative Panel who is in receipt of pension benefits from the Shetland Islands Council Pension Fund. In addition there are other committee members who are active members of the Pension Fund.

Each member of the Pension Fund Consultative Panel is required to declare their interests at each meeting.

Shetland Islands Council meetings include all council members, and every councillor is required to declare their interests at each meeting.

### Key management personnel

The disclosure requirements for key management personnel can be found in the accounts of the Shetland Islands Council.

# Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

## Description of Funding Policy

The funding policy is set out in the Shetland Islands Council's Funding Strategy Statement (FSS), dated March 2012. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund and the solvency of individual employers' share of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund, so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to inform employers of the risks and potential costs associated with pension funding;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer ceasing participation or defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £251 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £25 million.
Individual employers' contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 8 February 2012.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2011 valuation were as follows:

| Financial assumptions | 31 March 2011 | |
|---|---|---|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 6.0% | 3.2% |
| Pay increases * | 5.1% | 2.3% |
| Price inflation/Pension increases | 2.8% | - |

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 23.0 years | 25.8 years |
| Future Pensioners | 24.9 years | 27.7 years |

Copies of the 2011 valuation report and Funding Strategy Statement are available on request from Shetland Islands Council, Administering Authority to the Fund.

## Experience over the period since April 2011

The funding level is likely to have worsened since the latest formal funding valuation.

There have been significant falls in Government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal funding valuation have been higher than the long term assumption made at the 2011 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
29 May 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

## Independent Auditor's Report

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

I certify that I have audited the financial statements of Shetland Pension Fund for the year ended 31 March 2013 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 2012/13 (the 2012/13 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 Executive Manager - Finance 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 Executive Manager - Finance; 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 2012/13 Code of the financial transactions of the fund during the year ended 31 March 2013, 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 2012/13 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 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 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 Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, CPFA
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place

23 September 2013

## Contact Details

For more information relating to this Report, please contact:

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Shetland Islands Council
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8 North Ness Business Park
Lerwick
Shetland
ZE1 0LZ

Email: finance@shetland.gov.uk

# Shetland Islands Council Pension Fund

## Report to those charged with governance on the 2012/13 audit

AUDIT SCOTLAND

Prepared for members of Shetland Islands Council Pension Fund
September 2013

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

# Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific 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. This report sets out, for the Audit and Standards Committee's consideration, matters arising from the audit of the financial statements for 2012/13 that require to be reported 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. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Shetland Islands Council Pension Fund and no responsibility to any third party is accepted.

## Status of the Audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in matters arising schedules issued to the Financial Accountant during the audit. The more significant issues were discussed with the Executive Manager-Finance at a meeting on 5 September 2013.

4. We received the unaudited financial statements on 26 June 2013, in advance of the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 4 September 2013.

## 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 Annual Audit Plan presented to the Audit and Standards Committee on 7 March 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and, as we did not require to perform any additional work outwith our planned audit activity, this fee remains unchanged.

### Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to

the Audit and Standards Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

### Audit opinion & representations

8. Subject to the receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 30 September (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.

10. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. No monetary adjustments were identified

11. We therefore have no unadjusted misstatements to bring to your attention.

12. As part of the completion of our audit we seek written assurances from the Executive Manager - Finance, in his role as Section 95 Officer, on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Executive Manager - Finance with the signed financial statements prior to the independent auditor's opinion being certified.

## Accounting and internal control systems

13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Matters arising from the audit

14. As part of our audit work we looked at 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. There were no significant issues identified regarding these matters.

## Outstanding matters

15. **ISA 580 - Letter of Representation**: The signed letter of representation is required prior to the auditor's certification of the financial statements.

## Acknowledgements

16. We would like to express our 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 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 as administering body for Shetland Pension Fund and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Shetland Pension Fund for the year ended 31 March 2013 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 2012/13 (the 2012/13 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 Executive Manager - Finance 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 Executive Manager - Finance; 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 2012/13 Code of the financial transactions of the fund during the year ended 31 March 2013, 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 2012/13 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 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 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 Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, CPFA September 2013
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
G2 1BT

# Appendix B: ISA 580 - Letter of Representation

David McConnell
Assistant Director of Audit
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow, G2 1BT

Dear David

**Shetland Pension Fund**
**Annual Accounts 2012/13**

This representation letter is provided in connection with your audit of the financial statements of the Shetland Pension Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Shetland Pension Fund for the year ended 31 March 2013.

**General**

I acknowledge my responsibility and that of the Shetland Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Annual Report to the financial statements, including Foreword, Administrative and Management Arrangements and Investment Policy and Performance Report, presents a balanced picture of the Shetland Pension Fund and is consistent with the financial statements.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

**Legality of Financial Transactions**

The financial transactions of the fund are in accordance with the relevant legislation and regulations governing its activities.

**Financial Reporting Framework**

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the fund for the year ended 31 March 2013.

**Accounting Policies & Estimates**

All material accounting policies adopted are as shown in the Summary of Significant Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

**Actuarial Assumptions**

The pension assumptions made by the actuary in the IAS19 report on the fund have been reviewed and I can confirm that they are consistent with management's own view.

**Fraud**

I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

**Corporate Governance**

I acknowledge, as the officer with responsibility for the proper administration of the fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the governance compliance statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2013 which require disclosure.

**Related Party Transactions**

All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

**Investment Assets and Current Assets**

On realisation in the ordinary course of the fund's business the investment and current assets in the net asset statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

**Investment Liabilities and Current Liabilities**

All liabilities have been provided for in the books of account as at 31 March 2013.

**Employer / Employee Contributions**

A high level analysis is carried out at the year end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contributions received from employers during the year with any unexpected differences followed-up and investigated.

**Events Subsequent to the Net Asset Statement**

There have been no material events since the date of the net asset statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the net asset statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

**James Gray**
**Executive Manager-Finance**
**Section 95 officer**

Agenda Item
**5**

# Shetland Islands Council

| | |
|---|---|
| **Audit and Standards Committee** | **23 September 2013** |
| **Shetland Islands Council** | **9 October 2013** |

| | |
|---|---|
| **Final Audited Accounts 2012/13** | |
| **F-043-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 2012/13 and to receive Audit Scotland's report to those charged with governance on the 2012/13 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 2012/13; and

b) Note Audit Scotland's report to those charged with governance on the 2012/13 Audit.

## 3.0 Detail

3.1 Audit Scotland's Report to those charged with governance on the 2012/13 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 2012/13 financial statements is that they:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2013 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 2012/13 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 2012/13 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 2012/13 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 confirmed that it anticipates certifying the accounts as being a true and fair statement of the Council's financial position at 31 March 2013.

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

*23 September 2013*

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List of Appendices

Appendix 1: Final Audited and Certified Accounts 2012/13

Appendix 2: Report to those charged with governance on the 2012/13 audit by Audit Scotland

Background documents:

NONE

END

# Shetland Islands Council

# Statement of Accounts 2012-13

## Securing the Best for Shetland

# Contents

Inside front cover and page 40 photograph by Andrew J Shearer

# Introduction

Welcome to the Council's Statement of Accounts for the 2012/13 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 a guide to the most significant matters reported in the Accounts.

After the upheaval of implementing International Financial Reporting Standards (IFRS) in 2010/11, it is pleasing to see that there has been some stability in local government financial reporting requirements for the past two years. This has provided the Council with time to focus on improving the way in which we set about preparing the Statement of Accounts and I am pleased with the progress that has been made over the past two years. The responsibility for all the work-streams required in the preparation of the Council's Statement of Accounts is now distributed across the accountancy team and other areas of the Finance Service which has led to a more controlled process that does not rely on a small number of individuals. This reduces the risk of failure and improves the overall quality of the final product.

One change that I would highlight in the Statement of Accounts 2012/13 is that following the changes in the governance arrangements of the Shetland Charitable Trust, the Trust should no longer be treated as a subsidiary of the Council. However, under accounting standards I have concluded that the Trust should be treated as an Associate of the Council given that 7 of the 15 Trustees are still Councillors. Whilst I understand and agree with the legal position that no relationship of control exists, I am required to prepare the accounts in accordance with accounting standards which lead us to conclude that a relationship exists between the two entities to comply with an accounting definition of 'control' as set out in IAS 27: *Consolidated and Separate Financial Statements*.

The accounting treatment required for an Associate is to take a share of the net balance sheet assets and Statement of Financial Activities equal to the Councillors' percentage representation of the total trustees (46.7%). As a result I have used publicly available financial information on the Shetland Charitable Trust as a basis for consolidating its figures into the Council's group accounts.

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
September 2013

## Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance during 2012/13 and year-end financial position as at 31 March 2013. In addition, it provides some narrative on the financial outlook for the Council during 2013/14 and beyond.

### Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2013 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 2012/13

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 2012/13. This differs from the budgeted outturn position which was reported to the Executive Committee of the Council on 3 June 2013, and the full Council on 12 June 2013, and which is available on the Council's website.

The reason for this is that the CI&ES 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 CI&ES and the actual outturn position is purely as a result of necessary accounting adjustments to the former. The Cost of Services of £126.490m, which is disclosed on the CI&ES, has been reconciled to the outturn used for management decision making of £113.299m 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 CI&ES 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.

| 2012/13 Budget v Expenditure | Revised Budgeted Draw from Reserves £m | Actual Draw from Reserves £m | Revised Budget v Actual Variance Under/(Over) £m |
|---|---|---|---|
| General Fund | 23.940 | 20.653 | 3.287 |
| Revenue Spend to Save | 0.188 | 0.154 | 0.034 |
| Housing Revenue Account | 1.174 | 2.058 | (0.884) |
| Harbour Account | (3.040) | (3.401) | 0.361 |
| **Total Revenue Draw** | **22.262** | **19.464** | **2.798** |
| Capital Fund | 3.342 | 1.359 | 1.983 |
| Capital Spend to Save | 0.727 | 0.584 | 0.143 |
| **Total** | **26.331** | **21.407** | **4.924** |

## General Account

The 2012/13 General Account budget included a requirement for the Council to achieve savings of £15.3m. The implementation of service reviews, efficiency initiatives and one-off savings resulted in that being delivered.

The table above shows a net underspend of £3.287m on General Account, which can be attributed to a drive across services to reduce expenditure. When coupled with the delivery of the £15.3m of budgeted savings, the Council achieved a total savings figure of £18.6m.

However, despite this good performance against the revised General Account budget, the total draw on reserves was still £20.653m, which is clearly unsustainable beyond the immediate short term.

In 2012/13, 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 £0.756m in the year;

- A decrease in funding levels provided by the Scottish Government (General Revenue Grant and share of National Non-Domestic Rates pool) from £91.710m in 2011/12 to £91.143m in 2012/13 which equates to a 1% reduction year on year; and

- An increase in demand for services which occurs at a higher rate than the growth in income to fund it.

### Harbour Account

The Harbour Account exceeded its budgeted surplus by £0.361m, which allowed it to make a larger than budgeted contribution to the Reserve Fund of £3.401m. This occurred as a result of a greater reduction in expenditure which more than offset the reduction in income from the temporary suspension of production at the Schiehallion field.

### 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 £38.6m on 31 March 2013.

There was an overspend of £0.784m on HRA expenditure in 2012/13 against the revised budget. This contributed to an overspend on the budgeted draw on reserves of £0.884m, and arose mainly due to the Housing Revenue Account funding additional capital from current revenue of £0.768m instead of through borrowing as had originally been intended.

### Capital Account

In 2012/13 Shetland Islands Council incurred capital expenditure of £12.649m against a budget of £14.508m representing an under spend of £1.859m in the year. Of this total, £3.342m was budgeted to be drawn from the Capital Fund, but as a result of the under spend the actual draw was £1.359m, £1.983m 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 2012/13.

The most significant under spends on individual projects include Hoofields New Housing (£0.7m), Anderson High School (£0.3m), Terminal Life Extensions (£0.2m), Housing Quality Standards (£0.3m) and Shetland College Phase 3 (£0.2m).

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

- The Joint Occupational Therapy Unit which incurred expenditure of £1.692m during the year;
- The construction of Phase 3 of the College incurred expenditure of £1.220m;
- £1.094m on fibre optic cables as part of the provision of broadband internet access to the Shetland Islands;
- Construction work on the pier in Walls in West Shetland which incurred expenditure of £0.955m;
- £0.611m on the Fetlar Breakwater construction; and
- The upgrade of the Bixter to Aith road (Phase 2) on which a total spend of £0.553m was recorded.

## The Balance Sheet as at 31 March 2013

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 2012, it can be seen that there has been an overall reduction in the net worth of the organisation of £20.576m in the past 12 months. This figure matches the total CI&ES figure in the CI&ES, 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 unfunded element of the Council's anticipated future pension payment commitment (Pension Liability) increased by approximately £24.7m 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 running in excess of the return on the pension assets. These changes indicate that the Council will have to make higher payments than previously thought, which has increased the overall liability;
- The net book value of Property, Plant and Equipment reduced by approximately £1.6m during 2012/13 reflecting the level of capital expenditure being lower than the depreciation and impairment charges; and
- This was offset by the net increase in the Council's investments – the long term investments generated a return of approximately £28m in 2012/13, which was approximately £6.5m more than the draw on reserves, having the effect of increasing the net worth of the balance sheet by this amount.

Until the Council delivers its Medium Term Financial Plan and becomes financially sustainable, it is likely that there will be further deterioration in the Council's balance sheet strength over the next 2 to 3 years.

## The Council's Reserves

The Council holds the following balances in reserves:

| Reserves | Opening Balance 1 April 2012 £m | Closing Balance 31 March 2013 £m |
|---|---|---|
| Capital Fund | (100.542) | (83.808) |
| Capital Efficiency/Spend to Save Reserve | (9.096) | (8.677) |
| Capital Fund (HRA contingency) | 0.000 | (10.000) |
| Reserve Fund | (57.129) | (18.219) |
| Reserve Fund (Harbour contingency) | 0.000 | (39.000) |
| Repairs & Renewals Fund | (51.576) | (44.644) |
| General Fund Balance | (3.000) | (3.000) |
| Revenue Efficiency/Spend to Save Reserve | (0.510) | (0.365) |
| Potential Contingent Liabilities | (0.849) | (0.865) |
| **Discretionary Reserves** | **(222.702)** | **(208.578)** |
| | | |
| Marine Superannuation Fund | (2.021) | (1.805) |
| Pilot Boat Renewal Fund | (0.960) | (0.978) |
| Housing Repairs & Renewals Fund | (12.259) | (10.422) |
| Quarry Repairs & Renewals Fund | (0.153) | (0.156) |
| Insurance Fund | (0.293) | (0.221) |
| Council Tax Second Homes Receipts | (0.511) | (0.403) |
| Hansel Funds | (0.104) | (0.111) |
| School Funds | 0.000 | (0.087) |
| Central Energy Efficiency Fund | (0.043) | (0.003) |
| **Ring Fenced Reserves** | **(16.344)** | **(14.186)** |
| | | |
| **TOTAL** | **(239.046)** | **(222.764)** |

The overall notional level of usable reserves was £222.764m at 31 March 2013. 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 £205.732m. 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 internal borrowing is between the general fund, and the HRA and Harbour Account, and is scheduled to be re-paid to the general fund over the next 39 years.

The Council has no external debt as at 31 March 2013.

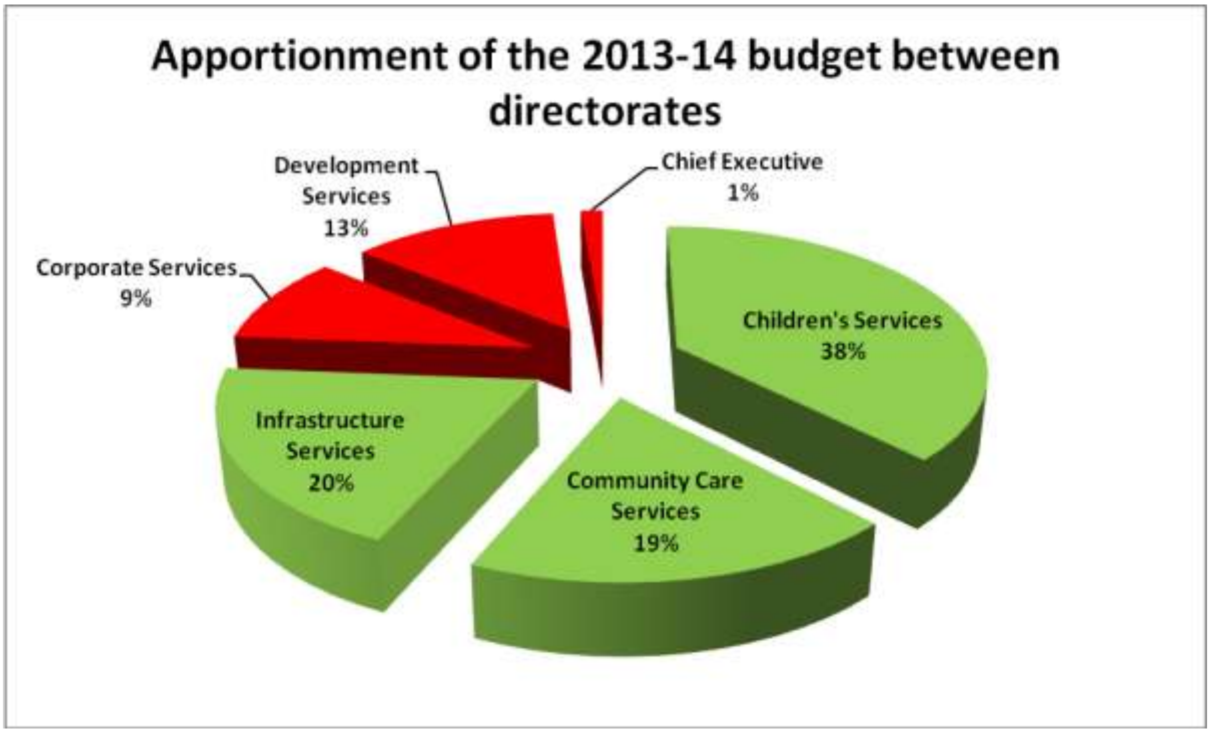
The reserves held are more than adequate to manage risks and unplanned expenditure in the short term. However, there is still a risk that the Council's reserves could be fully used if expenditure levels are not brought into line with the level of income available to the organisation. As a result of this, the Council set a revenue budget on 20 February 2013, which sought to reduce expenditure as part of the medium term financial plan to achieve financial sustainability by 2016/17.

## 2013/14 Budget and Medium Term Financial Outlook

The Council set a challenging budget for 2013/14 which exceeded the savings target of £11.195m as set out in the Medium Term Financial Plan. These savings were split across the directorates as follows:

| Department | MTFP Savings £ | Budgeted Savings £ | 2013/14 Budget £ |
|---|---:|---:|---:|
| Chief Executive | 130,000 | 130,000 | 1,486,000 |
| Children's Services | 3,896,000 | 4,016,000 | 41,262,000 |
| Community Care Services | 2,362,000 | 2,362,000 | 20,524,000 |
| Corporate Services | 1,031,000 | 1,205,000 | 10,586,000 |
| Development Services | 1,957,000 | 3,667,000 | 13,878,000 |
| Infrastructure Services | 1,819,000 | 1,177,000 | 21,530,000 |
| Budget Carry Forwards 2012/13 | | | 3,488,000 |
| Fund Managers Fees | | | 834,000 |
| Contingency & Budget Pressures | | | 5,762,000 |
| Recharges Out (Harbour/HRA/Others) | | | (3,164,000) |
| **TOTAL** | **11,195,000** | **12,557,000** | **116,186,000** |

The table below shows how the 2013/14 General Account budget will be allocated to Council directorates. Those in green are priority areas for the Council –




In order to manage the delivery of the savings programme a new group called *"Change Programme - Project Board"* has been established. It is comprised of all Council Directors, Executive Manager - Human Resources, Executive Manager - Performance and Improvement and the Executive Manager – Executive Services and will oversee the high-level Change Programme items. The programme will change the way we will deliver many services and is necessary in order to meet our savings targets.

The Board meets fortnightly in order to ensure that the work to deliver the agreed savings remains on track. The volume of savings work planned for 2013/14 is substantial with 35 major reviews/service changes planned during the year, many of which will require extensive consultation with the community.

In order to assist with the process of delivering the savings, the Council has both revenue and capital spend to save budgets, 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.

Elected 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.

An updated version of the Medium Term Financial Plan 2013/2018 was approved by the Council on 28 August 2013. This seeks to stabilise the Council's reserves at a figure no lower than £150m and to achieve financial sustainability within the lifetime of the current Council. In order to deliver this outcome, the following budgets and budget reductions have been allocated to each directorate:

| 2013-14 £000s | Directorate | | 2014-15 £000s | 2015-16 £000s | 2016-17 £000s | 2017-18 £000s | 2018-19 £000s |
|---|---|---|---|---|---|---|---|
| **12,072** | **Corporate & Chief Executive** | **Target Operating Budget** | **11,120** | **10,735** | **10,735** | **10,735** | **10,735** |
| | | Budget gap | (952) | (385) | 0 | 0 | 0 |
| **41,262** | **Children's Services** | **Target Operating Budget** | **40,429** | **39,714** | **37,994** | **37,994** | **37,994** |
| | | Budget gap | (833) | (715) | (1,720) | 0 | 0 |
| **20,524** | **Community Care Services** | **Target Operating Budget** | **20,114** | **19,712** | **19,712** | **19,712** | **19,712** |
| | | Budget gap | (410) | (402) | 0 | 0 | 0 |
| **13,878** | **Development Services** | **Target Operating Budget** | **12,039** | **11,698** | **11,698** | **11,698** | **11,698** |
| | | Budget gap | (1,839) | (341) | 0 | 0 | 0 |
| **21,530** | **Infrastructure Services** | **Target Operating Budget** | **19,025** | **18,645** | **18,645** | **18,645** | **18,645** |
| | | Budget gap | (2,505) | (380) | 0 | 0 | 0 |

## Impact of the Current Economic Climate and Future Cost Pressures

The Council is anticipating the following cost pressures and contingencies in 2013/14 which have been included in the budget –

| Cost Pressures and Contingencies | Description | Cost Pressures in 2013/14 budget (£) |
|---|---|---|
| Exit Packages | The budget proposals that have been put forward will lead to instances whereby services will be re-designed or service levels are reduced. This will result in reductions in staffing numbers. This cost pressure is the estimated cost of funding exit packages for staff to leave the organisation.<br>The £1.9m has been split between directorates based on likely requirements and will be used to fund directorates up to the level that they have indicated necessary. Any additional costs that might arise will be borne by the directorates' budgets. | £1,900,000 |
| Implementation of service changes within Community Care | A significant amount of work is still required in order to implement the proposed changes to the Council's policies on charging for community care, discretionary top-ups and direct payments. There is a risk that these proposals, which would close the Community Care budget gap by £0.955m in 2013/14, may not be achieved, and therefore a contingency has been set aside to account for this risk. | £955,000 |
| Pay Award | It is anticipated that there will be a pay award of 1% in 2013/14. This represents a cost pressure of £0.950m to the Council based on the current pay bill. | £950,000 |
| Pension Auto-enrolment | A change in legislation means that all staff members will automatically be enrolled in one of the Council's pension schemes as opposed to actively seeking membership. Staff will in future have to actively seek to opt out. As a result of this it is anticipated that only 10% will opt out, increasing costs, as currently a significant number of part time/casual workers are not members of a pension scheme. | £700,000 |
| Organisational Change Fund | The scale of the organisational change required to bring the Council into a financially sustainable position exceeds the existing capacity of the management team. It will therefore be necessary in certain instances to supplement the capacity of management with the temporary use of external specialists. | £500,000 |
| Demographic Pressures | This recognises the ever increasing cost pressure on Community Care resources as Shetland's population demographic continues to show higher numbers of older people. | £260,000 |
| Utilities | Anticipated level of price increases on utility bills during 2013/14. | £225,000 |
| Council Tax Benefit Administration | The new Scottish Government Council Tax Benefit replacement scheme has a £40m funding gap. The Scottish Government has agreed to contribute £23m with the remainder coming from Local Authorities. SIC's share of this cost is approximately £0.100m. | £100,000 |
| COPE | A total of £0.080m is required to fund COPE for 6 months during 2013/14 until alternative arrangements are put in place for proposed changes. | £80,000 |
| Public Toilets | Following the Environment & Transport Special Committee meeting, additional funding for 3 months of all public toilets has been added. | £24,000 |
| Community Council Grant | Ring-fenced funding equal to 30% of Community Councils' existing budgets. This will be granted to Community Councils for specific projects that have been approved by the Council. | £68,000 |
| **TOTAL** | **The total budget required to cover cost pressures and contingencies in 2013/14.** | **£5,762,000** |

In addition, the following challenges are expected over the next 5 years –

- Further real terms reductions in core funding from Scottish Government are anticipated in 2014/15 and beyond as a result of the current economic climate and pressure on public finances;
- Significant reductions in Harbour Account surpluses as a result of the Schiehallion oil field being off-stream until 2016/17 and the payment of the Shetland Towage pension liability;
- Additional recurring costs associated with the introduction of Pension Auto-enrolment which will result in more staff in the pension scheme;
- Ferry fuel and harbour vessel fuel is likely to suffer a significant increase in price from 2014 when new rules are introduced regarding carbon levels in the fuel; and
- Maintenance costs of the new Anderson High School (due to open in August 2016) will be higher than current school. This is because there is currently an under investment in the existing school's maintenance due to the expectation that a new school will be built shortly.

## Material Transactions During 2012/13

### 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 2013, the Council's Pension Fund had a net pension liability of £129.250m (2012: £104.524m). 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 2013, 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.

## Changes in Accounting Policies

### Property, Plant and Equipment

Valuations are now obtained for the last day of the accounting period (i.e. 31 March) as opposed to the previous policy of the first day of the period (i.e. 1 April).

## Group Accounts

Whilst there has been no change in accounting policy, there has been a change in accounting treatment of the Shetland Charitable Trust in light of the new governance arrangements at the Trust. On 20 February 2013, a new governance structure took effect, which will result in a new board of 15 Trustees with 7 of those being appointed by the Council.

Having reviewed this change in light of IAS27: *Consolidated and Separate Financial Statements*, the most appropriate accounting treatment is to treat the Shetland Charitable Trust as an associate of the Council, rather than continue with the treatment as a subsidiary (adopted in 2011/12).

## Sickness Absence

The average number of working days per employee lost through sickness absence for teachers was 5.8 days (2011/12 6.7 days). For all other local government employees the average was 12.2 days (2011/12 13.0 days).

## 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 | 2011/12 % or £ | 2012/13 % or £ | Explanation |
|---|---|---|---|
| **Reserves** | | | |
| Uncommitted General Fund Reserves as a % of annual budgeted net expenditure | 2.3% | 2.5% | Demonstrates the Council's flexibility to meet unanticipated expenditure. |
| Movement in the Uncommitted General Fund Balance | 0% | 0% | There has been no movement in the year. |
| **Council Tax** | | | |
| In-year Collection Rate | 96.6% | 96.5% | Demonstrates the Council's effectiveness in collection of local taxation. |
| Council Tax Income as a % of Overall Funding | 6.6% | 7.3% | Demonstrates the funds received from Council Tax as a % of overall funding requirement. |
| **Financial Management** | | | |
| Actual Outturn as a % of Budget | 104.0% | 97.6% | Demonstrates there has been less expenditure than the budget. |
| Actual Contribution to/from Uncommitted General Fund Balance | £3m | £3m | This was the contribution applied and reinstated in 2012/13. |
| **Debt & Borrowing** | | | |
| Capital Financing Requirement | £53.8m | £51.2m | This is the amount of unfunded capital expenditure mainly on Council housing. |
| External Debt Levels | £0m | £0 | There is no external debt held by the Council. |
| Ratio of Financing Costs to Net Revenue Stream | N/A | N/A | Not applicable as the Council has no external debt. |
| Impact on Capital Investment on Council Tax and Housing Rents | N/A | 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. This is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The revised Code of Governance was adopted on 20 September 2012 and is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.

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. These committees 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 weekly 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. Every six months there is a wider management team meeting called Executive Influence Plus which comprises the Corporate Management Team, Executive Managers and Team Leaders.

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 Administration and Delegations;
- The Standing Orders 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 new Corporate Plan, approved in June 2013, is to ensure that there is a properly led and well managed council, dealing with the challenges for the present and the future, and doing that within our means.

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

- Ensuring the Council is financially sustainable and has a level of reserves no lower than £125m;
- Concentrating our resources and services on the people who need them most and protecting them from the worst effects of change;
- Supporting adults to be independent;
- Recognising the importance of the education sector and consequently deciding on and implementing the Blueprint for Education;
- Building a new Anderson High School;
- Financially sustainable transport arrangements that meet people's current needs;
- Effective partnership working, including the establishment of a fully integrated health and social care partnership; and
- Creating and implementing a renewable energy development plan 2013-2020.

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 electronic 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 Council'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 agreed a Medium Term Financial Plan in September 2012 which sets out the spending limits for each of the next 5 financial years and which will result in the organisation being financially sustainable during the lifetime of the current Council. The 2013/14 budget was set in February 2013 and was done so within the policies of the Medium Term Financial Plan.

The Council has a range of policies and procedures relating to staff. The Employee Review and Development 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.

The Council has substantially completed the actions in its Improvement Plan which was developed following the Accounts Commission's public hearing in Lerwick in June 2010. As a result the Council is no longer under additional scrutiny from the Accounts Commission. Whilst recognising the achievements already made, the Council is acutely aware of the need for continuous improvement, which is why the key objective in the Corporate Plan is to ensure that the Council is properly led and well managed.

The Accounts Commission considered a S102 report from Audit Scotland in December 2012 and subsequently published its follow up report on Shetland Islands Council. It concluded that:

*The council has continued to make good progress on its improvement agenda. It has appointed a permanent chief executive and a chief financial officer and agreed a medium-term financial plan which clearly sets out the challenges facing the council, together with actions to address these. The council's 2011/12 financial statements were of good quality and were not qualified. The council needs to continue to sustain its positive direction of travel and knows that it will need to take some difficult decisions to address the significant financial challenges it faces.*

It finished by reporting the outlook for Shetland Islands Council:

*The council continues to move in the right direction and the clear commitment to improve evident at the time of my last report has been sustained. The council's self awareness continues to improve and it understands that it must continue to focus on its priorities and what still needs to improve for the future.*

*In order to sustain this positive direction of travel, the council will need to:*

- *take the difficult decisions needed to deliver on the commitments contained in the medium-term financial plan, to put the long-term financial position of the council on a sustainable footing*
- *review and prioritise its improvement activity to ensure it is sustainable.*

The Council noted the report on 18 February 2013 and agreed to include the ongoing improvement activity into the Council's Corporate Plan which was subsequently approved in June 2013.

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 2013/14 financial year. During the last financial year Internal Audit completed and issued planned audits in accordance with the agreed audit plan. These reports highlighted a number of issues where improvement was required and satisfactory commitment was generally received from management to resolve these matters. Key issues have been reported in summary form to the Audit and Standards Committee.

The following were highlighted in Internal Audit's annual report as specific areas of concern due to the pervasive nature:

- As a result of poor compliance in relation to Employee Performance Reviews and Absence Management (in 2010/11), the then Chief Executive specifically requested that these reviews be brought forward to be performed again in 2012/13. There was little sign of improvement. However new Council Policy has recently been approved for each of these areas and training has been delivered. It is to be hoped this will generate the improvement required.

- Compliance with Council Standing Orders for Tenders and Contracts and the Small Contracts Procedures continues to be a problem area. A number of audits and also a recent Corporate Review of contracts reveals ongoing non compliance across the Council. This could result in serious consequences for the Council if action is not taken to address them. A review of Standing Orders for Tenders and Contracts is currently ongoing. The conclusion of this work should further strengthen governance arrangements

- As previously stated managerial commitment has been given to address other matters.

## 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.

The Accounts Commission has recognised the good progress made by the Council but Members and officers will avoid complacency and continue to embed the key improvements delivered through the improved political governance arrangements and revised management structure for Shetland Islands Council.

## 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 2013 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 2012/13 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.

Mark Boden

Chief Executive

Gary Robinson

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.

## 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 2012/13 the level of remuneration is £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 are:

- 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

Excluding the Convener and the Leader, the additional remuneration paid to these councillors in 2012/13 totalled £159,800.48 (2011/12 £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 (now known as Leader) 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 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 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 and these posts are now:

- Chief Executive
- 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; and
- information about candidates is assessed effectively and fairly during the assessment, selection and appointment process.

## Allowances

Senior employees are entitled to 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 | |
|---|---|---|
| | 2011/12 | 2012/13 |
| £50,000 - £54,999 | 38 | 39 |
| £55,000 - £59,999 | 25 | 35 |
| £60,000 - £64,999 | 21 | 10 |
| £65,000 - £69,999 | 14 | 8 |
| £70,000 - £74,999 | 7 | 6 |
| £75,000 - £79,999 | 4 | 5 |
| £80,000 - £84,999 | 8 | 5 |
| £85,000 - £89,999 | 3 | 2 |
| £90,000 - £94,999 | 1 | 0 |
| £95,000 - £99,999 | 5 | 0 |
| £100,000 - £104,999 | 1 | 0 |
| £105,000 - £109,999 | 2 | 0 |
| £110,000 - £114,999 | 1 | 1 |
| £115,000 - £119,999 | 0 | 0 |
| £120,000 - £124,999 | 1 | 0 |
| £125,000 - £129,999 | 0 | 0 |
| £130,000 - £134,999 | 2 | 0 |
| £135,000 - £139,999 | 0 | 0 |
| £140,000 - £144,999 | 0 | 0 |
| **Total** | **133** | **111** |

The table above includes staff that terminated employment during 2011/12 and 2012/13. Many of the staff that left received remuneration packages that included compensation for loss of office (e.g. redundancy payment and/or enhanced pension payments), and because of these payments, a number of staff's remuneration has increased temporarily in both 2011/12 and 2012/13.

## 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 2012/13 of £1.047m (£3.592m in 2011/12) in the table includes £0.597m (£1.811m in 2011/12) 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 £0.449m (£1.781m in 2011/12) 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 | 2012/13 |
| | | | | | | | £000 | £000 |
| £0 - £19,999 | 1 | 0 | 20 | 9 | 21 | 9 | **181** | **68** |
| £20,000 - £39,999 | 0 | 0 | 6 | 11 | 6 | 11 | **192** | **347** |
| £40,000 - £59,999 | 0 | 0 | 10 | 2 | 10 | 2 | **489** | **102** |
| £60,000 - £79,999 | 0 | 0 | 12 | 0 | 12 | 0 | **824** | **0** |
| £80,000 - £99,999 | 0 | 0 | 6 | 1 | 6 | 1 | **522** | **82** |
| £100,000 - £149,999 | 0 | 0 | 7 | 2 | 7 | 2 | **886** | **244** |
| £150,000 - £199,999 | 0 | 0 | 3 | 0 | 3 | 0 | **498** | **0** |
| £200,000 - £249,999 | 0 | 0 | 0 | 1 | 0 | 1 | **0** | **204** |
| **Total** | **1** | **0** | **64** | **26** | **65** | **26** | **3,592** | **1,047** |

The table above details the number and cost of exit packages awarded in 2011/12 and 2012/13. 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):

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Salaries | 354 | 352 |
| Allowances | 33 | 33 |
| Expenses | 102 | 83 |
| **Total** | **489** | **468** |

The annual return of councillors' salaries and expenses for 2012/13 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 | 2011/12 Total Remuneration £ | 2012/13 Salary, Fees and Allowances £ | Taxable Expenses (a) £ | Benefits other than Cash £ | Total Remuneration £ | Notes |
|---|---|---|---|---|---|---|---|
| Mr A Cluness | Convener (old) | **21,183.44** | 1,779.19 | 0.00 | 0.00 | **1,779.19** | Ceased being a Councillor on 2/05/2012 |
| Mr J Simpson | Leader of the Council (old) | **26,440.87** | 2,372.20 | 58.69 | 0.00 | **2,430.89** | Ceased being a Councillor on 2/05/2012 |
| Mrs F Grains | Chair - Audit & Standards Committee (old) | **17,981.50** | 1,563.35 | 33.16 | 0.00 | **1,596.51** | Ceased being a Councillor on 2/05/2012 |
| Mrs E Fullerton | Chair - Education and Families Committee (old) | **19,202.30** | 1,648.57 | 106.88 | 0.00 | **1,755.45** | Ceased being a Councillor on 2/05/2012 |
| Mr R Henderson | Chair - Harbour Board (old) | **18,060.88** | 1,563.35 | 0.00 | 0.00 | **1,563.35** | Ceased being Chair - Harbour Board on 2/05/2012 |
| Mr J Budge | Chair - Licensing Committee (old) | **17,621.85** | 1,563.35 | 0.00 | 0.00 | **1,563.35** | Ceased being a Councillor on 2/05/2012 |

## Disclosure of Remuneration for Senior Councillors (continued)

| Councillor Name | Designation | 2011/12 Total Remuneration £ | 2012/13 Salary, Fees and Allowances £ | Taxable Expenses (a) £ | Benefits other than Cash £ | Total Remuneration £ | Notes |
|---|---|---|---|---|---|---|---|
| Mr M Bell | Convener (new) | **0.00** | 17,347.17 | 0.00 | 0.00 | **17,347.17** | Convener from 24/5/12 |
| Mr G Robinson | Leader of the Council (new) | **0.00** | 23,129.03 | 187.53 | 0.00 | **23,316.56** | Leader from 24/5/2012 |
| Mr C Smith | Chair - Social Services Committee (old & new) | **18,666.17** | 18,433.75 | 0.00 | 0.00 | **18,433.75** | Chair - Social Services Committee from 24/5/2012 |
| Mr D Ratter (b) | Chair - Shetland College Board (new) | **0.00** | 17,070.05 | 424.40 | 0.00 | **17,494.45** | Chair - Shetland College Board from 24/05/2012 |
| Mr A Cooper | Chair - Development Committee (old & new) | **18,813.88** | 18,433.75 | 0.00 | 0.00 | **18,433.75** | Chair - Development Committee from 24/05/2012 |
| Mr A Duncan | Chair - Audit & Standards Committee (new) | **0.00** | 15,242.72 | 0.00 | 0.00 | **15,242.72** | Chair - Audit & Standards Committee from 24/05/2012 |
| Mr F Robertson (c) | Chair - Planning Committee (old & new) | **19,636.05** | 17,644.53 | 498.76 | 0.00 | **18,143.29** | Chair - Planning Committee from 24/05/2012 |
| Mr A Wishart | Chair - Environment & Transport Committee (old & new) | **17,922.77** | 18,433.75 | 0.00 | 0.00 | **18,433.75** | Chair - Environment & Transport Committee from 24/05/2012 |
| Mr M G Smith | Chair - Licensing Committee (new) | **0.00** | 15,242.72 | 0.00 | 0.00 | **15,242.72** | Chair - Licensing Committee from 24/05/2012 |
| Mrs V Wishart | Chair - Education and Families Committee (new) | **0.00** | 16,073.58 | 0.00 | 0.00 | **16,073.58** | Chair - Education & Families Committee from 24/05/2012 |
| Ms A Manson | Chair - Harbour Board (new) | **0.00** | 15,242.72 | 0.00 | 0.00 | **15,242.72** | Chair - Harbour Board from 24/05/2012 |

**Notes:**

a) Taxable Expenses - Telephone Line Rental/Broadband.
b) Mr D Ratter - only receives one senior councillor payment even though he holds two positions. The position of Convener of the Orkney & Shetland Valuation Joint Board attracted a payment of £3070 in 2012/13, which is included in the salary figure above but is reimbursed by the Board.
c) Mr Frank Robertson held the position of Vice Convener of the Orkney & Shetland Joint Valuation Board until 2/05/2012, which attracted a payment of £266.96 in 2012/13. This figure is included above but is reimbursed by the Board.
d) The local elections that took place in May 2012 resulted in several changes to Senior Councillors.
e) Old - Senior Councillor to 2/05/2012; New - Senior Councillor from 24/05/2012; Old & New - Senior Councillor pre/post May 2012.

## Remuneration of Senior Employees of the Council

| Name of Senior Official | Designation | 2011/12 Total Remuneration £ | 2012/13 Salary, Fees and Allowances £ | 2012/13 Taxable Expenses (a) £ | 2012/13 Compensation for Loss of Employment £ | 2012/13 Benefits other than in Cash £ | 2012/13 Total Remuneration £ | Notes |
|---|---|---|---|---|---|---|---|---|
| A Buchan (b) | Chief Executive | **155,738.99** | 95,932.80 | 318.67 | 0.00 | 15,291.75 | **111,543.22** | Ceased 22/10/2012 |
| M Boden | Chief Executive<br>Full Year Remuneration £101,433 | **0.00** | 51,411.25 | 74.13 | 0.00 | 0.00 | **51,485.38** | Chief Executive from 28/09/2012 |
| W Shannon (c) | Assistant Chief Executive (old) | **67,835.52** | 34,539.44 | 423.39 | 76,245.28 | 0.00 | **111,208.11** | Redundancy Retirement 5/10/2012 |
| H Sutherland (d) | Executive Director/Interim Head of Finance (old) | **95,848.88** | 1,978.44 | 18.02 | 80,520.21 | 0.00 | **82,516.67** | Redundancy Termination 8/04/12 |
| H Budge | Director: Children's Services (new) | **75,954.64** | 78,346.84 | 0.00 | 0.00 | 0.00 | **78,346.84** | Director: Children's Services from 1/07/2011 |
| N Grant | Director: Development (new) | **74,222.37** | 78,346.84 | 0.00 | 0.00 | 0.00 | **78,346.84** | Director: Development from 1/07/2011 |
| P Crossland | Director: Infrastructure (new). | **42,921.20** | 81,719.32 | 0.00 | 0.00 | 0.00 | **81,719.32** | Director - Infrastructure from 19/09/2011 |
| C Ferguson | Director: Community Care (new) | **79,930.88** | 25,427.84 | 0.00 | 0.00 | 0.00 | **25,427.84** | Director - Community Care Services to 29/07/2012 |
| | Full Year Remuneration: Director - Community Care Services £77,343 | | | | | | | |
| | Director: Corporate Services (new) | **0.00** | 52,919.00 | 0.00 | 0.00 | 0.00 | **52,919.00** | Director - Corporate Services from 30/07/2012 |
| S Shaw | Director: Community Care (new)<br>Full Year Remuneration £79,077 | **0.00** | 52,868.33 | 0.00 | 0.00 | 0.00 | **52,868.33** | Director: Community Care Services from 30/07/2012 |
| J Riise | Executive Manager: Governance & Law (new) | **78,648.97** | 72,310.62 | 0.00 | 0.00 | 0.00 | **72,310.62** | Executive Manager: Governance & Law from 12/09/2011 |
| J Gray | Executive Manager: Finance (Section 95 Officer) (new) | **0.00** | 67,066.35 | 0.00 | 0.00 | 0.00 | **67,066.35** | Executive Manager: Finance from 6/04/2012 |
| H Leslie | Executive Manager: Childrens and Families (new) | **54,356.06** | 64,781.92 | 62.60 | 0.00 | 0.00 | **64,844.52** | Executive Manager: Children & Families from 1/12/2011 |

**Notes:**

a) Taxable Expenses - includes essential car user allowance, taxable mileage and expenses outwith HMRC's dispensation

b) Mr A Buchan's remuneration includes Shetland Islands Council secondment allowance. Benefits other than in cash, includes provided accommodation, relocation, car and return travel to Orkney.

c) Mr Shannon's compensation for loss of employment includes a redundancy payment.

d) Ms Sutherland's compensation for loss of employment includes a redundancy payment.

e) Management Restructuring in 2011/12 resulted in changes in designation for some senior officials. The word (old) means part of Old Senior Management Structure and (new) means part of New Senior Management Structure.

## Pension Benefits – Senior Councillors

The pension entitlements for senior councillors 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 2012 | Year ending 31 March 2013 | | As at 31 March 2012 | As at 31 March 2013 | Increase / (Decrease) | |
| | | £ | £ | | £ | £ | £ | |
| Mr A Cluness | Convener (old) | 4 | - | Pension<br>Lump Sum | 3<br>2 | 3<br>2 | -<br>- | Ceased 02/05/2012 |
| Mr J Simpson | Leader of the Council (old) | 5 | - | Pension<br>Lump Sum | 2<br>1 | 3<br>1 | -<br>- | Ceased 02/05/2012 |
| Mrs F Grains | Chair - Audit & Standards Committee (old) | - | - | Pension<br>Lump Sum | -<br>- | -<br>- | -<br>- | Pension Scheme's age limit exceeded. Ceased 02/05/2012 |
| Mrs E Fullerton | Chair - Education & Families Committee (old) | 3 | - | Pension<br>Lump Sum | 1<br>1 | 1<br>1 | -<br>- | Ceased 02/05/2012 |
| Mr R Henderson | Chair - Harbour Board (old ) | 3 | 3 | Pension<br>Lump Sum | 2<br>1 | 2<br>1 | -<br>- | Ceased being Chair Harbour Board on 2/05/2012 |
| Mr A Wishart | Chair - Environment & Transport Committee & Chair of Shetland College Board to 2/05/2012 (old & new) | 3 | 3 | Pension<br>Lump Sum | 2<br>1 | 2<br>1 | -<br>- | Chair - Environment & Transport Comttee from 24/05/2012 |
| Mr A Cooper | Chair - Development Committee to 02/05/2012 (old & new) | 3 | 3 | Pension<br>Lump Sum | 1<br>1 | 2<br>1 | -<br>- | Chair Development Committee from 24/05/2012 |
| Mr F Robertson | Chair - Planning Board & Vice-Convener of O & S VJB to 2/05/2012 (old & new) | 3 | 3 | Pension<br>Lump Sum | 2<br>2 | 2<br>6 | -<br>4 | Chair Planning Committee from 24/05/2012. |
| Mr C Smith | Chair - Social Services Committee to 02/05/2012 (old & new) | 3 | 3 | Pension<br>Lump Sum | 1<br>1 | 2<br>1 | -<br>- | Chair Social Services Committee from |

## Pension Benefits – Senior Councillors (Continued)

| Name of Councillor | Designation | In-Year Employer Pension Contributions Year ending 31 March 2012 £ | Year ending 31 March 2013 £ | | Accrued Pension Benefits As at 31 March 2012 £ | As at 31 March 2013 £ | Increase / (Decrease) £ | Notes |
|---|---|---|---|---|---|---|---|---|
| Mr J Budge | Chair - Licensing Committee (old) | - | - | Pension<br>Lump Sum | | | | Not a member of Pension Scheme.Ceased 02/05/2012 |
| Mr M Bell | Convener (new) | - | 3 | Pension<br>Lump Sum | N/A | N/A | N/A | Convener from 24/05/2012 |
| Mr G Robinson | Leader of the Council (new) | 3 | 5 | Pension<br>Lump Sum | 1<br>1 | 2<br>1 | | Leader from 24/05/2012 |
| Mr A Duncan | Chair - Audit & Standards Committee (new) | 3 | 3 | Pension<br>Lump Sum | 1<br>1 | 2<br>1 | | Chair Audit & Standards Cmtte from 24/05/2012 |
| Mr D Ratter | Chair - College Board & Convener O & S VJB (new) | - | 3 | Pension<br>Lump Sum | N/A | N/A | N/A | Chair College Board from 24/05/2012 & Chair O&S VJB from 29/06/12 |
| Mr M G Smith | Chair - Licensing Committee (new) | - | 3 | Pension<br>Lump Sum | N/A | N/A | N/A | Chair Licensing Committee from 24/05/2012 |
| Mrs V Wishart | Chair - Education & Families Committee (new) | - | - | Pension<br>Lump Sum | N/A | N/A | N/A | Chair Edn & Families from 24/05/2012. Not in Pension Scheme |
| Ms A Manson | Chair - Harbour Board (new ) | - | 3 | Pension<br>Lump Sum | N/A | N/A | N/A | Chair Harbour Board from 24/05/2012 |

**Notes:**

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 who held the position of vice-chair of the Orkney & Shetland Valuation Joint Board to 2/05/12 amounted to £49.92 in 2012/13 and £538.96 in 2011/12. The amount of In Year Employer Contributions included in the above figures for Drew Ratter who held the position of Chair of the Orkney & Shetland VJB from 29/06/12 amount to £574.09 in 2012/13.

## Pension Benefits - Senior Employees

| Name of Senior Official | Designation | | In-Year Employer Pension Contributions | | | Accrued Pension Benefits | | | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | Year ending 31 March 2012 | Year ending 31 March 2013 | | As at 31 March 2012 | As at 31 March 2013 | Increase (Decrease) | |
| | | | £ | £ | | £ | £ | £ | |
| A Buchan | Chief Executive | ER | 21 | 13 | Pension | - | - | - | Ceased 4/10/2012. Pension Benefits held with OIC |
| | | Strain | | | Lump Sum | | | | |
| M Boden | Chief Executive | ER | - | 10 | Pension | - | 1 | 1 | Chief Executive from 28/09/2012 |
| | | Strain | | | Lump Sum | | N/A | N/A | |
| W Shannon | Assistant Chief Executive (old) | ER | 12 | 6 | Pension | 18 | 14 | (4) | Redundancy Retirement 5/10/2012 |
| | | Strain | | 128 | Lump Sum | 45 | 96 | 52 | |
| H Sutherland | Executive Director/Interim Head of Finance (old) | ER | 16 | - | Pension | 28 | 29 | 1 | Redundancy Termination 08/04/2012 |
| | | Strain | | | Lump Sum | 71 | 76 | 5 | |
| A Williamson | Service Manager: Social Work (old) | ER | 8 | N/A | Pension | 22 | N/A | N/A | Redundancy Retirement 31/12/2011 |
| | | Strain | 11 | N/A | Lump Sum | 58 | N/A | N/A | |
| H Budge | Director: Children's Services (new) | ER | 11 | 12 | Pension | 19 | 20 | 2 | Director: Children's Services from 1/07/2011 |
| | | Strain | | | Lump Sum | 56 | 60 | 5 | |
| N R J Grant | Director: Development (new) | ER | 13 | 15 | Pension | 10 | 11 | 2 | Director: Development from 1/07/2011 |
| | | Strain | | | Lump Sum | 18 | 19 | 1 | |
| P Crossland | Director: Infrastructure (new) | ER | 8 | 15 | Pension | 1 | 2 | 1 | Director: Infrastructure Services from 19/09/2011 |
| | | Strain | | | Lump Sum | N/A | N/A | N/A | |
| C Ferguson | Director: Corporate Services (new) | Er | 13 | 15 | Pension | 25 | 34 | 9 | Director: Corporate Services from 5/09/2012 |
| | | Strain | | | Lump Sum | 63 | 87 | 24 | |
| S Shaw | Director: Community Care (new) | ER | 6 | 13 | Pension | 1 | 2 | 1 | Director: Community Care from 30/07/2012 |
| | | Strain | | | Lump Sum | N/A | N/A | N/A | |
| J Riise | Executive Manager: Goverance & Law (new) | ER | 13 | 14 | Pension | 25 | 26 | 1 | Executive Manager: Goverance & Law from 12/09/2011 |
| | | Strain | | | Lump Sum | 63 | 63 | | |
| J Gray | Executive Manager: Finance (new) | ER | - | 13 | Pension | | 1 | 1 | Executive Manager: Finance from 6/04/2012 |
| | | Strain | N/A | N/A | Lump Sum | N/A | N/A | N/A | |
| H Leslie | Executive Manager: Childrens & Families (new) | ER | 9 | 12 | Pension | 17 | 22 | 5 | Executive Manager: Childrens & Families from 1/12/2011 |
| | | Strain | N/A | N/A | Lump Sum | 43 | 52 | 9 | |

**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 Returning Officer accrued pension benefits of £904.03 and £1,725.74 lump sum as at 31 March 2013. At 31 March 2012 the comparative figures were £780.15 pension and £1,638.21 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 2012/13 are as follows: | Contribution Rate 2012/13 % |
|---|---|
| **Whole time pay:** | |
| On earnings up to and including £19,400 | 5.5 |
| On earnings above £19,400 and up to £23,700 | 7.25 |
| On earnings above £23,700 and up to £32,500 | 8.5 |
| On earnings above £32,500 and up to £43,300 | 9.5 |
| On earnings above £43,300 | 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 ……………………………………………………………. 23 September 2013**
**Leader of the Council**

**Mark Boden ………………………………………………………………. 23 September 2013**
**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 reviewed at 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 2013.

**…………………………………………………………….** **23 September 2013**

**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 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** |
| 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)** |
| **Movement in reserves during 2012/13:** | | | | | | | | |
| (Surplus) or deficit on the provision of services | 20,743 | (2,212) | | | | 18,531 | | 18,531 |
| Other Comprehensive Income and Expenditure | | | | | | | 2,045 | 2,045 |
| **Total Comprehensive Income and expenditure** | **20,743** | **(2,212)** | **0** | **0** | **0** | **18,531** | **2,045** | 20,576 |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (8,239) | 4,049 | | 596 | | (3,594) | 3,594 | 0 |
| **Net (Increase)/Decrease before Transfers to Statutory Reserves** | **12,504** | **1,837** | **0** | **596** | **0** | **14,937** | **5,639** | **20,576** |
| Net Transfers to/(from) Other Statutory Reserves | (12,450) | (1,837) | 7,135 | 0 | 9,093 | 1,941 | (1,941) | 0 |
| **(Increase)/Decrease in 2012/13** | **54** | **0** | **7,135** | **596** | **9,093** | **16,878** | **3,698** | **20,576** |
| | | | | | | | | |
| **Balance as at 31 March 2013** | **(3,604)** | **0** | **(103,463)** | **0** | **(115,697)** | **(222,764)** | **(233,955)** | **(456,719)** |

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

## Comprehensive Income and Expenditure Statement for year ended 31 March 2013

| 2011/12 Net Expenditure £000 | | Notes | 2012/13 Gross Expenditure £000 | 2012/13 Gross Income £000 | 2012/13 Net Expenditure £000 |
|---|---|---|---|---|---|
| 45,510 | Education Services | | 46,231 | (4,526) | 41,705 |
| 2,784 | Housing Services | | 5,978 | (3,997) | 1,981 |
| (489) | Housing Revenue Account | | 4,757 | (6,823) | (2,066) |
| 7,313 | Cultural and Related Services | | 6,397 | (803) | 5,594 |
| 7,262 | Environmental Services | | 8,616 | (2,333) | 6,283 |
| 2,264 | Fire Services | | 2,191 | 0 | 2,191 |
| 16,267 | Roads and Transport Services | | 14,325 | (3,510) | 10,815 |
| 14,153 | Trading Services | | 31,118 | (20,135) | 10,983 |
| 1,485 | Police Services | | 1,578 | 0 | 1,578 |
| 7,760 | Planning and Development Services | | 9,938 | (3,029) | 6,909 |
| 31,762 | Social Work | | 37,990 | (6,753) | 31,237 |
| 337 | Central Services to the Public | | 2,120 | (326) | 1,794 |
| 8,155 | Corporate and Democratic Core | | 6,694 | 0 | 6,694 |
| 2,038 | Non Distributed Costs | | 792 | 0 | 792 |
| **146,601** | **Cost of Services** | | **178,725** | **(52,235)** | **126,490** |
| 225 | Other operating expenditure | 9 | | | 5 |
| (4,413) | Financing and Investment income and expenditure | 10 | | | (1,665) |
| (108,690) | Taxation and non-specific grant income | 11 | | | (106,299) |
| **33,723** | **(Surplus) or Deficit on Provision of Services** | | | | **18,531** |
| (6,186) | (Surplus) on revaluation of Property, Plant and Equipment assets | 23 | | | 2,797 |
| (5,652) | (Surplus) on revaluation of available for sale financial assets | 23 | | | (26,493) |
| 3,705 | Amounts recycled from the AFSFI reserve upon derecognition | 23 | | | 2,080 |
| 10,846 | Actuarial (gains)/losses on pension assets/liabilities | 34 | | | 23,661 |
| **2,713** | **Other Comprehensive Income and Expenditure** | | | | **2,045** |
| **36,436** | **Total Comprehensive Income and Expenditure** | | | | **20,576** |

## Balance Sheet as at 31 March 2013

| 31 March 2012 £000 | | Notes | 31 March 2013 £000 |
|---|---|---|---|
| 373,495 | Property, Plant and Equipment | 12 | 371,936 |
| 4,768 | Heritage Assets | 13 | 4,756 |
| 558 | Intangible Assets | 14 | 622 |
| 193,170 | Long Term Investments | 15 | 205,732 |
| 1,663 | Long Term Loans | 15 | 2,335 |
| 0 | Other Long Term Debtors | | 3 |
| **573,654** | **Long Term Assets** | | **585,384** |
| | | | |
| 392 | Assets held for Sale | 16 | 736 |
| 4,901 | Inventories | 17 | 5,141 |
| 12,259 | Short Term Debtors | 18 | 12,280 |
| 10,654 | Cash and Cash equivalents | 19 | 4,118 |
| **28,206** | **Current Assets** | | **22,275** |
| | | | |
| (19,899) | Short Term Creditors | 20 | (16,774) |
| (142) | Provisions | 21 | (95) |
| **(20,041)** | **Current Liabilities** | | **(16,869)** |
| | | | |
| 0 | Finance Lease Liability | 31 | (4,663) |
| (104,524) | Pension Liability | 34 | (129,250) |
| 0 | Other Long Term Liabilities | | (158) |
| **(104,524)** | **Long Term Liabilities** | | **(134,071)** |
| | | | |
| **477,295** | **Net Assets** | | **456,719** |
| | | | |
| (239,642) | Usable Reserves | 22 | (222,764) |
| (237,653) | Unusable Reserves | 23 | (233,955) |
| **(477,295)** | **Total Reserves** | | **(456,719)** |

The unaudited accounts were issued on 26 June 2013 and the audited accounts were authorized for issue on 23 September 2013.

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**James Gray MA (Hons) CPFA**
**Executive Manager – Finance**
**(Section 95 Officer)**

## Cash Flow Statement for year ended 31 March 2013

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

| 2011/12 £000 | | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|
| | **OPERATING ACTIVITIES** | | |
| 33,723 | Net (surplus) or deficit on the provison of services | 18,531 | |
| (20,530) | Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 37) | (15,067) | |
| 9,553 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 37) | 9,411 | |
| **22,746** | **Net cash flows from Operating Activities** | **12,875** | |
| (26,024) | Investing Activities (Note 38) | (6,362) | |
| 0 | Financing Activities (Note 39) | 23 | |
| **(3,278)** | **Net (increase) or decrease in cash and cash equivalents** | | **6,536** |
| 7,376 | Cash and Cash Equivalents at 1 April | | 10,654 |
| 3,278 | Net movement of Cash and Cash Equivalents during the year | | (6,536) |
| **10,654** | **Cash & Cash Equivalents at 31 March** | | **4,118** |

## 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 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 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 paragraphs set out how each manager accounts for these transactions.

Baillie Gifford receives and records income during the year. This income is re-invested into their units. Baillie Gifford invoices the Council for their fees and the Council pays these invoices directly from the bank account.

GMO have fixed fees which are charged within their units. As the Council requested to be invoiced for their fees, these fixed charges are fully rebated to the fund and re-invested into the relevant unit trust. The Council pays GMO's fees on receipt of their invoice.

No income is generated by Insight outwith their units. The Council pays Insight's fees on receipt of their invoice.

## 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 3 to 20 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.

### a) The Authority as Lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### b) The Authority as Lessor

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Authority's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve 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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## 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 2012/13 (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 organisation; 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 assets are held at Depreciated Historical Cost;
- Community Assets and Assets under Construction are held at Historical Cost.
- Council Dwellings are held at fair value, determined using the basis of Existing Use Value for Social Housing; and
- all other assets are held at fair value, determined as the amount that would be paid for the asset in its Existing Use Value.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost 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: 30 years
- Other Land and Buildings: 7 - 120 years
- Vehicles, Plant, Furniture and Equipment: 1 - 30 years
- Infrastructure: 5 - 60 years

Depreciation is applied in the year from 1 April based on asset valuations as at 31 March of the previous financial year, supported by exceptional calculations based on weighted averages for major acquisitions or disposals taking place towards the start or rend of the year.

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 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

These are held on the Balance Sheet at fair value, determined as the amount that would be paid for the asset in its Existing Use Value but where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost 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

This is held on the balance sheet at Depreciated Historical Cost.

## 1.21 Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

## 1.22 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.

### 1.23 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.

### 1.24 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.

### 1.25 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

Accounting standards issued but not adopted by the Code in 2012/13 are:

- Amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011)
- Amendments to IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)
- Amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets,
- December 2010)
- Amendments to IAS 19 Employee Benefits (June 2011)
- IFRS 13 Fair Value Measurement (May 2011).

There should be no material impact of not adopting these standards in 2012/13. These will be adopted in the 2013/14 Statement of Accounts.

## 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) The Shetland Charitable Trust which was treated as a subsidiary in the 2011/12 Statement of Accounts, has undergone a reorganisation which took effect during February 2013. This has reduced the level of control (based on the accounting definition of control), which the Council had over the Trust. As a result we have reviewed the treatment of the Trust in the Council accounts. It is the opinion of the Executive Manager – Finance that under the requirement of the Code the Council still retains sufficient control to require it to be treated as an associate in the Council's accounts. As a result of this we have used publicly available information to attempt to group the results of the Trust in the 2012/13 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 2013 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 £41.318m however the assumptions interact in complex ways. During 2012/13, the authority's actuaries advised that the net pensions liability had increased by £24.726m as a result of updated assumptions.

### b) Arrears

At 31 March 2013, the authority had a balance on sundry debtors of £4.198m within short term debtors. A review of significant balances suggested that an impairment of doubtful debts of £0.105m 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 £0.050m will eventually be written off from Council Tax charges of £8.127m levied during 2012/13.

### c) Reserves

A sensitivity analysis of the Council's General Fund usable reserves demonstrates that £3m is sufficient to mitigate unanticipated expenditure or reduced income in the current financial climate. An estimated contingent liability of £0.240m has been recorded for a number of outstanding legal cases.

## 5. Material Items of Income and Expenditure

The Council made a payment of £2m to the Shetland Islands Council Pension Fund in respect of the pension liability for the Towage Staff.

## 6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Manager - Finance on 23 September 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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 Grants 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.

| 2012/13 | 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 | (13,385) | (1,617) | | | 15,002 |
| Revaluation losses on Property, Plant and Equipment | (951) | (84) | | | 1,035 |
| Amortisation of intangible assets | (166) | 0 | | | 166 |
| Capital grants and contributions applied | 5,692 | 600 | | | (6,292) |
| 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 | (200) | (742) | | | 942 |
| Capital repayment in respect of finance leases | 23 | | | | (23) |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | |
| Statutory provision for the financing of capital investment | 747 | 2,484 | | | (3,231) |
| Capital expenditure charged against the General Fund and HRA balances | 854 | 2,762 | | | (3,616) |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | | 596 | (596) |
| **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 | 304 | 633 | (937) | | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | 937 | | (937) |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (14,276) | (83) | | | 14,359 |
| Employer’s pensions contributions and direct payments to pensioners payable in the year | 13,198 | 96 | | | (13,294) |
| **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 | (79) | | | | 79 |
| **Total Adjustments** | **(8,239)** | **4,049** | **0** | **596** | **3,594** |

| 2011/12 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 | (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 and 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** |

## 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 2012/13.

| | Balance at 1 April 2011 £000 | Transfers out 2011/12 £000 | Transfers in 2011/12 £000 | Balance at 31 Mar 2012 £000 | Transfers out 2012/13 £000 | Transfers in 2012/13 £000 | Balance at 31 Mar 2013 £000 |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| General Fund Balance | **(3,000)** | 42,885 | (42,885) | **(3,000)** | 25,080 | (25,080) | **(3,000)** |
| Council Tax Second Homes Receipts | **0** | | (511) | **(511)** | 117 | (9) | **(403)** |
| Hansel | **(90)** | | (14) | **(104)** | | (7) | **(111)** |
| School Funds | **0** | | | **0** | | (87) | **(87)** |
| Central Efficiency | **(52)** | 9 | | **(43)** | 41 | (1) | **(3)** |
| **Total** | **(3,142)** | **42,894** | **(43,410)** | **(3,658)** | **25,238** | **(25,184)** | **(3,604)** |
| **Capital:** | | | | | | | |
| Capital Fund | **(108,404)** | 9,946 | (2,084) | **(100,542)** | 18,558 | (1,824) | **(83,808)** |
| Capital Efficiency/Spend to Save Reserve | **(5,000)** | | (4,096) | **(9,096)** | 584 | (165) | **(8,677)** |
| Pilot Boat Renewal Fund | **(942)** | | (18) | **(960)** | | (18) | **(978)** |
| Usable Capital Receipts | **(13)** | 1,310 | (1,297) | **0** | | | **0** |
| Capital Fund (HRA Debt Contingency) | **0** | | | **0** | | (10,000) | **(10,000)** |
| **Total** | **(114,359)** | **11,256** | **(7,495)** | **(110,598)** | **19,142** | **(12,007)** | **(103,463)** |
| **Other Revenue/ Statutory Funds:** | | | | | | | |
| Revenue Efficiency/Spend to Save Reserve | **(500)** | | (10) | **(510)** | 154 | (9) | **(365)** |
| Marine Fund | **(2,582)** | 611 | (50) | **(2,021)** | 253 | (37) | **(1,805)** |
| Reserve Fund | **(61,621)** | 5,677 | (1,185) | **(57,129)** | 39,946 | (1,036) | **(18,219)** |
| Repairs & Renewals Fund | **(62,900)** | 12,533 | (1,209) | **(51,576)** | 7,868 | (936) | **(44,644)** |
| Quarry Repairs & Renewals Fund | **(150)** | | (3) | **(153)** | 0 | (3) | **(156)** |
| Housing Repairs & Renewals Account | **(12,035)** | 7 | (231) | **(12,259)** | 0 | 1,837 | **(10,422)** |
| Insurance Fund | **(222)** | | (71) | **(293)** | 77 | (5) | **(221)** |
| Potential Contingent Liabilities | **(11,400)** | 10,770 | (219) | **(849)** | 0 | (16) | **(865)** |
| Reserve Fund (Harbour Contingency) | **0** | | | **0** | 0 | (39,000) | **(39,000)** |
| **Total** | **(151,410)** | **29,598** | **(2,978)** | **(124,790)** | **48,298** | **(39,205)** | **(115,697)** |
| Housing Revenue Account | **0** | 938 | (938) | **0** | 2212 | (2,212) | **0** |
| Capital Grants Unapplied | **(171)** | 171 | (596) | **(596)** | 596 | 0 | **0** |
| **Total Usable Reserves** | **(269,082)** | **84,857** | **(55,417)** | **(239,642)** | **95,486** | **(78,608)** | **(222,764)** |

### 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 2011/12 to defray General Fund expenditure.

The Revenue Efficiency/Spend to Save Reserve is an earmarked general fund reserve established at the end of 2011/12. 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.

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 2011/12. The purpose of this is to set aside funds to meet the financial obligations that may arise if known contingent liabilities materialise. A new contingency fund was established during 2012/13 as a contingency for future Harbour account commitments.

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. The Schools Fund is an earmarked general fund reserve set up during 2012/13. The purpose of this fund is to contribute to the good of the schools of Shetland or enhance educational or social activities for children.

The Council Tax Second Homes Receipts, for the receipts from reducing the discount on second homes council tax was created in 2011/12. This was 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 2011/12. 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.

A new capital contingency fund was created in 2012/13 to fund a potential HRA debt write off.

## 9. Other Operating Expenditure

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 225 | (Gains)/losses on the disposal of non-current assets | 5 |
| **225** | **Total** | **5** |

## 10. Financing and Investment Income and Expenditure

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 1,771 | Pensions interest cost and expected return on pensions assets | 2,679 |
| (1,067) | Interest receivable and similar income | (36) |
| (2,257) | Other investment income | (1,888) |
| (2,860) | Realised gains in relation to Available for Sale financial assets | (2,420) |
| **(4,413)** | **Total** | **(1,665)** |

## 11. Taxation and Non-Specific Grant Income

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| (8,752) | Council tax income | (8,865) |
| (14,308) | Non domestic rates | (15,035) |
| (77,690) | Non ring fenced government grants | (76,107) |
| (7,940) | Capital grants and contributions | (6,292) |
| **(108,690)** | **Total** | **(106,299)** |

## 12. Property, Plant and Equipment

| Movement in 2012/13 | 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 2012 | 60,044 | 143,909 | 68,934 | 150,907 | 6,194 | 503 | 10,845 | 441,336 |
| Additions | 1,932 | 5,644 | 580 | 703 | 13 | | 9,676 | 18,548 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (8,217) | (4,280) | (248) | | 220 | 11 | | (12,514) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (86) | (1,084) | (2,697) | | | | | (3,867) |
| Derecognition – disposals | (729) | (16) | (895) | (4) | (1) | | | (1,645) |
| Derecognition – other | | | | | | | (410) | (410) |
| Assets reclassified (to)/ from Assets Held for Sale | (46) | (574) | | | | (25) | | (645) |
| Other movements in cost or valuation | (52) | 290 | 12 | 2,953 | 409 | 59 | (3,671) | 0 |
| **At 31 March 2013** | 52,846 | 143,889 | 65,686 | 154,559 | 6,835 | 548 | 16,440 | 440,803 |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2012 | (2,899) | (11,355) | (21,507) | (31,896) | (8) | (176) | | (67,841) |
| Depreciation charge | (1,661) | (4,849) | (4,427) | (3,582) | | (60) | | (14,579) |
| Depreciation written out to the Revaluation Reserve | 4,491 | 4,930 | 263 | | | 4 | | 9,688 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 2 | 850 | 1,995 | | | | | 2,847 |
| Derecognition – disposals | 50 | | 857 | 1 | | | | 908 |
| Assets reclassified (to)/ from Assets Held for Sale | 14 | 97 | | | | | | 111 |
| Other movements in depreciation or impairment | 3 | 3 | | | | (7) | | (1) |
| **At 31 March 2013** | 0 | (10,324) | (22,819) | (35,477) | (8) | (239) | 0 | (68,867) |
| **Net Book Value** | | | | | | | | |
| **at 31 March 2013** | 52,846 | 133,565 | 42,867 | 119,082 | 6,827 | 309 | 16,440 | 371,936 |
| **at 31 March 2012** | 57,145 | 132,554 | 47,427 | 119,011 | 6,186 | 327 | 10,845 | 373,495 |

| Comparator 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 Construction £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)/ from 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 | 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 at 31March 2012 | 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 |

## a) Capital Commitments

At 31 March 2013, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years, budgeted to cost £5.019m. Similar commitments at 31 March 2012 were £5.744m. The major commitments are:

- Joint Occupational Therapy Centre £0.340m
- Shetland College Phase 3 £2.913m
- Walls Piers £0.946m
- B9071 Bixter to Aith Phase 2 £0.030m
- Fibre Optic Phase 4 – 6 £0.110m
- Skerries Dredging £0.230m
- Hoofields New Housing £0.400m
- Landward Crudens (Voe & Whalsay) £0.050m

## 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 Ken Allan (MRICS) of the Asset and Properties Unit. In previous financial years valuations were carried out as at 1 April, however in 2012/13 the Council changed the timing of revaluations to 31 March and plans to continue to value on this date in future years. 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 | | | | 154,559 | 6,835 | | 16,440 | 177,834 |
| Valued at fair value as at: | | | | | | | | |
| 2012 - 2013 | 52,846 | 14,486 | 65,686 | | | 70 | | 133,088 |
| 2011 - 2012 | | 24,502 | | | | 59 | | 24,561 |
| 2010 - 2011 | | 15,966 | | | | 72 | | 16,038 |
| 2009 - 2010 | | 71,879 | | | | 335 | | 72,214 |
| 2008 - 2009 | | 17,056 | | | | 12 | | 17,068 |
| **Total Cost or Valuation** | 52,846 | 143,889 | 65,686 | 154,559 | 6,835 | 548 | 16,440 | 440,803 |

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 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** |
| **Net Value** | | | | |
| At 1 April 2012 | 1,439 | 3,269 | 60 | **4,768** |
| Revaluations | | | | **-** |
| Depreciation | (12) | | (1) | **(13)** |
| Other movements | 1 | | | **1** |
| **At 31 March 2013** | **1,428** | **3,269** | **59** | **4,756** |

### 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 this does 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 20$^{th}$ century items, but most significant are the 19$^{th}$ 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 17$^{th}$ to the 21$^{st}$ 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 initially recognised in the Balance Sheet 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 4 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.

## 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 £0.166m charged to revenue in 2012/13 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<br>GIS Innogistic System<br>Encryption/ Web Filter Software |
| 5 | Payroll/ HR/ Pension Systems<br>Housing Stock Management System<br>Libraries Systems<br>Building/ DLO Stores System<br>Council Tax/ Housing Benefits/ Rents |
| 10 | Financial Management Systems<br>Risk Assessment Software |
| 20 | Occupational Therapy Stock Control System<br>Facility Management System<br>Planning Systems<br>Client Records System<br>Microsoft Licenses |

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

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| | **Balance at start of year:** | |
| 2,089 | Gross carrying amounts | 2,287 |
| (1,653) | Accumulated amortisation | (1,729) |
| **436** | **Net carrying amount at start of year** | **558** |
| 127 | Purchases | 230 |
| (155) | Amortisation for the period | (166) |
| 150 | Other changes | 0 |
| **558** | **Net carrying amount at end of year** | **622** |
| | **Comprising:** | |
| 2287 | Gross carrying amounts | 2438 |
| (1,729) | Accumulated amortisation | (1,816) |
| **558** | | **622** |

## 15. Financial Instruments

### a) Categories of Financial Instruments

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

| Long-Term 31 March 2012 £000 | Current 31 March 2012 £000 | | Long-Term 31 March 2013 £000 | Current 31 March 2013 £000 |
|---|---|---|---|---|
| | | **Financial Assets:** | | |
| | | **Investments:** | | |
| 193,170 | 0 | Available for sale financial assets | 205,732 | 0 |
| **193,170** | **0** | **Total Investments** | **205,732** | **0** |
| | | **Debtors:** | | |
| 1,663 | 401 | Loans and receivables | 2,335 | 945 |
| **1,663** | **401** | **Total Debtors** | **2,335** | **945** |

### b) Income, Expense, Gains and Losses

| 31 March 2012 | | | | 31 March 2013 | | |
|---|---|---|---|---|---|---|
| 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 |
| 69 | 0 | **69** | Impairment losses | 14 | 0 | **14** |
| 0 | 895 | **895** | Fee expenses | 0 | 910 | **910** |
| **69** | **895** | **964** | **Total expense in (Surplus)/Deficit on the Provision of Services** | **14** | **910** | **924** |
| (77) | (2,257) | **(2,334)** | Interest & dividend income | (146) | (1,888) | **(2,034)** |
| 0 | (2,860) | **(2,860)** | Gains on de-recognition | 0 | (2,420) | **(2,420)** |
| **(77)** | **(5,117)** | **(5,194)** | **Total income in (Surplus)/Deficit on the Provision of Services** | **(146)** | **(4,308)** | **(4,454)** |
| 0 | (5,652) | **(5,652)** | Gains on revaluation | 0 | (26,493) | **(26,493)** |
| 0 | 3,705 | **3,705** | Amounts recycled | 0 | 2,080 | **2,080** |
| **0** | **(1,947)** | **(1,947)** | **(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES** | **0** | **(24,413)** | **(24,413)** |
| **(8)** | **(6,169)** | **(6,177)** | **Net (Gain)/Loss for the Year** | **(132)** | **(27,811)** | **(27,943)** |

There were gains for available for sale financial assets on revaluation of £26.493m as at 31 March 2013 (£5.652m at 31 March 2012) 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 2012 | | | 31 March 2013 | |
|---|---|---|---|---|
| Carrying Amount £000 | Fair Value £000 | | Carrying Amount £000 | Fair Value £000 |
| 2,064 | 2,064 | Loans and Receivables | 3,280 | 3,280 |

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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **206** | **Balance outstanding at start of year** | **392** |
| | **Assets newly classified as held for sale:** | |
| 392 | Property, Plant and Equipment | 664 |
| | **Revaluation Losses** | (91) |
| | **Revaluation Gains** | 106 |
| | **Assets declassified as held for sale:** | |
| | Property, Plant and Equipment | (130) |
| (206) | **Assets sold** | (205) |
| **392** | **Balance outstanding at year-end** | **736** |

## 17. Inventories

| | 2011/12 £000 | 2012/13 £000 | 2011/12 £000 | 2012/13 £000 | 2011/12 £000 | 2012/13 £000 | 2011/12 £000 | 2012/13 £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance outstanding at start of year** | **2,717** | **3,344** | **755** | **1,061** | **551** | **496** | **4,023** | **4,901** |
| Purchases | 1,359 | 638 | 2,969 | 3,050 | 1,358 | 1,310 | 5,686 | 4,998 |
| Recognised as an expense in the year | (732) | (539) | (2,651) | (2,932) | (1,397) | (1,286) | (4,780) | (4,757) |
| Written off Balances | 0 | (2) | (12) | (2) | (16) | 0 | (28) | (4) |
| Reversals of write offs in previous years | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| **Balance outstanding at year end** | **3,344** | **3,441** | **1,061** | **1,177** | **496** | **523** | **4,901** | **5,141** |

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

## 18. Short-Term Debtors

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 2,510 | Central Government Bodies | 1,835 |
| 2,609 | Other Local Authorities | 2,494 |
| 301 | NHS Bodies | 74 |
| 848 | Public Corporation and Trading Funds | 1,184 |
| 5,991 | Other Entities and Individuals | 6,693 |
| **12,259** | **Total** | **12,280** |

### 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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| (413) | Opening balance - General Fund | (363) |
| 32 | Miscellaneous Invoices written off | 22 |
| 18 | Council Tax written off | 39 |
| **(363)** | **Closing Balance** | **(302)** |
| (155) | Opening balance - Housing Revenue Account | (120) |
| 5 | Miscellaneous Invoices written off | 0 |
| 30 | Rents written off | 27 |
| **(120)** | **Closing Balance** | **(93)** |

## 19. Cash and Cash Equivalents

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

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 24 | Cash held by the Authority | 28 |
| 10,629 | Bank current accounts | 4,089 |
| 1 | Short-term certificates of deposit | 1 |
| **10,654** | **Total** | **4,118** |

## 20. Short-Term Creditors

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| (4,031) | Central Government Bodies | (3,206) |
| (3,144) | Other Local Authorities | (2,620) |
| (108) | NHS Bodies | (73) |
| (775) | Public Corporations and Trading Funds | (686) |
| (11,841) | Other entities and individuals | (10,189) |
| **(19,899)** | **Total** | **(16,774)** |

## 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 was the first year for which there was an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2012/13, participating authorities will submit the annual report on their emissions for the 2012/13 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2013. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2013 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

| 2011/12 | | | 2012/13 | |
|---|---|---|---|---|
| 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** | **(10)** | **Balance at 1 April** | **(142)** | **0** |
| (142) | 0 | Additional provisions made | (82) | 0 |
| 0 | 10 | Amounts used | 129 | 0 |
| **(142)** | **0** | **Balance at 31 March** | **(95)** | **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 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| (3,658) | General Fund Balance | (3,604) |
| (110,598) | Capital Receipts Reserve/Capital Funds | (103,463) |
| (596) | Capital Grants Unapplied | 0 |
| (124,790) | Other Revenue/ Statutory Funds | (115,697) |
| **(239,642)** | **Total balance of usable reserves at 31 March** | **(222,764)** |

## 23. Unusable Reserves

### Reconciliation of Unusable Funds to the balance sheet

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| (67,923) | Revaluation Reserve | (62,886) |
| (21,323) | Available for Sale Financial Instruments Reserve | (45,736) |
| (255,514) | Capital Adjustment Account | (257,246) |
| 104,524 | Pensions Reserve | 129,250 |
| 2,583 | Employee Statutory Adjustment Account | 2,663 |
| **(237,653)** | **Total balance of unusable reserves at 31 March** | **(233,955)** |

### 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 2012 £000 | | 31 March 2013 £000 | £000 |
|---|---|---|---|
| **(64,271)** | **Balance at 1 April** | | **(67,923)** |
| (6,848) | Upward revaluation of assets | (2,345) | |
| 662 | Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services | 5,142 | |
| (6,186) | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | | 2,797 |
| 1,771 | Difference between fair value depreciation and historical cost depreciation | 1,810 | |
| 763 | Accumulated gains on assets sold or scrapped | 430 | |
| 2,534 | Amount written off to the Capital Adustment Account | | 2,240 |
| **(67,923)** | **Balance at 31 March** | | **(62,886)** |

## 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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **(19,376)** | **Balance at 1 April** | **(21,323)** |
| (6,528) | Upward revaluation of assets | (26,493) |
| 876 | Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services | 0 |
| (5,652) | | (26,493) |
| 3,705 | Removal of previously unrealised gains in relation to assets sold | 2,080 |
| **(21,323)** | **Balance at 31 March** | **(45,736)** |

## 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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **91,113** | **Balance at 1 April** | **104,524** |
| 10,846 | Actuarial (gains) and losses on pensions assets and liabilities | 23,661 |
| 14,099 | 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 | 14,359 |
| (11,534) | Employer's pensions contributions and direct payments to pensioners payable in the year | (13,294) |
| **104,524** | **Balance at 31 March** | **129,250** |

## 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 2012 £000 | | 31 March 2013 £000 | £000 |
|---|---|---|---|
| **(253,562)** | **Balance at 1 April** | | **(255,514)** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| 13,869 | Charges for depreciation and impairment of Non-Current assets | 14,592 | |
| 3,445 | Revaluation losses on Property, Plant and Equipment | 1,445 | |
| 155 | Amortisation of Intangible assets | 166 | |
| | Repayment of capital on finance leases | (23) | |
| 1,521 | 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 | 510 | |
| 18,990 | | | 16,690 |
| (2,534) | Adjustment amounts written out of the Revaluation Reserve | | (1,810) |
| 16,456 | Net written out amount of the cost of Non-Current assets consumed in the year | | 14,880 |
| | **Capital financing applied in the year:** | | |
| (1,310) | Use of the Capital Receipts Reserve to finance new capital expenditure | (937) | |
| (7,344) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (6,292) | |
| (171) | Application of grants to capital financing from the Capital Grants Unapplied Account | (596) | |
| (2,744) | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (3,231) | |
| (894) | Capital expenditure charged against the General Fund and HRA balances | (3,615) | |
| (12,463) | | | (14,671) |
| | Capital Spend to Save Reserve | (584) | |
| (5,945) | Capital Fund Reserve | (1,357) | (1,941) |
| **(255,514)** | **Balance at 31 March** | | **(257,246)** |

## 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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **1,447** | **Balance at 1 April** | **2,583** |
| (1,447) | Settlement or cancellation of accrual made at the end of the preceding year | (2,583) |
| 2,583 | Amounts accrued at the end of the current year | 2,663 |
| 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 |
| **2,583** | **Balance at 31 March** | **2,663** |

## 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 2012/13 | Education & Families £000 | Social Services £000 | Develop-ment £000 | Environ-ment & Transport £000 | Executive £000 | Boards (Harbour & College) £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Employee expenses | 35,345 | 27,371 | 2,907 | 16,510 | 7,443 | 10,268 | 99,844 |
| Operating costs | 8,342 | 10,195 | 7,964 | 21,279 | 10,656 | 7,127 | 65,563 |
| Transfer Payments | 1,424 | 9,907 | 2,908 | 842 | 296 | 7 | 15,384 |
| **Total expenditure** | **45,111** | **47,473** | **13,779** | **38,631** | **18,395** | **17,402** | **180,791** |
| Total income | (2,485) | (21,824) | (2,903) | (17,253) | (1,020) | (22,007) | (67,492) |
| **Net expenditure** | **42,626** | **25,649** | **10,876** | **21,378** | **17,375** | **(4,605)** | **113,299** |

| Income and Expenditure Analysis Comparative Figures 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** |

| 31 March 2012 £000 | Summary reconcilation between Budget reported and Comprehensive Income and Expenditure Statement | 31 March 2013 £000 |
|---|---|---|
| 128,566 | Net expenditure in the Income and Expenditure Analysis | 113,299 |
| (93) | Net expenditure of services and support services not included in the Analysis and not reported to management for decision making | (2,327) |
| 18,128 | Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 15,518 |
| **146,601** | **Cost of Services in Comprehensive Income and Expenditure Statement** | **126,490** |

## Detailed reconciliation between Budget reported and Comprehensive Income and Expenditure Statement

| 2012/13 | 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 | 99,844 | | 792 | (2,327) | 98,309 |
| Other service expenses | 80,895 | | 14,375 | | 95,270 |
| Support service recharges | | | (15,852) | | (15,852) |
| Depreciation, amortisation and impairment | | | 16,203 | | 16,203 |
| Interest Payments | 53 | | | | 53 |
| Precepts & Levies | | | | | 0 |
| Gain or Loss on Disposal of Fixed Assets | | | | | 0 |
| **Total expenditure** | **180,792** | **0** | **15,518** | **(2,327)** | **193,983** |
| Fees, charges & other service income | (62,910) | | | | (62,910) |
| Interest and investment income | (142) | | | | (142) |
| Income from council tax | 0 | | | | 0 |
| Government grants and contributions | (4,441) | | | | (4,441) |
| **Total Income** | **(67,493)** | **0** | **0** | **0** | **(67,493)** |
| **Cost of Services** | **113,299** | **0** | **15,518** | **(2,327)** | **126,490** |

| Comparative Figures 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** |

## 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 2012/13 are as follows:

| | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | £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 | (7,760) | | (7,511) | | (8,226) | |
| Expenditure | 7,562 | | 7,139 | | 8,036 | |
| Surplus | | (198) | | (372) | | (190) |
| **Cumulative surplus - over last three financial years** | | **(374)** | | **(900)** | | **(760)** |
| 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 | (4,713) | | (4,171) | | (4,096) | |
| Expenditure | 4,588 | | 4,226 | | 4,021 | |
| Surplus | | (125) | | 55 | | (75) |
| **Cumulative surplus - over last three financial years** | | **(190)** | | **(355)** | | **(145)** |
| **Net (surplus)/deficit on trading operations:** | | **(323)** | | **(317)** | | **(265)** |

The table above is presented exclusively to show whether each trading organisation met its statutory financial target. The figures for 2009/10 included within the cumulative surpluses for the prior years are based on UK GAAP in line with the legislative requirement for those years. The 2010/11, 2011/12 and 2012/13 figures are based on IFRS as specified in the Code of Practice on Local Authority Accounting. For this reason the cumulative surplus/deficit figures quoted are 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 to the authority's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. The allocation of this expenditure is as follows:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 441 | Net (Surplus)/Deficit on Services to the public incl. in Cost of Services | (52) |
| (758) | Support services recharged to Expenditure of Continuing Operations | (213) |
| **(317)** | **Net (surplus)/deficit on trading operations** | **(265)** |

## 26. Agency Services

The authority is required by legislation to provide a collection service for Scottish Water, involving the collection of around £2.8m 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 provides a service that allows them to take credit and debit card payments through the Council's income system. The Council charges 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 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 27 | Expenditure incurred in collection service for Scottish Water | 18 |
| (65) | Commission payable by Scottish Water | (61) |
| 0 | Expenditure incurred in collection service for SHEAP | 0 |
| (3) | Income payable by SHEAP | (4) |
| 0 | Expenditure incurred in collection service for Shetland Box Office | 0 |
| (1) | Income payable by Shetland Box Office | 0 |
| 0 | Expenditure incurred in cashier service for Shetland Charitable Trust | 0 |
| 0 | Income payable by Shetland Charitable Trust for Cashier Service | (1) |
| 7 | Expenditure incurred in payroll services to other organisations | 10 |
| (7) | Income payable by other organisation for payroll services | (10) |
| **(42)** | **Net surplus arising on the agency arrangements** | **(48)** |

## 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 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 240 | Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year | 216 |
| **240** | **Total** | **216** |

## 28. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| | **Credited to Taxation and Non-Specific Grant Income** | |
| (8,752) | Council tax income | (8,865) |
| (14,308) | Non domestic rates | (15,035) |
| (77,690) | Non ring fenced government grants | (76,107) |
| (7,940) | Capital grants and contributions | (6,292) |
| **(108,690)** | **Total** | **(106,299)** |
| | **Credited to Services** | |
| (688) | NHS | (365) |
| (748) | Council Tax Benefits Subsidy | (751) |
| (2,887) | Housing Benefit Subsidy | (3,185) |
| (993) | Housing Support Grant | (761) |
| (56) | ERDF & ESF | (46) |
| (281) | Training Grants | (330) |
| (2) | Central - Government Grants | (16) |
| (170) | Cultural - Government Grants | (205) |
| (2,779) | Education - Government Grants | (2,622) |
| (85) | Environment - Government Grants | (413) |
| (476) | Planning & Development - Government Grants | (344) |
| (50) | Roads & Transport - Government Grants | (58) |
| (394) | Social Work - Government Grants | (471) |
| **(9,609)** | **Total** | **(9,567)** |

## 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 Office Headquarters, 8 North Ness Business Park during office hours. This is also available to view on the Council's website. The Register details the bodies where members are represented or for which they have declared an interest. The Council made payments totalling £3.735m in 2012/13 (£4.446m in 2011/12) to these bodies.

## c) Officers

At the end of the financial year all Executive Managers and above were required to disclose any involvement with related parties of the Council. No significant items were reported.

## 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 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **55,363** | **Opening Capital Financing Requirement** | **53,799** |
| | **Capital Investment:** | |
| 16,718 | Property, Plant and Equipment | 13,830 |
| 127 | Intangible Assets | 230 |
| | **Sources of Finance:** | |
| (1,310) | Capital Receipts | (937) |
| (7,516) | Government Grants and Other Contributions | (6,888) |
| (5,945) | Funding from Reserves | (1,941) |
| | **Sums set aside from Revenue:** | |
| (894) | Direct Revenue Contributions | (3,616) |
| (2,744) | Loans Fund Principal | (3,231) |
| **53,799** | **Closing Capital Financing Requirement** | **51,246** |
| | **Explanation of Movements in Year:** | |
| (1,564) | Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance) | (2,553) |
| **(1,564)** | **Increase/(Decrease) in Capital Financing** | **(2,553)** |

## 31. Leases

### Finance Leases

During 2011/12 the Council did not have any finance leases as lessee. The Council has acquired an administrative building under a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| 31 March 2012 £'000 | | 31 March 2013 £'000 |
|---|---|---|
| 0 | Other Land and Buildings | 4,570 |
| 0 | Vehicles, Plant, Furniture and Equipment | 0 |
| 0 | | 4,570 |

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2012 £'000 | | 31 March 2013 £'000 |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments) | |
| 0 | Current | (33) |
| 0 | Non Current | (4,663) |
| 0 | Finance costs payable in future years | (8,964) |
| **0** | **Minimum Lease Payments** | **(13,660)** |

The minimum lease payments will be payable over the following periods:

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2012 £'000 | 31 March 2013 £'000 | 31 March 2012 £'000 | 31 March 2013 £'000 |
| Not later than one year | 0 | 467 | 0 | (33) |
| Later than one year and not later than five years | 0 | 1,868 | 0 | (168) |
| Later than five years | 0 | 11,325 | 0 | (4,495) |
| | **0** | **13,660** | **0** | **(4,696)** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews, however there were no contingent rents payable in 2012/13.

## 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 leases land from Shetland Charitable Trust for £1.344m a year and subleases it to BP for the same amount. This lease arrangement is due to run until 2025.

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

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 2,374 | Not later than one year | 2,474 |
| 9,130 | Later than one year and not later than five years | 9,492 |
| 17,219 | Later than five years | 16,292 |
| **28,723** | **Total** | **28,258** |

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

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 2,824 | Minimum lease payments | 2,796 |
| (1,365) | Sublease payments receivable | (1,491) |
| **1,459** | **Total** | **1,305** |

### b) The Authority as a Lessor

#### Finance Leases

During 2011/12 and 2012/13 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; and
- 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 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| (1,287) | Not later than one year | (1,400) |
| (5,108) | Later than one year and not later than five years | (5,573) |
| (10,628) | Later than five years | (10,219) |
| **(17,023)** | **Total** | **(17,192)** |

The total value of rental income, excluding subleases, recognised during the period was £0.501m (2011/12 - £0.425m).

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

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| (294) | Not later than one year | (438) |
| (668) | Later than one year and not later than five years | (737) |
| (165) | Later than five years | (2,600) |
| **(1,127)** | **Total** | **(3,775)** |

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 2011/12 and 2012/13 no contingent rents were receivable by the Council.

## 32. Termination Benefits

The Council terminated 26 employee contracts in 2012/13 (65 in 2011/12), incurring liabilities of £0.659m (£2.041m in 2011/12).

This figure includes one off termination payments made to staff (e.g. redundancy payments and enhanced pension lump sum payments) and also one-off pension fund employer costs (pension strain cost).

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 2012/13, the Council paid £2.378m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£2.481m and 14.9% for 2011/12). 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 2012/13 these amounted to £0.840m (£0.800m for 2011/12), representing 4.97% of teachers pensionable pay (4.77% for 2011/12). 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:

| 2011/12 £000 | Local Government Pension Scheme | 2012/13 £000 |
|---|---|---|
| | **Comprehensive Income and Expenditure Statement** | |
| | **Cost of Services:** | |
| 10,039 | Current service cost | 10,888 |
| 727 | Past service cost | 293 |
| 1,562 | Settlements and curtailments | 499 |
| | **Financing and Investment Income and Expenditure:** | |
| 16,999 | Interest cost | 16,023 |
| (15,228) | Expected return on scheme assets | (13,344) |
| **14,099** | **Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **14,359** |
| | **Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | |
| 10,846 | Actuarial (gains) and losses | 23,661 |
| **24,945** | **Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **38,020** |
| | **Movement in Reserves Statement** | |
| 10,846 | Actuarial losses or (gains) | 23,661 |
| 14,099 | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | 14,359 |
| | **Actual amount charged against the General Fund Balance for pensions in the year:** | |
| (11,534) | Employers' contributions and direct payments to pensioners payable in the year | (13,294) |
| **13,411** | **Movement in the year on the Pension Reserve** | **24,726** |

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 2013 a loss of £105.227m (31 March 2012 was a loss of £81.566m).

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

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

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 305,998 | **Opening balance at 1 April** | 331,757 |
| 10,039 | Current service cost | 10,888 |
| 16,999 | Interest Cost | 16,023 |
| 3,482 | Contributions by scheme participants | 3,313 |
| 2,517 | Actuarial gains and losses | 44,722 |
| (9,567) | Benefits paid | (10,832) |
| 727 | Past service costs | 293 |
| 1,562 | Curtailments | 499 |
| **331,757** | **Closing balance at 31 March** | **396,663** |

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

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 214,885 | **Opening balance at 1 April** | 227,233 |
| 15,228 | Expected rate of return | 13,344 |
| (8,329) | Actuarial gains and losses | 21,061 |
| 11,534 | Employer contributions | 13,294 |
| 3,482 | Contributions by scheme participants | 3,313 |
| (9,567) | Benefits paid | (10,832) |
| **227,233** | **Closing balance at 31 March** | **267,413** |

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 £34.438m (2011/12 £2.054m).

## d) Scheme History

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

| | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012/13 £000 |
|---|---|---|---|---|---|
| **Present value of liabilities:** | | | | | |
| Local Government Pension Scheme | 193,332 | 342,879 | 305,998 | 331,757 | 396,663 |
| Discretionary Benefits | 0 | 0 | 0 | 0 | 0 |
| **Fair value of assets in the Local Government Pension Scheme** | **134,353** | **195,710** | **214,885** | **227,233** | **267,413** |
| **Surplus/(Deficit) in the scheme:** | | | | | |
| Local Government Pension Scheme | (40,844) | (122,943) | (68,445) | (77,897) | (100,292) |
| Discretionary Benefits | (18,135) | (24,226) | (22,668) | (26,627) | (28,958) |
| **Total** | **(58,979)** | **(147,169)** | **(91,113)** | **(104,524)** | **(129,250)** |

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £396.663m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £129.250m. 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 £11.334m.

## 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 2011.

The principal assumptions used by the actuary have been:

| 2011/12 | | 2012/13 |
|---|---|---|
| | **Long-term expected rate of return on assets in the scheme:** | |
| 6.2% | Equity investments | 4.5% |
| 4.0% | Bonds | 4.5% |
| 4.0% | Other | 4.5% |
| | **Mortality Assumptions:** | |
| | Longevity at 65 for current pensioners (in years): | |
| 23.0 | Men | 23.0 |
| 25.8 | Women | 25.8 |
| | Longevity at 65 for future pensioners (in years): | |
| 24.9 | Men | 24.9 |
| 27.7 | Women | 27.7 |
| 3.3% | Rate of inflation | 3.3% |
| 4.8% | Rate of increase in salaries | 5.1% |
| 2.5% | Rate of increase in pensions | 2.8% |
| 4.8% | Rate for discounting scheme liabilities | 4.5% |
| 70% | Take-up of option to convert annual pension into retirement lump sum | 70.0% |

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:

| 2011/12 | | 2012/13 |
|---|---|---|
| 81% | Equity investments | 82% |
| 8% | Debt instruments | 8% |
| 11% | Other assets | 10% |

### 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:

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|
| Differences between the expected and actual return on assets | (47.6%) | 23.57% | (0.84%) | (3.67%) | 7.88% |
| Experience gains and losses on liabilities | (4.19%) | 1.85% | (0.13%) | (5.47%) | 0.07% |

The actuarial present value of promised retirement benefits calculated similarly to the defined benefit obligation under IAS19, is £432m at 31 March 2013 (£351m at 31 March 2012).

## 35. Contingent Liabilities

At 31 March 2013, the authority had 13 quantified contingent liabilities totaling £0.240m (£0.849m at 31 March 2012). The likelihood of a loss to the Council for these liabilities was estimated to be less than 50%.

There are also 3 unquantified contingent liabilities relating to projects for which the Council is currently in legal dispute, or may result in legal dispute. Any claims are being contested and are at present unresolved and not admitted. No material loss is anticipated.

The Council has received 4 claims under the Equal Pay Act 1970 for past pay inequalities with male colleagues. The claimants allege that they are carrying out work which has been rated equivalent, or alternatively is work of equal value to a number of comparator posts.

Claims do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims, or of any financial impact that these may have.

## 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 an A- 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 A- long term rating is defined by Fitch IBCA (International Bank Credit Association) as a "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong."

The authority has a policy of not lending more than £3m of its surplus balances to any single organisation at any one time, apart from the Council's own bank; no deposits were placed with any financial institutions during the financial year 2012/13.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2013, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

| | Estimated maximum exposure at 31 March 2012 | Amount at 31 March 2013 A | Historical experience of default (expressed as % of A) B | Historical experience adjusted for market conditions at 31 March 2013 C | Estimated maximum exposure to default and uncollectability at 31 March 2013 A*C |
|---|---|---|---|---|---|
| | £000 | £000 | % | % | £000 |
| Deposits with Banks | 0 | 5,637 | 0 | 0 | 0 |
| Customers | 23 | 96 | 25 | 25 | 24 |

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 £1.711m of the £4.198m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---:|---|---:|
| 769 | Less than three months | 691 |
| 61 | Three to six months | 439 |
| 197 | Six months to one year | 121 |
| 282 | More than one year | 460 |
| **1,309** | **Total** | **1,711** |

## Liquidity Risk

The authority has external investments with fund managers amounting to £206m at 31 March 2013. 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 2013/14.

## 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 2013 the composition of these funds has been diversified between the following asset classes:

- UK Equities - 35%
- Overseas Equities - 39%
- UK Government Bonds – 10.5%
- UK Corporate Bonds – 10.5%
- Other Bonds - 5%

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

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

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

According to this risk assessment, a general shift of +/- 1% in the UK Stock Market, which is the market with the largest investment exposure, would result in a gain or loss in the region of £0.720m for 2012/13.

### b) Price risk

The authority had £206m of investments as at 31 March 2013 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 £7.6m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2012/13.

### c) Foreign exchange risk

The authority has £80.34m 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.

## 37. Cash Flow Statement – Operating Activities

Cash flows for operating activities include the following:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| (2,311) | Dividends received | (1,887) |
| **(2,311)** | **Total** | **(1,887)** |

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| (13,869) | Depreciation | (14,592) |
| 0 | Impairment and downward valuations | (1,459) |
| (155) | Amortisation | (166) |
| (5,793) | (Increase)/decrease in creditors | 3,000 |
| 3,909 | Increase/(decrease) in debtors | 21 |
| 878 | Increase/(decrease) in inventories | 240 |
| (2,565) | Movement in pension liability | (1,065) |
| (1,521) | Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | (942) |
| (1,414) | Other non-cash items charged to the net surplus or deficit on the provision of services | (104) |
| **(20,530)** | **Total** | **(15,067)** |

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 2,684 | Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 2,420 |
| 1,297 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 937 |
| 5,572 | Any other items for which the cash effects are investing or financing cash flows | 6,054 |
| **9,553** | **Total** | **9,411** |

## 38. Cash Flow Statement – Investing Activities

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 16,845 | Purchase of property, plant and equipment, investment property and intangible assets | 14,059 |
| 2,368 | Purchase of short-term and long-term investments | 4,579 |
| (1,297) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (937) |
| (36,000) | Proceeds from short-term and long-term investments | (17,770) |
| (7,940) | Other receipts from investing activities | (6,293) |
| **(26,024)** | **Total** | **(6,362)** |

## 39. Cash Flow Statement – Financing Activities

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 0 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 23 |
| **0** | **Total** | **23** |

# 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

| 2011/12 £000 | | 2012/13 £000 | £000 |
|---|---|---|---|
| | **Expenditure** | | |
| 2,195 | Repairs and maintenance | 2,263 | |
| 551 | Supervision and management | 541 | |
| 2,559 | Depreciation and impairment of non-current assets | 1,701 | |
| 950 | Other expenditure | 252 | |
| **6,255** | **Total expenditure** | | **4,757** |
| | **Income** | | |
| (5,625) | Dwelling rents | (5,892) | |
| (119) | Non-Dwelling rents | (123) | |
| (993) | Housing Support Grant | (761) | |
| (7) | Other Income | (47) | |
| **(6,744)** | **Total income** | | **(6,823)** |
| **(489)** | **HRA share of other amounts included in the whole authority Net Cost of Services but not allocated for specific services** | | **(2,066)** |
| | **Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement** | | |
| 225 | HRA services' share of Corporate and Democratic Core | | 163 |
| **(264)** | **Net Cost/(Income) of HRA Services** | | **(1,903)** |
| | **HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement** | | |
| (443) | (Gain) or loss on sale of HRA non-current assets | | 109 |
| 0 | Interest payable and similar charges | | 404 |
| (231) | Interest and investment income | | (222) |
| 0 | Non-specific Grant Income | | (600) |
| **(674)** | **Net HRA share of operating expenditure** | | **(309)** |
| **(938)** | **(Surplus) or deficit for the year on HRA services** | | **(2,212)** |

## c) Movement on the Housing Revenue Account Statement

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 0 | **Balance on the HRA at the end of the previous year** | 0 |
| (938) | Surplus or (deficit) on the HRA Income and Expenditure Statement | (2,212) |
| | **Adjustment between accounting basis and funding basis under statute** | |
| (1,525) | Charges for depreciation and impairment of non-current assets | (1,617) |
| (1,034) | Revaluation losses on Property, Plant and Equipment | (84) |
| 0 | Capital grants and contributions applied | 600 |
| (450) | 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 | (742) |
| 2,004 | Statutory provision for the financing of capital investment | 2484 |
| 828 | Capital expenditure charged against HRA balances | 2762 |
| 892 | Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 633 |
| 0 | Employer's pensions contributions and direct payments to pensioners payable in the year | 13 |
| (223) | | 1,837 |
| 223 | Transfers to or (from) reserves | (1,837) |
| **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 2012 Number | Housing Stock | 31 March 2013 Number |
|---|---|---|
| 103 | 1 Apartment | 105 |
| 403 | 2 Apartment | 397 |
| 543 | 3 Apartment | 535 |
| 683 | 4 Apartment | 676 |
| 38 | 5 Apartment | 38 |
| 0 | 6 Apartment | 1 |
| 2 | 8 Apartment | 2 |
| **1,772** | **Total** | **1,754** |

## 2) Amount of Rent Arrears

The table below summarises the rent arrears position for the HRA dwellings. The trend shown below is of an increase in the number of properties in arrears and the amount of arrears has increased per property.

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| **102** | **Rent Arrears** | **137** |
| 289 | Number of properties in arrears (Number) | 306 |
| 16.3% | Properties in arrears as share of total stock (%) | 17.4% |
| £353 | Average amount per property in arrears (£) | £373 |

## 3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2012/13:

| 2011/12 £000 | | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|
| **(155)** | **Balance as at 1 April** | | **(120)** |
| | Bad rent debt written off: | | |
| 20 | Council approved * | 0 | |
| 10 | Delegated authority * | 27 | |
| 30 | | | 27 |
| 5 | Miscellaneous bad debt written off | | 0 |
| (120) | | | (93) |
| 0 | Contribution to/(from) Housing Revenue Account | | 0 |
| **(120)** | **Balance as at 31 March** | | **(93)** |

* Council Approval was required for bad debts written off over £1k in 2011/12. This threshold was changed to £5k in 2012/13.

## 4) Void Rents

The following table summarises the income lost due to voids in 2012/13. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 1 | Ladies Drive Void Rents and Charges | 0 |
| 44 | General Needs Void Rents and Charges | 48 |
| 27 | Sheltered Housing Void Rents and Charges | 32 |
| 37 | Refurbishment Properties Void Rents and Charges | 17 |
| **109** | **TOTAL** | **97** |

# 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

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| **(9,946)** | **Gross Council Tax levied and contributions in lieu** | **(10,031)** |
| (3) | Council Tax benefits (net of Government grant) | (9) |
| 1,167 | Other discounts and reductions | 1,158 |
| 18 | Write-offs of uncollectable debts | 39 |
| (18) | Allowance for impairment of uncollectable debts | (39) |
| 30 | Adjustment to previous years' community charge and council tax | 17 |
| **(8,752)** | **Transfer to General Fund** | **(8,865)** |

### a) Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2012/13 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 2012/13

| | 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) | | 3,036 | 1,794 | 2,647 | 1,720 | 1,224 | 227 | 58 | 1 | **10,707** |
| Gross Tax Base (Properties x Weighting) | | 18,216 | 12,558 | 21,176 | 15,480 | 13,464 | 2,951 | 870 | 18 | **84,733** |
| Adjusted Properties (Band D Equivalents) | | 2,024 | 1,395 | 2,353 | 1,720 | 1,496 | 328 | 97 | 2 | **9,415** |
| Vacant Properties (Number.): | | | | | | | | | | |
| Mandatory Standard Exemptions | | (178) | (44) | (74) | (41) | (18) | (2) | (3) | (1) | **(361)** |
| Chargeable Dwellings subject to Disabled Reduction (Number) | | (13) | (4) | (13) | (11) | (5) | 0 | (1) | 0 | **(47)** |
| Dwellings Effectively Subject to Tax by Virtue of : | | | | | | | | | | |
| Disabled Relief (Number) | 13 | 4 | 13 | 11 | 5 | 0 | 1 | 0 | 0 | **47** |
| Class 18 (MoD) Dwellings (Number) | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | **1** |
| Revised Total Properties (Number) | 13 | 2,849 | 1,759 | 2,571 | 1,673 | 1,202 | 226 | 54 | 0 | **10,347** |
| Types of Property (Number): | | | | | | | | | | |
| Single Discount (25%) | 5 | 1,159 | 715 | 965 | 372 | 189 | 21 | 8 | 0 | **3,434** |
| Double Discount (50%) | 0 | 296 | 96 | 80 | 42 | 19 | 2 | 0 | 0 | **535** |
| No Discount (0%) | 8 | 1,394 | 948 | 1,526 | 1,259 | 993 | 203 | 46 | 0 | **6,377** |
| | 13 | 2,849 | 1,759 | 2,571 | 1,673 | 1,201 | 226 | 54 | 0 | **10,346** |
| Properties Subject to Council Tax (Number) | 12 | 2,411 | 1,532 | 2,290 | 1,559 | 1,144 | 220 | 52 | 0 | **9,220** |
| Net Tax Base (Properties x Weighting) | 60 | 14,468 | 10,726 | 18,318 | 14,031 | 12,587 | 2,857 | 780 | 0 | **73,827** |
| Adjusted Properties (Band D Equivalents) | 7 | 1,608 | 1,192 | 2,035 | 1,559 | 1,399 | 317 | 87 | 0 | **8,204** |
| **COUNCIL TAX 2012/13:** | | | | | | | | | | |
| **General Fund Charge** | | | | | | | | | | |
| Tax Yield (£) | 8,424 | 1,692,698 | 1,254,913 | 2,143,206 | 1,641,627 | 1,472,650 | 334,240 | 91,260 | 0 | **8,639,018** |
| **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

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 18,645 | Gross rates levied and contributions in lieu | 20,297 |
| (4,291) | Reliefs and other deductions | (4,435) |
| 0 | Payment of interest | 0 |
| 20 | Write-offs of uncollectable debts | 4 |
| 72 | Allowance for impairment of uncollectable debts | (4) |
| 14,446 | Net non-domestic rate income | 15,862 |
| (218) | Adjustment to previous years' national non-domestic rates | (72) |
| **14,228** | **Contribution to non-domestic rate pool** | **15,790** |
| | | |
| (14,308) | Distribution from non-domestic rate pool | (15,035) |
| 0 | Adjustment for years prior to the pool | 0 |

## 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 2012/13 is 45.0p (up from 42.6p) with a large business supplement of 0.8p 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.

| 2011/12 £000 | | 2012/13 £000 |
|---:|---|---:|
| (12,468) | Shetland Development Trust | (11,191) |
| (652) | Zetland Educational Trust | (656) |
| (53) | Gilbertson Trust | (55) |
| (3) | Samuel Mullay Bequest | (3) |
| (3) | Others (4 Trusts) | (3) |
| **(13,179)** | **Total** | **(11,908)** |

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

The Zetland Educational Trust, with an income of £20,978 and expenditure of £16,267 in 2012/13, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, received income of £1,577 in 2012/13. These and the Samuel Mullay Bequest are registered with the Office of the Scottish Charity Regulator (OSCR). In accordance with the decision of the Council on 21 March 2012, an application to OSCR under Section 39 of the Charities and Trustee Investment (Scotland) Act 2005 has been lodged and the reorganisation scheme approved by OSCR. During 2013/14 the funds held in the Gilbertson Trust and the Samuel Mullay Bequest will be donated to Shetland Charitable Trust and the Shetland Health Board's Endowments Funds respectively. Once final accounts have been prepared and submitted to OSCR, these trusts will be removed from the Scottish Charities Register.

The other trusts are essentially redundant due to their low annual income.

# Group Accounts

## a) Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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 2012/13.

### 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 two entities, which fall under the criteria of subsidiaries at 31 March 2013:

- Shetland Development Trust; and
- Zetland Transport Partnership.

Shetland Development Trust and Zetland Transport Partnership have been consolidated into the Group Statements as subsidiaries.

Shetland Towage was previously a subsidiary, but was excluded from the prior year group accounts as it was not operational nor did it hold significant assets. This entity was dissolved on 10 August 2012.

### Associates

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

- Northern Joint Police Board;
- Highlands and Islands Fire Board;
- Orkney and Shetland Valuation Joint Board; and
- Shetland Charitable Trust.

Shetland Charitable Trust has been treated as a subsidiary up to 20 February 2013, on which date new governance arrangements took effect and the Trust was reclassified within the Group Accounts to an associate. At this point the assets were derecognised and an investment in an associate was recognised for the Council's share of the entity.

The Police and Fire Reform (Scotland) Act 2012 (the 2012 Act) transfers responsibility for the provision of police and fire functions from local authorities to the newly formed Scottish Police Authority (SPA) and Scottish Fire and Rescue Service (SFRS) with effect from 1 April 2013. Police and fire joint boards are therefore being wound up at 31 March 2013.

## 2) Method of Consolidation

In accordance with the Code, the subsidiaries have been fully consolidated and have a financial year-end of 31 March 2013. This means that the financial statements of the subsidiary are consolidated by adding like items of assets, liabilities, reserves, income and expenses together line by line to those of the Council's financial statements. All intra-group balances and transactions are eliminated upon consolidation.

The four associates have been consolidated at their financial year-ends of 31 March 2013 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, with the exception of Shetland Charitable Trust for which the share is based on the voting rights. In 2012/13 that share was as follows:

- Northern Joint Police Board – In 2012/13 the Council contributed 6.52% of NJPB operating costs (6.05% in 2011/12);
- Highlands and Islands Fire Board – In 2012/13 the Council contributed 10.08% of HIFB operating costs (10.23% in 2011/12);

- Orkney and Shetland Valuation Joint Board – The Council contributed 51.3% of the Board's operating costs (51.4% in 2011/12); and
- Shetland Charitable Trust – The Council held 46.7% of the voting rights for the Trust.

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 2012/13. 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.

## Group Movement in Reserves Statement 2012/13

| | 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 2012** | **(3,658)** | **0** | **(110,598)** | **(596)** | **(124,790)** | **(231,019)** | **(470,661)** | **(237,653)** | **29,531** | **(208,122)** | **(678,783)** |
| **Movement in Reserves during 2012/13** | | | | | | | | | | | |
| (Surplus) or deficit on the provision of services | 20,743 | (2,212) | 0 | 0 | 0 | (5,927) | **12,604** | 0 | 0 | **0** | **12,604** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 2,045 | 2,833 | **4,878** | **4,878** |
| **Total Comprehensive Income and Expenditure** | **20,743** | **(2,212)** | **0** | **0** | **0** | **(5,927)** | **12,604** | **2,045** | **2,833** | **4,878** | **17,482** |
| Adjustments between accounting basis & funding basis under regulations | (8,239) | 4,049 | 0 | 596 | 0 | (2) | **(3,596)** | 3,594 | 2 | **3,596** | **0** |
| Adjustment for a change in the Council's share of equity in Associates | 0 | 0 | 0 | 0 | 0 | 119,970 | **119,970** | 0 | 0 | **0** | **119,970** |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | **12,504** | **1,837** | **0** | **596** | **0** | **114,041** | **128,978** | **5,639** | **2,835** | **8,474** | **137,452** |
| Transfers to/from Earmarked Reserves | (12,450) | (1,837) | 7,135 | 0 | 9,093 | (300) | **1,641** | (1,941) | 300 | **(1,641)** | **0** |
| **(Increase)/Decrease in 2012/13** | **54** | **0** | **7,135** | **596** | **9,093** | **113,741** | **130,619** | **3,698** | **3,135** | **6,833** | **137,452** |
| **Balance at 31 March 2013** | **(3,604)** | **0** | **(103,463)** | **0** | **(115,697)** | **(117,278)** | **(340,042)** | **(233,955)** | **32,666** | **(201,289)** | **(541,331)** |

## Group Movement in Reserves Statement 2011/12

| | 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 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 Comprehensive Income and Expenditure Account for year ended 31 March 2013

| 2011/12 Net Expenditure £000 | | 2012/13 Gross Expenditure £000 | 2012/13 Gross Income £000 | 2012/13 Net Expenditure £000 |
|---|---|---|---|---|
| 45,770 | Education Services | 46,535 | (4,526) | 42,009 |
| 2,784 | Housing Services | 5,978 | (3,997) | 1,981 |
| (489) | Housing Revenue Account | 4,757 | (6,823) | (2,066) |
| 13,857 | Cultural and Related Services | 14,039 | (803) | 13,236 |
| 7,465 | Environmental Services | 8,853 | (2,333) | 6,520 |
| 2,264 | Fire Services | 2,191 | 0 | 2,191 |
| 16,267 | Roads and Transport Services | 14,457 | (3,642) | 10,815 |
| 10,599 | Trading Services | 33,774 | (26,941) | 6,833 |
| 1,485 | Police Services | 1,578 | 0 | 1,578 |
| 9,567 | Planning and Development Services | 9,956 | (3,029) | 6,927 |
| 37,161 | Social Work | 44,295 | (6,754) | 37,541 |
| 337 | Central Services to the Public | 2,120 | (326) | 1,794 |
| 8,935 | Corporate and Democratic Core | 9,785 | (1,078) | 8,707 |
| 2,074 | Non Distributed Costs | 833 | 0 | 833 |
| 7,956 | Associates Accounted for on an Equity Basis | 9,102 | (1,931) | 7,171 |
| **166,032** | **Cost of Services** | **208,253** | **(62,183)** | **146,070** |
| 225 | Other operating expenditure | | | 119,975 |
| (11,175) | Financing and investment income and expenditure | | | (21,279) |
| (108,690) | Taxation and non-specific grant income | | | (106,124) |
| 438 | Tax Expenses | | | 0 |
| (7,084) | Share of (surplus) or deficit on provision of services by Associates | | | (6,067) |
| **39,746** | **(Surplus) or deficit on Provision of Services** | | | **132,575** |
| (6,303) | (Surplus) on revaluation of Property, Plant and Equipment assets | | | 2,779 |
| (5,652) | (Surplus) on revaluation of available for sale financial assets | | | (26,493) |
| 3,705 | Amounts recycled from AFS reserve upon derecognition | | | 2,080 |
| 15,816 | Actuarial (gains)/losses on pension assets/liablilities | | | 24,952 |
| (50) | Share of other comprehensive income and expenditure of Associates and Joint Ventures | | | 1,559 |
| **7,516** | **Other Comprehensive Income and Expenditure** | | | **4,877** |
| **47,262** | **Total Comprehensive Income and Expenditure** | | | **137,452** |

## Group Balance Sheet as at 31 March 2013

| 31 March 2012 £000 | | Notes | 31 March 2013 £000 |
|---|---|---|---|
| 391,830 | Property, Plant and Equipment | 3 | 371,936 |
| 4,768 | Heritage Assets | | 4,756 |
| 14,863 | Investment Property | 4 | 0 |
| 8,786 | Intangible Assets | 5 | 7,905 |
| 366,727 | Long-term Investments | 6 | 205,900 |
| 0 | Investment in Associates | | 105,436 |
| 4,409 | Long-term Loans | 6 | 3,537 |
| 0 | Other Long-term Debtors | | 3 |
| **791,383** | **Long-Term Assets** | | **699,473** |
| 392 | Assets Held for Sale | | 736 |
| 4,955 | Inventories | | 5,141 |
| 14,996 | Short-term Debtors | 7 | 12,903 |
| 25,397 | Cash and Cash Equivalents | 8 | 7,317 |
| **45,740** | **Current Assets** | | **26,097** |
| (23,569) | Short-term Creditors | 9 | (18,058) |
| (1,146) | Provisions | | (95) |
| **(24,715)** | **Current Liabilities** | | **(18,153)** |
| 0 | Provisions | | 0 |
| 0 | Finance Lease Liability | | (4,663) |
| (105,767) | Pension Liability | | (129,250) |
| (27,858) | Liabilities in Associates/Joint Ventures | | (32,015) |
| 0 | Other Long-term Liabilities | | (158) |
| **(133,625)** | **Long-Term Liabilities** | | **(166,086)** |
| **678,783** | **Net Assets** | | **541,331** |
| (470,661) | Usable Reserves | | (340,041) |
| (208,122) | Unusable Reserves | | (201,290) |
| **(678,783)** | **Total Reserves** | | **(541,331)** |

## Group Cash Flow Statement for the year ended 31 March 2013

| 2011/12 £000 | | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|
| | **OPERATING ACTIVITIES** | | |
| 39,746 | Net (surplus) or deficit on the provison of services | 19,808 | |
| (24,657) | Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 12) | (15,237) | |
| 9,553 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 12) | 9,344 | |
| **24,642** | **Net cash flows from Operating Activities** | **13,915** | |
| (28,865) | Investing Activities (Note 13) | 4,142 | |
| 0 | Financing Activities (Note 14) | 23 | |
| **(4,223)** | **Net (increase) or decrease in cash and cash** | | **18,080** |
| 21,174 | Cash and Cash Equivalents at 1 April | | 25,397 |
| 4,223 | Net movement of Cash and Cash Equivalents during the year | | (18,080) |
| **25,397** | **Cash & Cash Equivalents at 31 March** | | **7,317** |

## c) Notes to the Group Accounts

### 1) Subsidiaries

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

#### 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), Orkney & Shetland Valuation Joint Board (OS&VJB) and the Shetland Charitable Trust (SCT) 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 2012/13 the Council contributed 6.52% of NJPB operating costs (6.05% in 2011/12) and its share of the year-end net liability of £24.712m (£21.067m in 2011/12) is included in the Group Balance Sheet. The table below details Shetland Islands Council's share of NJPB's financial results for the year:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Gross Income | (4,942) | (4,802) |
| Gross Expenditure | 5,502 | 8,447 |
| Net (Surplus)/Deficit | 560 | 3,645 |
| Non-Current Assets | 3,190 | 3,419 |
| Current Assets | 931 | 847 |
| Current Liabilities | (544) | (827) |
| Non-Current Liabilities | (24,644) | (28,151) |
| Capital and Reserves | 21,067 | 24,712 |

### 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 2012/13 the Council contributed 10.08% of HIFB operating costs (10.23% in 2011/12) and its share of the year-end net liability of £6.621m (£6.214m in 2011/12) is included in the Group Balance Sheet. The table below details Shetland Islands Council's share of HIFB's financial results for the year:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Gross Income | (3,437) | (3,051) |
| Gross Expenditure | 3,754 | 3,540 |
| Net (Surplus)/Deficit | 317 | 489 |
| Non-Current Assets | 4,712 | 4,742 |
| Current Assets | 535 | 316 |
| Current Liabilities | (481) | (430) |
| Non-Current Liabilities | (10,980) | (11,249) |
| Capital and Reserves | 6,214 | 6,621 |

Neither of these 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 51.3% of the Board's operating costs (51.4% in 2011/12) and its share of the year-end net liability of £0.683m (£0.577m in 2011/12) 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:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Gross Income | (305) | (316) |
| Gross Expenditure | 300 | 422 |
| Net (Surplus)/Deficit | (5) | 106 |
| Non-Current Assets | 0 | 0 |
| Current Assets | 7 | 2 |
| Current Liabilities | (11) | (5) |
| Non-Current Liabilities | (572) | (680) |
| Capital and Reserves | 577 | 683 |

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2013 (2012: nil).

### 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. SCT carries out some charitable activities itself, but mostly achieves its objects by funding other charities in Shetland. The Council has the ability to exercise an element of control as 7 of the 15 trustees are councillors. The table below details Shetland Islands Council's share of SCT's financial results for the year:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Gross Income | (12,707) | (27,956) |
| Gross Expenditure | 15,605 | 139,398 |
| Net (Surplus)/Deficit | 2,898 | 111,442 |
| Non-Current Assets | 210,212 | 103,339 |
| Current Assets | 11,104 | 4,522 |
| Current Liabilities | (3,195) | (1,641) |
| Non-Current Liabilities | (1,243) | (784) |
| Capital and Reserves | (216,878) | (105,436) |

Information is not available on the Trust's contingent liabilities or capital commitments.

## 3) Group Property, Plant and Equipment

| Movement in 2012/13 | 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 2012 | 60,044 | 169,343 | 70,722 | 167,924 | 6,194 | 503 | 18,770 | 493,500 |
| Additions | 1,932 | 5,644 | 580 | 703 | 13 | - | 13,861 | 22,733 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (8,217) | (4,280) | (248) | - | 220 | 11 | - | (12,514) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (86) | (1,084) | (2,697) | - | - | - | - | (3,867) |
| Derecognition – disposals | (729) | (16) | (895) | (4) | (1) | - | - | (1,645) |
| Derecognition – other | - | (25,434) | (1,788) | (17,017) | - | - | (12,520) | (56,759) |
| Aassets reclassified (to)/ from Assets Held for Sale | (46) | (574) | - | - | - | (25) | - | (645) |
| Other movements in cost or valuation | (52) | 290 | 12 | 2,953 | 409 | 59 | (3,671) | 0 |
| **At 31 March 2013** | 52,846 | 143,889 | 65,686 | 154,559 | 6,835 | 548 | 16,440 | 440,803 |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2012 | (2,899) | (32,176) | (22,434) | (43,977) | (8) | (176) | - | (101,670) |
| Depreciation charge | (1,661) | (5,796) | (4,532) | (3,814) | - | (60) | - | (15,863) |
| Depreciation written out to the Revaluation Reserve | 4,491 | 4,930 | 263 | - | - | 4 | - | 9,688 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 2 | 850 | 1,995 | - | - | - | - | 2,847 |
| Derecognition – disposals | 50 | - | 857 | 1 | - | - | - | 908 |
| Derecognition – other | - | 21,770 | 1,032 | 12,313 | - | - | - | 35,115 |
| Assets reclassified (to)/ from Held for Sale | 14 | 97 | - | - | - | - | - | 111 |
| Other movements in depreciation and impairment | 3 | 1 | - | - | - | (7) | - | (3) |
| **At 31 March 2013** | 0 | (10,324) | (22,819) | (35,477) | (8) | (239) | 0 | (68,867) |
| **Net Book Value** | | | | | | | | |
| **at 31 March 2013** | 52,846 | 133,565 | 42,867 | 119,082 | 6,827 | 309 | 16,440 | 371,936 |
| **at 31 March 2012** | 57,145 | 137,167 | 48,288 | 123,947 | 6,186 | 327 | 18,770 | 391,830 |

| Comparative Movements 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)/ from 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 |

## 4) Group Investment Properties

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

| Group 31 March 2012 £000 | | Group 31 March 2013 £000 |
|---|---|---|
| **15,151** | **Balance at start of the year** | **14,863** |
| 2 | Additions | 0 |
| (38) | Disposals/ Derecognition | (14,863) |
| (252) | Net gains/(losses) from fair value adjustments | 0 |
| **14,863** | **Balance at end of the year** | **0** |

Investment properties are held by Shetland Leasing and Property Developments Ltd which is a subsidiary of Shetland Charitable Trust. As this entity was reclassified as an associate during the year the investment properties were derecognised in the Group Accounts and the Council's share is now held within the investment in associates.

## 5) Group Intangible Assets

| Group 31 March 2012 £000 | | Group 31 March 2013 £000 |
|---|---|---|
| | **Balance at start of year:** | |
| 20,647 | Gross carrying amounts | 20,846 |
| (11,039) | Accumulated amortisation | (12,060) |
| **9,608** | **Net carrying amount at start of year** | **8,786** |
| 127 | Purchases | 230 |
| (1,099) | Amortisation for the period | (1,111) |
| 150 | Other changes | 0 |
| **8,786** | **Net carrying amount at end of year** | **7,905** |

Included in the group intangible assets is a Fish Quota for £6,986,000 and a Fishing Boat Licence for £296,000, 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 Group Balance Sheet:

| Group Long-Term 31 March 2012 £000 | Group Current 31 March 2012 £000 | | Group Long-Term 31 March 2013 £000 | Group Current 31 March 2013 £000 |
|---|---|---|---|---|
| | | **Financial Assets:** | | |
| | | **Investments:** | | |
| 364,235 | 0 | Available for sale financial assets | 205,732 | 0 |
| 2,492 | 0 | Unquoted equity investment at cost | 168 | 0 |
| **366,727** | **0** | **Total Investments** | **205,900** | **0** |
| | | **Debtors:** | | |
| 4,409 | 401 | Loans and receivables | 3,537 | 945 |
| 0 | 0 | Financial assets carried at contract amounts | 0 | 0 |
| **4,409** | **401** | **Total Debtors** | **3,537** | **945** |
| | | **Financial Liabilities:** | | |
| | | **Creditors:** | | |
| 0 | 0 | Accrued Interest Liability | 0 | 0 |
| **0** | **0** | **Total Creditors** | **0** | **0** |

Shetland Development Trust has made provision 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 31/03/2013 | 6,290 | 2,890 |
| Total provision at 31/03/13 | (6,122) | (1,688) |
| **Net Value** | **168** | **1,202** |

## 7) Group Short-Term Debtors

| Group 31 March 2012 £000 | | Group 31 March 2013 £000 |
|---|---|---|
| 2,543 | Central Government Bodies | 2,017 |
| 2,609 | Other Local Authorities | 2,494 |
| 301 | NHS Bodies | 74 |
| 848 | Public Corporations and Trading Funds | 1,184 |
| 8,695 | Other Entities and Individuals | 7,134 |
| **14,996** | **Total** | **12,903** |

## 8) Group Cash and Cash Equivalents

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

| Group 31 March 2012 £000 | | Group 31 March 2013 £000 |
|---|---|---|
| 24 | Cash held by the Authority | 28 |
| 22,341 | Bank current accounts | 7,288 |
| 3,032 | Short-term certificates of deposit | 1 |
| **25,397** | **Total** | **7,317** |

## 9) Group Short-Term Creditors

| Group<br>31 March 2012<br>£000 | | Group<br>31 March 2013<br>£000 |
|---:|---|---:|
| (4,045) | Central Government Bodies | (3,206) |
| (3,144) | Other Local Authorities | (2,752) |
| (108) | NHS Bodies | (73) |
| (775) | Public Corporations and Trading Funds | (686) |
| (15,497) | Other Entities and Individuals | (11,341) |
| **(23,569)** | **Total** | **(18,058)** |

## 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 £541.331m is an increase of £84.612m from the Council's net worth of £456.719m. This is mainly due to the inclusion of the Shetland Charitable Trust that added £105.436m 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.

## 12) Cash Flow - Operating Activities

Cash flows for operating activities include the following:

| 31 March 2012<br>£000 | | 31 March 2013<br>£000 |
|---:|---|---:|
| (5,108) | Interest received | (212) |
| (2,311) | Dividends received | (2,037) |
| **(7,419)** | **Total** | **(2,249)** |

The surplus or deficit on the provision of services has been adjusted for the following non- cash movements:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| (15,311) | Depreciation | (14,592) |
| 0 | Impairment and downward valuations | (1,459) |
| (1,099) | Amortisation | (1,112) |
| 0 | Increase/(decrease) in impairment for bad debts | 269 |
| (6,202) | (Increase)/decrease in creditors | 4,295 |
| 3,157 | Increase/(decrease) in debtors | (210) |
| 889 | Increase/(decrease) in inventories | 240 |
| (2,529) | Movement in pension liability | (1,065) |
| (1,521) | Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | (942) |
| (2,041) | Other non-cash items charged to the net surplus or deficit on the provision of services | (661) |
| **(24,657)** | **Total** | **(15,237)** |

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 2,684 | Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 2,420 |
| 1,297 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 938 |
| 5,572 | Any other items for which the cash effects are investing or financing cash flows | 5,986 |
| **9,553** | **Total** | **9,344** |

## 13) Cash Flow - Investing Activities

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 21,029 | Purchase of property, plant and equipment, investment property and intangible assets | 14,059 |
| 122,593 | Purchase of short-term and long-term investments | 4,579 |
| (1,297) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (938) |
| (163,250) | Proceeds from short-term and long-term investments | (18,552) |
| (7,940) | Other receipts from investing activities | 4,994 |
| **(28,865)** | **Total** | **4,142** |

## 14) Cash Flow - Financing Activities

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| 0 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 23 |
| **0** | **Total** | **23** |

# 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 2013 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 2012/13 (the 2012/13 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 for the Statement of Accounts, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group’s and the body’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and 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 2012/13 Code of the state of the affairs of the group and of the body as at 31 March 2013 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 2012/13 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	September 2013

Assistant Director

Audit Scotland

4th Floor, South Suite

The Athenaeum Building

8 Nelson Mandela Place

G2 1BT

## 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; an example is 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 finance 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 2012/13 audit

AUDIT SCOTLAND

Prepared for Audit and Standards Committee

September 2013

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

# Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific 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. This report sets out for the Audit and Standards Committee's consideration the matters arising from the audit of the financial statements for 2012/13 that require to be reported 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. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. 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

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in matters arising schedules issued to the Financial Accountant during the audit. The more significant issues arising were discussed with the Executive Manager - Finance at a meeting on 5 September 2013.

4. We received the unaudited financial statements on 26 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 4 September 2013.

## 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 Annual Audit Plan presented to the Audit and Standards Committee on 7 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

### Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to

the Audit and Standards Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

### Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 30 September 2013 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.

10. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease both income and expenditure by £0.183 million. There was no change to the net assets as recorded in the balance sheet.

11. We therefore have no unadjusted misstatements to bring to your attention.

12. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

## Accounting and internal control systems

13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Significant findings from the audit

14. 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.

15. **Shetland Charitable Trust -** The trust was treated as a subsidiary of the council last year. As a result of changes to its governance arrangements the Trust should now be treated as an associate of the council.

Resolution: The council has treated Shetland Charitable Trust as an associate in its group accounts using publicly available information.

16. **Bad Debt Write - Off** - There was no disclosure of bad debt write-off within the Council Tax Income Account or the Non-Domestic Rate Income Account as these write-offs were charged against the general fund bad debt provision.

Resolution: The council agreed to disclose bad debt write-off within the Council Tax Income Account and the Non-Domestic Rate Income Account

17. **Grant Payments** - Our audit sample of grant payments identified two payments posted to 2012/13 instead of 2013/14.

Resolution: The council reviewed all grant payments and confirmed that all other payments had been posted to the correct year. The financial statements were updated to correct the two incorrectly posted grant payments.

### Outstanding matters

18. Component Auditor Assurances - Under ISA 600 ' Using the work of another auditor' we are required to consider various matters relating to the audit of any components included within the council's group accounts. These matters include the auditor's professional competence and their audit opinion, the component's governance and internal control arrangements and accounting policies.

Resolution: We have requested the required ISA 600 assurances from Shetland Charitable Trust's auditor.

## Acknowledgements

19. We would like to express our 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 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**

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2013 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 2012/13 (the 2012/13 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 for the Statement of Accounts, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and Shetland Island Council'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 annual report and 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 2012/13 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2013 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 2012/13 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 September 2013

Assistant Director

Audit Scotland

4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
G2 1BT

# Appendix B: ISA 580 - Letter of Representation

David McConnell
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow G2 1BT

Dear David

**Shetland Islands Council**

**Annual Accounts 2012/13**

This representation letter is provided in connection with your audit of the financial statements of Shetland Islands Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Shetland Islands Council as at 31 March 2013 and its comprehensive income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and the Corporate Management Team, the following representations given to you in connection with your audit of Shetland Islands Council for the year ended 31 March 2013.

**General**

I acknowledge my responsibility and that of Shetland Islands Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Shetland Islands Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Statement of Accounts, including the Explanatory Foreword and Remuneration Report, presents a balanced picture of Shetland Islands Council and is consistent with the financial statements.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. Financial Reporting Framework

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and in accordance with the requirements of Local Government (Scotland) Act 1973, including all relevant presentation and disclosure requirements.

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Shetland Islands Council and the Group for the year ended 31 March 2013.

**Accounting Policies & Estimates**

All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

**Going Concern**

The Section 95 Officer has assessed Shetland Islands Council's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and has disclosed, in the financial statements, any material uncertainties that have arisen as a result.

**Related Party Transactions**

All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

**Events Subsequent to the Balance Sheet Date**

There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

**Corporate Governance**

I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2013, which require disclosure.

**Fraud**

I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

**Assets**

The assets shown in the Balance Sheet at 31 March 2013 were owned by Shetland Islands Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

**Liabilities**

All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2013.

**Carrying Value of Assets and Liabilities**

The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

**Provisions**

Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2013 and of which Shetland Islands Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2013.

Yours sincerely

James Gray, Executive Manager - Finance

Section 95 Officer

Agenda Item
**6**

# Shetland Islands Council

**Audit and Standards Committee** **23 September 2013**

| | |
|---|---|
| **Review of Internal Controls 2012/13 and Action Plan** | |
| **F-047-F** | |
| **Report Presented by Executive Manager – Finance** | **Finance Services** |

## 1.0 Summary

1.1 The purpose of this report is to present the findings of the review of internal controls by Audit Scotland in relation to the 2012/13 Council accounts and approve the Action Plan to address the weaknesses identified.

## 2.0 Decision Required

2.1 There are no options to consider in reaching a decision. All identified weaknesses can be addressed within existing resources.

2.2 The Audit and Standards Committee is asked to RECOMMEND to the Executive Committee approval of the Action Plan.

## 3.0 Detail

3.1 Each year, the external auditors undertake an assessment of the internal controls in operation in the Council, to determine whether they can place reliance on them in the preparation of the final accounts. Appendix 1 contains the Reports from Audit Scotland in full.

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## 4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – None.

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 as well as an overview of the regulatory framework, including systems of internal control.

4.4 Risk Management – The Section 95 officer is required to maintain a sound system of internal control. This assists the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. It ensures that assets are safeguarded and efficient and effective systems and procedures are in place.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial – the actions to address the key weaknesses can be addressed within the approved budgets of the Council. This Report therefore has no direct financial implications.

4.8 Legal – None.

4.9 Human Resources – None

4.10 Assets And Property – None.

**5.0 Conclusions**

5.1 The annual review of internal controls by Audit Scotland has demonstrated that reliance can be placed on most of the Council's key financial systems. The items highlighted as weaknesses which require action will be addressed over the next six months, through the actions set out in Appendix 1.

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For further information please contact:
*James Gray, Executive Manager – Finance*
*James.Gray2@shetland.gov.uk*
*Telephone:*
*Direct Line: 01595 74 4607*

*23 September 2013*

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List of Appendix
Shetland Islands Council Review of Internal Controls 2012/13

END

# Shetland Islands Council

## Review of Internal Controls 2012/13

AUDIT SCOTLAND

Prepared for Shetland Islands Council
July 2013

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

# Executive Summary

## Context

1. Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint one of its officers to have responsibility for those arrangements. The Section 95 officer for Shetland Islands Council is required to maintain a sound system of internal control to assist the organisation manage risk and help in the attainment of organisational policies, aims and objectives.

2. In carrying out our audit, we seek to gain assurance that the council:
   - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
   - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
   - complies with established policies, procedures, laws and regulations.

3. This report focuses on findings from our 2012/13 controls testing on key financial systems.

4. The aim of our work was to consider the adequacy of the council's financial systems to provide us with assurances on the reliability of internal controls to support the preparation of the financial statements. Where appropriate, we also take assurance from the work being carried out by internal audit. In relation to financial controls systems, internal audit have reported separately on purchasing and invoice payments, grants, contracts, income and recovery, cashiers and accountancy.

## Key Findings

5. Based on the results of our audit testing, our overall conclusion is that Shetland Islands Council's systems of internal controls are operating satisfactorily.

6. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we have adjusted our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement. A summary of those areas where we consider there to be scope for further improvement of the internal control environment and which require to be addressed by management are detailed below and are included in the action plan at appendix A.

## Risk Exposures

7. During our review of system controls we identified a number of areas of weakness. These areas of weakness should be addressed and improvements made to current arrangements, in particular by ensuring that:
   - the authorised signatory list for new starters and leavers is up to date.
   - supporting documentation is initialled by payroll officers as evidence that transactions have been processed through the payroll system.
   - changes to supplier details are authorised by a senior member of staff within the payments section.
   - all documentation supporting an invoice request is properly signed off by an authorising officer as evidence of accuracy and validity.
   - stock count documentation issued to counting officers does not include the quantity of each stock item that has to be counted.
   - reconciliations between the valuation roll and the assessment roll are signed off by an authorising officer.
   - the review of council tax overpayments for outstanding debt prior to refunding is signed off by an appropriate officer.

## Acknowledgement

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The high level of assistance and co-operation we received during the course of our audit is gratefully acknowledged.

# Audit Scope and Objectives

## Introduction

9. Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint one of its officers to have responsibility for those arrangements. In Shetland Islands Council the Executive Manager - Finance is the section 95 officer.

10. As section 95 officer, the Executive Manager - Finance is required to maintain a sound system of internal control. This assists the organisation in managing risk and helps in the attainment of organisational policies, aims and objectives. This report focuses on findings from our testing on the main financial systems.

## Audit objectives and approach

11. Our responsibilities under the Code of Audit Practice require us to assess the systems of internal control put in place by management. In carrying out our audit, we seek to gain assurance that the council:

    - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
    - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
    - complies with established policies, procedures, laws and regulations.

12. As explained in our annual audit plan 2012/13, we seek to rely on the work of internal audit wherever possible and we concluded that the internal audit function of Shetland Islands Council continues to operate in accordance with the *CIPFA Code of Practice for internal audit in local government.*

13. The main systems that we have identified for review and to place assurance on for the 2012/13 financial statements are set out in Table 1 below. We are relying on the work of internal audit on the adequacy of internal controls for a number of systems. In relying on internal audit work we consider their testing to allow us to focus on different areas. Our review of internal audit's files is substantially complete and we confirm we can rely on this work.

**Table 1**

| Key System | Reliance on Internal Audit | Review by External Audit |
|---|---|---|
| Main Accounting | ✓ | ✓ |
| Payroll | | ✓ |
| Trade Payables | | ✓ |
| Trade Receivables | Internal Audit work not completed at the time of this report. | ✓ |
| Cash & Cash Equivalents | | ✓ |
| Inventories | | ✓ |
| NDR Billing & Collection | | ✓ |
| Council Tax Billing & Collection | | ✓ |
| Housing Rents | | ✓ |
| Treasury Management | | ✓ |
| Grants | ✓ | |
| Contracts | ✓ | |

## Risk identification

14. Our audit work involved the identification and assessment of the risks inherent in the key systems, based on the likelihood of them occurring and the impact they could have. We have also assessed the adequacy of the procedures and controls in place to address the identified risk and the extent to which these reduce the risks to acceptable levels.

## Management actions

15. A summary of those areas where identified risk exposure requires management consideration is included in Appendix A. Planned action, responsibilities and timescales for action in response to the identified risk exposure have been provided by management.

16. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to the council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

# Audit Findings

## Internal Audit

17. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses in internal control to management for action.

18. Our review identified that the council's internal audit service continues to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The 2012/13 internal audit plan was substantially completed at the time of our review which also concluded that we can place reliance on the work of internal audit.

19. On 9 May 2013 the Executive Manager - Internal Audit reported to the Audit & Standards Committee that '*the council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought*'.

20. A large number of breaches were highlighted by Internal Audit in their report on the corporate review of Council Contracts and Tendering. In particular, Internal Audit reported that, out of the sample of 42 contracts and payments tests, there had been issues with 13, 8 of which related to breaches of Standing Orders. The council's Corporate Management Team has agreed to take action to address each of the issues highlighted. Going forward, the council should review this Internal Audit report and ensure that appropriate disclosure is made in the Governance Statement in the 2012/13 financial accounts.

**Action plan point 1**

## Review of systems

21. Audit work was performed in the key systems detailed in Table 1 above. The issues identified through our review, which require action by the council, are detailed below.

### Payroll

22. One of the key controls for adding or removing a payroll record is that the relevant form submitted to Payroll by the employing department is signed by an authorised signatory. From a sample of 30 starters and 30 leavers we found that in a total of 18 cases (8 starters and 10 leavers) the authorised signatory list did not include the officer who had signed the form.

23. The list of authorised signatories is maintained by Finance and we understand that, due to significant staff restructuring, there has been a delay in updating the list. The Payroll Manager advised that in such cases the payroll officer would have sought clarification from Finance that the signing officer was an authorised signatory.

24. If the list of authorised signatories is not kept up to date there is a risk that invalid starters or leavers are processed on the payroll system.

**Action plan point 2**

25. Our audit sampling found that, in a small number of cases, payroll officers were not initialling supporting documentation to evidence that they had processed the transaction in the payroll system. Examples included starters, leavers, expenses and pay increments. The Payroll Manager has confirmed that, as a result of our findings, staff members have been reminded of the need to initial and date documentation supporting a payroll system transaction. If invalid or incorrect transactions are processed, there is a risk that the responsible officer cannot readily be identified.

**Action plan point 3**

## Trade Payables

26. Our review of a sample of 30 changes to supplier details found that, in 13 cases, there was no evidence that the change had been authorised. The Payments Manager advised that, in some cases, a change to the supplier details is not based on a request from a service department but as a result of paperwork processed by the Payments Section (e.g. invoice or BACS report). In such cases, there is no authorising signatory required although the payments officer processing the change should sign and date the supporting documents.

27. If supporting documentation for changes to supplier details is not signed by an authorised officer there is a risk that invalid changes are processed.

**Action plan point** 4

## Trade Receivables

28. From our review of 30 invoices, there were two cases where invoice requests were not authorised to evidence that the invoice details have been checked. These relate to invoices based on schedules provided by services and it is understood that services often submit numerous schedules as back-up for invoice requests (e.g. social care). In such cases, not every schedule is signed by an authorising officer to demonstrate the invoice details have been checked. The Team Leader - Revenues and Benefits advised that the current arrangements requiring each supporting schedule to be authorised is being reviewed.

29. If documentation supporting an invoice request is not reviewed for accuracy and validity there is a risk that incorrect invoices are raised

**Action plan point 5**

## Inventories

30. Last year we highlighted a risk relating to the Port & Harbour Operations' stock controls arrangements at Sullom Voe, where reports issued to staff conducting stock counts include the quantity of each stock item currently held on the system. We were advised that

management would ensure that stock quantities would be removed from these reports. Our work this year found that this had not been implemented. Officers are of the view that having the stock quantities on the reports allows stock counts to be completed timeously.

31. The risk remains that stock is not physically counted and counting officers simply record the same quantity of stock as is recorded on the stock system and discrepancies are not identified or investigated.

**Action plan point 6**

## NDR Billing & Collection

32. The NDR Billing & Collection Section conduct weekly reconciliations of the total non-domestic rateable value between the assessment roll and the valuation roll. This reconciliation is not signed-off by a senior manager as evidence of review. If the reconciliation is not reviewed by a senior manager there is a risk that any subsequent NDR billing is not accurate.

**Action plan point 7**

## CT Billing & Collection

33. Existing arrangements are that any council tax refunds are reviewed by the Recovery Team to offset any existing council debts. However as this is not evidenced there is a risk that this check may not always be carried out and refunds are not offset against outstanding debts.

**Action plan point 8**

## General Issues

34. Due to the small size of some finance functions it is not always possible for the council to ensure full segregation of duties. This has been an ongoing situation for a number of years and was considered during our controls testing where we looked at the mitigating controls that were in place. No issues were identified.

35. We continue to have regular discussions with finance staff regarding the audit, including the planning of the 2012-13 financial statements audit and the requirement to meet the key statutory deadlines. We have received assurances from the Executive Manager - Finance that the draft financial statements and a complete set of working papers will be provided to external audit by the required deadline of 30th June and that adequate council resources will be made available to assist with the audit. This is essential to ensure that the financial statements are signed off by 30th September 2013.

# Appendix A - Risk Areas and Planned Management Action

| No. | Issue / Risk | Planned Management Actions | Responsible Officer | Completion Date |
|---|---|---|---|---|
| **1** | **Internal Audit - review of council contracts and tendering**<br>8 breaches of standing orders were highlighted by internal audit. Appropriate disclosure of this is required in the 2012/13 Governance Statement in the financial accounts.<br>**Risk**<br>There is a risk of financial loss to the council if standing orders are not followed. | Management is aware of this issue and is in the process of reviewing the Council's Standing Orders to ensure that they are fit for purpose. Once this exercise is completed, and the Council has approved them, staff will be reminded of the importance of ensuring that these are fully complied with.<br>Appropriate disclosure has been given to this issue in the Council's Annual Governance Statement. | Executive Manager - Capital Programme | October 2013 |
| **2** | **Payroll - Authorisation of starter and leaver forms**<br>The list of signatories authorised to sign starter / leaver forms is not kept up to date.<br>**Risk**<br>If the list of authorised signatories is not kept up to date there is a risk that invalid starters or leavers are processed on the payroll system. | The Council is currently undertaking an exercise to move towards electronic authorisation, and refreshing authorisation levels. This audit point will be picked up as part of that exercise. | Executive Manager - Finance | October 2013 |

| No. | Issue / Risk | Planned Management Actions | Responsible Officer | Completion Date |
|---|---|---|---|---|
| 3 | **Payroll - Authorisation of forms**<br>From a sample of 30 authorisation forms, there were a small number of instances where Payroll officers are not initialling supporting documentation to evidence that they had processed a transaction in the payroll system.<br>**Risk**<br>Input is not properly authorised | Payroll staff have been reminded to initial all payroll documentation they are processing through the CHRIS Payroll System | Team Leader - Expenditure | Immediate |
| 4 | **Trade Payables - Changes to supplier details**<br>Changes to the standing data details are not always authorised by a senior member of staff.<br>**Risk**<br>Invalid or unauthorised payments are made to inappropriate personnel. | All changes to supplier details will be authorised by the Payments Supervisor(or in his absence such authorisation will be carried out by the Payments Officer). | Team Leader - Expenditure | 1 August 2013. |
| 5 | **Trade Receivables - Invoice Requests**<br>Invoices based on schedules provided by services are not signed by an authorising officer to evidence that the invoice details have been checked.<br>**Risk**<br>If documentation supporting an invoice request is not reviewed for accuracy and validity there is a risk that incorrect invoices are raised. | The Council's procedures for raising invoices are currently under review. This audit point will be incorporated into that review prior to issuing updated procedures. | Executive Manager - Finance | 31 August 2013 |
| 6 | **Inventories - Stock counts**<br>Stock quantities are included in the stock count documents issued | The Executive Manager - Finance will review the stock count | Executive Manager - Finance | 30 September 2013 |

| No. | Issue / Risk | Planned Management Actions | Responsible Officer | Completion Date |
|---|---|---|---|---|
| | to counting officers.<br>**Risk**<br>Stock discrepancies are not identified and the value of stock is incorrectly stated. | documents to ensure that they facilitate robust and accurate stock counts. | | |
| **7** | **NDR Billing & Collection - Reconciliations between valuation roll and assessment roll**<br>There is no evidence that reconciliations are reviewed by an appropriate officer.<br>**Risk**<br>There is a risk that discrepancies are not investigated. | An officer will initial the reconciliation as checked. | Team Leader - Revenue and Benefits | 31July 2013 |
| **8** | **CT Billing & Collection - Council Tax Refunds**<br>Council tax refunds are reviewed by the Recovery Team to offset any existing council debts but this check is not evidenced.<br><br>**Risk**<br>There is a risk that the check may not always be carried out and late or non-recovery of other debt leads to financial loss by the council. | Consider control already in place at time of audit as existing working practice is for the payment run list to be emailed to recovery and reply sent to payments from recovery after checking if no offsets required for the payment run. If offset is required the existence of the offset request is evidence that the check took place. The two sections are located next to each other, which has helped create a close working relationship and helps communication between the two | Team Leader - Revenue and Benefits | Immediately |

| No. | Issue / Risk | Planned Management Actions | Responsible Officer | Completion Date |
|---|---|---|---|---|
| | | sections. However, officers have been reminded to make sure 'evidence' is in place to verify this practice. | | |