Agenda Item
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Shetland Islands Council

Special Audit Committee — **23 September 2014**
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Final Audited Accounts 2013/14	
F-045-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the final signed and audited accounts for 2013/14 and to receive Audit Scotland's report to those charged with governance on the 2013/14 Audit.

2.0 Decision Required

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

a) The final signed and audited accounts for 2013/14; and

b) Note Audit Scotland's report to those charged with governance on the 2013/14 Audit.

3.0 Detail

3.1 Audit Scotland's Report to those charged with governance on the 2013/14 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 2013/14 financial statements is that they:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2014 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 2013/14 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 Audit Scotland identified one monetary error of £11k which was not processed through the financial statements. The effect of this is detailed in Appendix 2. No adjustment was made as this was not material to the financial statements.

3.4 Audit Scotland will be issuing an unqualified audit opinion of the 2013/14 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 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 2013/14 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 2014.

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23 September 2014

List of Appendices

Appendix 1: Final Audited and Certified Accounts 2013/14

Appendix 2: Report to those charged with governance on the 2013/14 audit by Audit Scotland

Background documents:

NONE

END

Shetland Islands Council

Statement of Accounts 2013/14 Audited

Securing the Best for Shetland

Contents

Inside front cover and page 39 photograph by Andrew J

Introduction

Welcome to the Council's Statement of Accounts for the 2013/14 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.

The Council has made good financial progress during 2013/14 by exceeding the savings target included within the challenging budget, which resulted in the lowest draw on reserves since 2002. This Statement of Accounts document requires a significant amount of work and coordination to ensure that it is completed before 30 June and that it is of good quality. The process this year has run smoothly, and has again been an improvement on the previous year.

There have been a number of challenging transactions during the year which have required a good deal of thought and work in order to identify the correct accounting treatment for them.

Two significant transactions during the year that I would mention specifically are in relation to the Housing Revenue Account's (HRA) historic housing debt issue, and the other is the lease agreement that was finalised with Shetland Arts Development Agency for the Mareel building. An agreement was finally reached with the UK and Scottish Governments that has meant that the HRA debt has been more than halved to £16m which puts it on a sustainable footing into the future. These accounts reflect that agreement, with a £10m write off from general fund reserves being matched by a £10m contribution from the UK Government which now sits on our balance sheet as a debtor.

The Council finalised a head lease for Mareel in May 2013, and this has resulted in the Mareel Building coming onto the Council's balance sheet as a finance lease. This transaction has ensured that this popular community asset's future has been safeguarded for the people of Shetland.

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 2014

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance during 2013/14 and year-end financial position as at 31 March 2014. In addition, it provides some narrative on the financial outlook for the Council during 2014/15 and beyond.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2014 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 34, 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 2013/14

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 2013/14. This differs from the budgeted outturn position which was reported to the Policy & Resources Committee[1] of the Council on 28 May 2014, and the full Council on 28 May 2014, 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 £115.409m, which is disclosed on the CI&ES, has been reconciled to the outturn used for management decision making of £110.991m 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.

[1] Formerly the Executive Committee.

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

2013/14 Budget v Expenditure	Revised Budgeted Draw from Reserves £m	Actual Draw from Reserves £m	Revised Budget v Actual Variance Under/(Over) £m
General Fund	20.734	13.029	7.705
Revenue Spend to Save	0.328	0.313	0.015
Housing Revenue Account	2.474	1.479	0.995
Harbour Account	(0.075)	(1.959)	1.884
Total Revenue Draw	**23.461**	**12.862**	**10.599**
Capital Fund	1.726	0.945	0.781
Capital Spend to Save	1.347	1.058	0.289
Total	**26.534**	**14.865**	**11.669**

General Account

The 2013/14 General Account budget included a requirement for the Council to achieve savings of £12.6m. The implementation of service reviews, efficiency initiatives and one-off savings resulted in that being delivered.

The table above shows a net underspend of £7.7m on General Account, which can be attributed to a drive across services to reduce expenditure. When coupled with the delivery of the £12.6m of budgeted savings, the Council achieved a total savings figure of £20.3m.

However, despite this good performance against the revised General Account budget, the total draw on reserves was still £13.029m, which needs to reduce further to ensure that the Council is operating sustainably.

In 2013/14, 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 –

- Increase in employee costs as a result of the pay awards, £0.601m 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 £91.142m in 2012/13 to £87.138m in 2013/14 which equates to a 4.4% 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. This is felt particularly in the area of care for the elderly services.

Harbour Account

The Harbour Account exceeded its budgeted surplus by £1.884m, which allowed it to make a larger than budgeted contribution to the Reserve Fund of £2.091m. This occurred as a result of a reduction in expenditure both on Sullom Voe and other piers, increased income at Scalloway harbour due to increased harbour activity, and increased income at Sullom Voe for the harbour throughput agreement.

Housing Revenue Account

The financial position of the Housing Revenue Account (HRA) continues to be a 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.

There was an underspend of £0.800m on HRA expenditure in 2013/14 against the revised budget. This contributed to an underspend on the budgeted draw on reserves of £0.995m, and arose mainly due to the Housing Revenue Account requiring to fund less capital from current revenue by £0.644m.

Capital Account

In 2013/14 Shetland Islands Council incurred capital expenditure of £13.006m against a budget of £15.791m representing an underspend of £2.785m in the year. Of this total, £1.726m was budgeted to be drawn from the Capital Fund, but as a result of the underspend the actual draw was £0.945m, £0.781m less than anticipated.

The main reason for the underspend on the capital budget arose as a result of slippage on the programme, i.e. projects not commencing or progressing as originally anticipated in 2013/14.

The most significant underspends on individual projects include Housing Quality Standards (£0.4m), Landfill Capping Phase 1 (£0.2m), Computers for Schools (£0.2m), Brae New Housing (£0.1m), and Leirna Life Extensions (£0.1m).

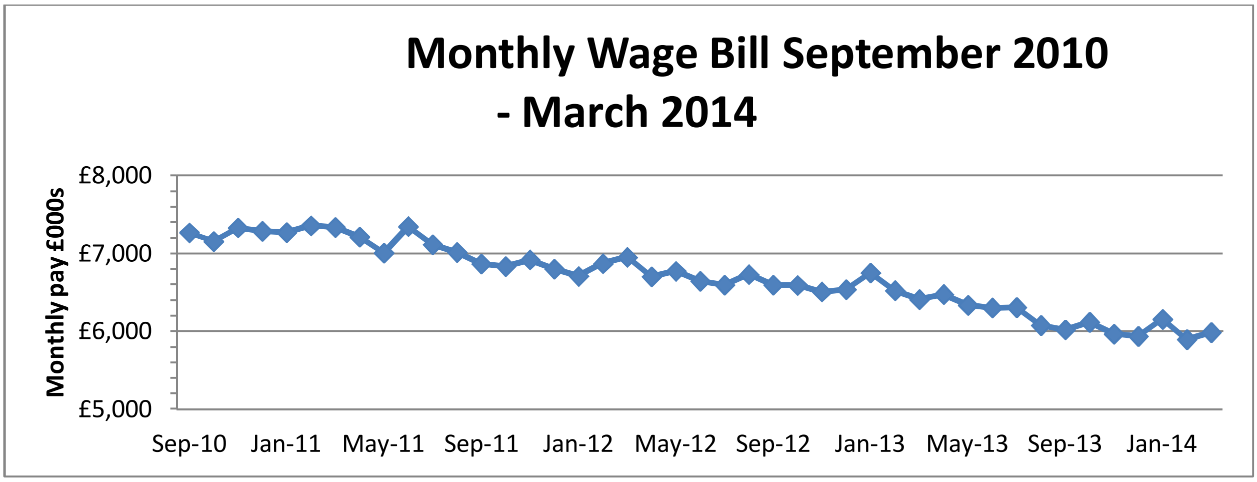
The most significant General Account capital expenditure during the year was –

- The construction of Phase 3 of the College incurred expenditure of £2.778m;
- Construction work on the pier in Walls in West Shetland which incurred expenditure of £1.026m;
- Expenditure for replacement vehicles and plant of £0.516m; and
- £0.495m on the public sector network as part of the provision of broadband internet to remote Council premises.

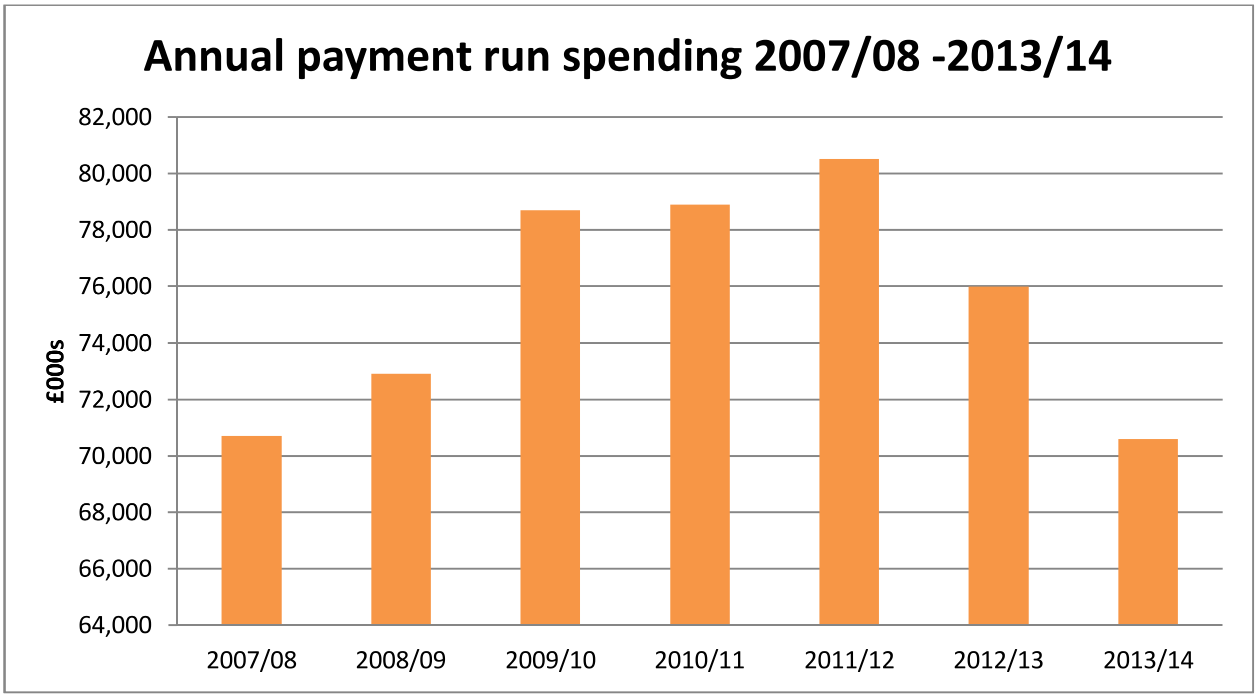
Overall impact of budget reductions to date

The £36 million of savings that have been delivered since 2011/12 are starting to show through in key spending levels indicators.

For example, the graph below tracks the Council's total monthly salary bill over the past 43 months. It shows that the average monthly cost has decreased from £7.2m to £5.9m over the period, which represents an annualised saving in salary costs of over £15m. This reduction in staffing costs is also reflected in the number of FTEs employed by the Council which has fallen from a peak of 2,854 FTE in December 2010 to 2,248 FTE in March 2014. This represents a reduction of 606 FTE over this period of time, which is a reduction of over 20%.



The Council has also reduced its expenditure on non-pay items. The graph below shows the annual payment run spending has decreased by over £10m per year from £80m in 2011/12 to £70m in 2013/14.



The Balance Sheet as at 31 March 2014

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 2013, it can be seen that there has been an overall increase in the net worth of the organisation of £23.271m 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 £19.3m 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;

- This was offset by the net book value of Property, Plant and Equipment which increased by approximately £29.1m during 2013/14 reflecting the expenditure on assets and a revaluation of assets; and
- An increase in current assets of £12.1m (assets held for sale, inventories, short term debtors and cash and cash equivalents).

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2013 £m	Closing Balance 31 March 2014 £m
Capital Fund	(83.808)	(62.236)
Capital Efficiency/Spend to Save Reserve	(8.677)	(8.537)
Capital Fund (HRA contingency)	(10.000)	0.000
Reserve Fund	(18.219)	(24.879)
Reserve Fund (Harbour contingency)	(39.000)	(41.557)
Repairs & Renewals Fund	(44.644)	(45.678)
General Fund Balance	(3.000)	(12.813)
Revenue Efficiency/Spend to Save Reserve	(0.365)	(0.064)
Potential Contingent Liabilities	(0.865)	(1.208)
Discretionary Reserves	**(208.578)**	**(196.972)**
Capital Grants Unapplied	0.000	(1.920)
Marine Superannuation Fund	(1.805)	(2.046)
Pilot Boat Renewal Fund	(0.978)	(1.010)
Housing Repairs & Renewals Fund	(10.422)	(10.864)
Quarry Repairs & Renewals Fund	(0.156)	(0.161)
Insurance Fund	(0.221)	(0.228)
Council Tax Second Homes Receipts	(0.403)	(0.704)
Equalisation Fund	0.000	(15.000)
Development Loans Fund	0.000	(11.422)
Welfare Reform Fund	0.000	(0.202)
Hansel Funds	(0.111)	(0.120)
School Funds	(0.087)	(0.164)
Central Energy Efficiency Fund	(0.003)	(0.059)
Ring Fenced Reserves	**(14.186)**	**(43.900)**
TOTAL	**(222.764)**	**(240.872)**

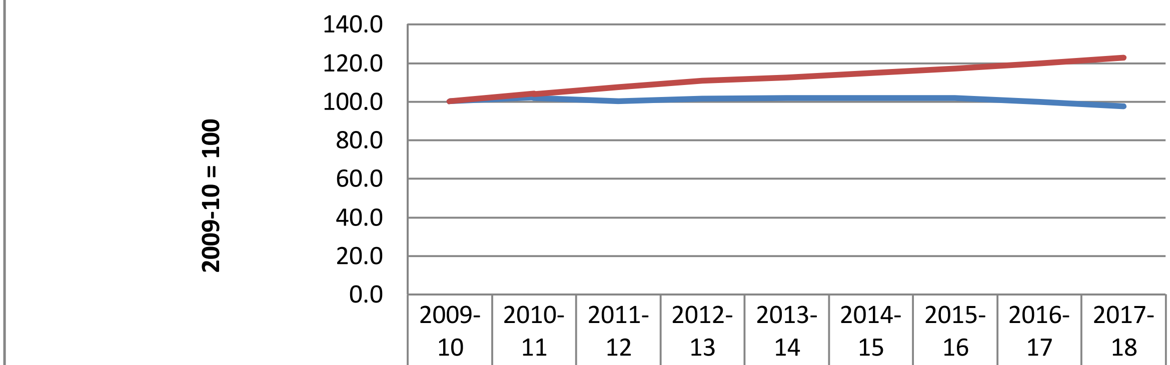
The overall notional level of usable reserves was £240.872m at 31 March 2014. However, it should be noted that the level of reserves immediately available to the Council is, in effect, the amount of cash that is invested, which is shown on the balance sheet to be £203.483m. The main reason for the difference 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 38 years.

The Council has no external debt as at 31 March 2014. However, the Council did decide to externalise an element of its internal debt during May 2014, and this will be reflected in the 2014/15 Statement of Accounts.

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 11 December 2013 for 2014/15, which sought to reduce expenditure as part of the medium term financial plan to achieve financial sustainability by 2015/16.

2014/15 Budget and Medium Term Financial Outlook

The Council set a challenging budget for 2014/15 which exceeded the savings target of £6.539m as set out in the Medium Term Financial Plan. However, the graph below shows that the Council expects to continue to see reductions in Scottish Government expenditure in 2016/17 and 2017/18 which will translate into further reductions in core revenue grant for the Council. At the same time, the red line in the graph shows the expected level of cost pressure on Council expenditure, with the net result being that further savings will be required until at least 2017/18 in order to manage the forecast budget gap.



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
SG DEL in cash	100.0	102.0	100.4	101.6	102.0	102.0	102.0	100.0	97.6
Inflationary cost pressures	100.0	104.1	107.7	110.8	112.5	114.8	117.1	120.0	123.0

An updated version of the Medium Term Financial Plan 2014/2019 was presented to the Council on 2 July 2014. This seeks to manage the budget gap shown in the graph above by proposing further savings over the next 5 years to ensure that the Council's draw on reserves remains at a sustainable level.

The Plan forecasts that the Council will set a financially sustainable budget in 2015/16, and if the proposed savings are made thereafter, the Council's reserves will stabilise in real terms at a level of over £200m until the end of the decade.

The table below sets out the proposed Target Operating Budget for each of the Council's directorates for each of the next 5 years, and the corresponding level of savings that will be required to meet those targets.

2014-15 £000s	Directorate		2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s	2019-20 £000s
10,996	**Corporate & Chief Executive**	**Target Operating Budget**	**10,629**	**10,416**	**10,208**	**10,004**	**9,804**
		Budget gap	(367)	(213)	(208)	(204)	(200)
40,484	**Children's Services**	**Target Operating Budget**	**39,769**	**38,049**	**37,288**	**36,542**	**35,811**
		Budget gap	(715)	(1,720)	(761)	(746)	(731)
19,953	**Community Care Services**	**Target Operating Budget**	**19,551**	**19,160**	**18,777**	**18,401**	**18,033**
		Budget gap	(402)	(391)	(383)	(376)	(368)
13,066	**Development Services**	**Target Operating Budget**	**12,725**	**12,471**	**12,221**	**11,977**	**11,737**
		Budget gap	(341)	(255)	(249)	(244)	(240)
20,601	**Infrastructure Services**	**Target Operating Budget**	**20,281**	**19,875**	**19,478**	**19,088**	**18,707**
		Budget gap	(320)	(406)	(398)	(390)	(382)

Impact of the Current Economic Climate and Future Cost Pressures

The Council is anticipating the following cost pressures and contingencies in 2014/15 which have been included in the budget –

Cost Pressures and Contingencies	Description	Cost Pressures in 2014/15 budget (£'000)
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. The £1.514m 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.	£1,514
Off-Island Placements (Community Care and Children's Services)	The need for off-island placements varies significantly from year to year. It is an unpredictable demand-led activity.	£800
Bus Service Re-tendering Exercise	The new arrangements for bus services may have resulted in a cost pressure for the Council.	£500
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
Proposed School Closures	This is for future unknown events which may/may not be overturned by the Council or the Scottish Government. This is to make provision for the planned/proposed closure proposals for Olnafirth, Skerries, Bressay and Aith.	£465
Ferry Fare Income	To meet any shortfall in fare income should income levels not be achieved.	£300
Town Hall Windows	Provision to meet any shortfall in fundraising for this capital project.	£200
Demographic Pressures	Based on Shetland's ageing population, it is anticipated that there will be extra demand on Community Care resources in 2014-15.	£278
Children & Young People's Bill	Changes to statutory requirements will result in cost pressures in the care of looked after children, kinship orders, minimum qualifications for foster carers, corporate	£277

Cost Pressures and Contingencies	Description	Cost Pressures in 2014/15 budget (£'000)
	parenting responsibilities, training and expansion of early learning and childcare hours.	
Ferry Fuel	Cost pressure arising from anticipated increases in the fuel costs due to fuel regulations.	£250
Training Costs (Ferries and Backfill for Community Care)	There are new MCA regulations which require additional training for ferry staff. Community Care have reviewed their training levels and methods alongside a review of staffing levels. It is uncertain the level of training cover that will be required until the changes are fully implemented.	£144
Utilities	This is the anticipated cost increases for water, electricity, district heating and gas oil during 2014-15.	£100
Implementation of the £7.50 Living Wage	The Pay Award agreed the introduction of the Scottish Local Government Living Wage set at £7.50 per hour.	£100
Community Council Grant Scheme	Ring-fenced funding equal to 30% of Community Councils' existing budgets. A scheme has been developed for the distribution of this funding.	£68
Leased Buses Reinstatement Costs	As part of the lease conditions, there is a requirement to carry out additional vehicle reinstatement maintenance.	£50
Review of Local Development Plan by SG	Charge by the Scottish Office Inquiry Reporters Unit to examine the Shetland Islands Council's Local Development Plan.	£50
Self Directed Support for Children	Self Directed Support legislation comes into force in April 2014.	£15
Fostering Allowances	Allowances set by National Fostering Network annually.	£12
TOTAL	**The total budget required to cover cost pressures and contingencies in 2014-15.**	**£5,623**

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

- **Abolition of Contracting Out National Insurance Contribution Rates** – The Government has decided to abolish National Insurance Rates for Contracting Out from April 2016. Currently the Council benefits from paying lower National Insurance Employer Contribution Rates (3.4% lower than the standard rate) because it operates a defined benefit pension scheme for staff. As a result, it is anticipated that the Council will be required to start paying an additional £2m each year in National Insurance contributions from 2016-17. This has been built into the Plan.

- **Borrowing to maintain the asset base** – The Long Term Financial Plan will inform Members of the likely cost associated with maintaining the current asset base. The

Council has approximately £1.4bn of fixed assets (including roads) and current annual capital expenditure of approximately £7-8m (excluding the new AHS) over the next 5 years. At this rate of spending it would take 200 years to replace all existing assets, but given no asset has a 200 year economic life, this level of spending is insufficient to maintain the asset base. Any increases in spending over £7m per year will require to be financed by borrowing, which will subsequently result in a revenue cost pressure. The size of the revenue cost pressure will be determined by Members' decisions regarding the size of the asset base that it wishes to maintain into the future.

- **Pension Auto-Enrolment** – The Council opted to defer the implementation of Pension Auto-Enrolment in 2013 as it was a cost pressure that could be delayed to a future year. However, this cost pressure will now start in 2017, when all officers of the Council will be automatically admitted to the Pension Fund, and the onus will be on staff to opt out if they don't want to become a member of the scheme, rather than the current situation whereby there is an onus on staff to complete a form to join the scheme. It is expected this change will result in more staff being in the pension scheme, and as a result the Council will need to make employer contributions on those people's behalf. This cost pressure could be in the region of £800,000.

- **Anderson High School** – the current level of maintenance expenditure on the Anderson High School is insufficient to keep the building in sufficient repair beyond the short-term. It is anticipated that a new school will require an increase in repairs and maintenance expenditure of approximately £0.415m from 2016-17 over existing levels. It should be noted that if there was no replacement school, repairs and maintenance expenditure would have to increase by approximately £1m per year to address the backlog maintenance issues at the current school.

- **Welfare Reform** – There are two potential pressures which could arise after the phased introduction of Universal Credit. The first is that there may be additional administrative burdens placed on the Council with regards to the implementation, and ongoing support of, the new arrangements. The second potential budget pressure is the risk of falling housing rents income to the HRA as a result of the housing element of benefits being paid directly to claimants instead of to the Council. The timing around the introduction of Universal Credit into Shetland still remains uncertain.

- **Demographic Change** – Shetland's population is aging at a faster rate than Scotland as a whole. It is projected that there will be a 130% increase in the number of people aged over 75 in Shetland within 25 years. It is clear that this will put increasing demand on care for the elderly services, which in turn will put pressure on budgets.

- **Reduction in Shetland Charitable Trust expenditure** –The Shetland Charitable Trust (SCT) is currently reviewing its expenditure choices as it comes to the end of a 3 year budget commitment cycle. At present SCT part funds certain services currently provided by the Council. As a result, any reductions in SCT expenditure on these services will result in a Council cost pressure if Members wish to continue to provide those services to the same level.

Material Transactions During 2013/14

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 2014, the Council's Pension Fund had a net pension liability of £148.562m (2013: £129.250m). 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 2014, 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.

Housing Revenue Account Debt

Shetland Islands Council reached an agreement with both the UK and Scottish Governments over the HRA's historic housing debt, which involved a £10m contribution from the UK Government, and £10m write off contribution from the Council and a commitment of future funding support from the Scottish Government for new build housing projects in Shetland.

As a result, the Council has recognised the £10m contribution from the UK Government as income during 2013/14 and has a corresponding £10m debtor on the balance sheet. A £10m charge was then made to the general fund and transferred to the Capital Adjustment Account to reflect the UK Government's £10m contribution towards debt repayment.

The Council subsequently received consent from Scottish Ministers to charge the general fund £10m and transfer this to the Capital Adjustment Account to reflect the Council's write off of £10m of the HRA's internal debt to the general fund.

Prior Period Adjustments and Changes in Accounting Policies

Group Accounts

On 1 April 2013 police and fire services transferred to the Scottish Government. Police services are now delivered through the Scottish Police Authority and the Police Service of Scotland (Police Scotland), and Fire & Rescue services through the Scottish Fire & Rescue Service.

Pensions

There has been a change in accounting policy relating to the June 2011 amendments to the accounting standard IAS19 Employee Benefits. The key change relates to the expected return on assets. In order to permit a meaningful comparison between financial years, some figures in the previous year's audited financial statements have been amended. Details of the changes have been included in note 34.

Capital Financing Requirement

The Capital Financing Requirement should match the capital expenditure incurred historically by the authority that has yet to be financed. This expenditure has been funded through internal borrowing and finance leases arrangements, but the requirement had become out of line with these balances for several years and a review was carried out in 2013/14 to realign this. This has resulted in the restatement of the 2012/13 comparative figures.

Sickness Absence

The average number of working days per employee lost through sickness absence for teachers was 5.7 days (2012/13 5.8 days). For all other local government employees the average was 10.3 days (2012/13 12.2 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	2012/13 % or £	2013/14 % or £	Explanation
Reserves			
Uncommitted General Fund Reserves as a % of annual budgeted net expenditure	2.5%	11.7%	Demonstrates the Council's flexibility to meet unanticipated expenditure.
Movement in the Uncommitted General Fund Balance	0%	327%	Investment gains on disposal have been retained in this reserve to fund the 2014/15 budgetted draw on reserves.
Council Tax			
In-year Collection Rate	96.5%	96.6%	Demonstrates the Council's effectiveness in collection of local taxation.
Council Tax Income as a % of Overall Funding	7.3%	7.6%	Demonstrates the funds received from Council Tax as a % of overall funding requirement.
Financial Management			
Actual Outturn as a % of Budget	97.6%	94.2%	Demonstrates there has been less expenditure than the budget.
Actual Contribution to/(from) Uncommitted General Fund Balance	£3.0m	£9.8m	Investment gains on disposal have been retained in this reserve to fund the 2014/15 budgetted draw on reserves.
Debt & Borrowing			
Capital Financing Requirement	£51.2m	£36.3m	This is the amount of unfunded capital expenditure mainly on Council housing.
External Debt Levels	£0	£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[2]. 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 Planning and Performance Management Framework underpins the 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 & Standards Committee[3], with a remit to oversee audit and scrutiny arrangements, and 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 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:

[2] Renamed Policy and Resources Committee on 14 May 2014.
[3] Renamed Audit Committee on 14 May 2014.

- 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 Community Plan, 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 £150m;
- 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 Strategy for Secondary 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 Shetland Partnership, 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. The latest report was published on 6 February 2014. 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 has been refreshed to make greater use of electronic reporting tools such as Covalent. Service performance is now reported quarterly to the relevant functional committees in accordance with a published diary of business meetings.

The Council maintains a register of Strategic and Operational Risks and the Corporate Management Team has recently signed off its Corporate Risk Register, which will be reviewed quarterly. 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 an updated Medium Term Financial Plan in August 2013 which sets out the spending limits for each of the next five financial years and which will result in the organisation being financially sustainable during the lifetime of the current Council. The 2014/15 budget was set in December 2013 and was done so within the policies and parameters 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, a Protocol on Member/Officer Relations, and a Policy on Reporting Concerns at Work is in place. The Council has also introduced a new electronic system for monitoring complaints. Quarterly monitoring reports are produced for the Corporate Management Team to ensure strategic overview of handling processes.

In order to ensure that the members and officers have the skills and knowledge to perform well in their roles, each member's development needs are identified through a training and development plan. Officers agree an employee development plan linked to the annual appraisal process.

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. All senior managers of the Council were required to attend a two-day PRINCE methodology refresher training course during 2013/14 which was delivered by CIPFA.

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 Audit & 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 & Standards Committee.

The Internal Audit work programme has been completed, with some minor carry forward of work into the 2014/15 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 & Standards Committee.

The following were highlighted in Internal Audit's annual report as specific areas of concern:

- Compliance with Council Standing Orders and the Small Contracts Procedures continued to be a problem area. As advised to Audit & Standards Committee in February 2014 there are still substantial issues of concern notably in Ferries and Ports & Harbours. This is a situation that is being closely monitored by Audit Scotland and is recorded on the Corporate Risk Register. The Director – Infrastructure Services is taking a proactive role in relation to these matters. A post implementation review of compliance with Standing Orders for Tenders and Contracts is currently ongoing following Council approval of updated Standing Orders in August 2013. The conclusion of this work should further strengthen procurement and governance arrangements as well as ensuring that identified breaches of European Union Regulations are unlikely to be repeated.
- The review of the Best Value checklist for risk management revealed that there are a number of areas in relation to risk management that still require to be improved corporately.

- A lack of planned maintenance at Ports & Harbours, the absence of a fleet vehicle policy leading to several issues not being adequately addressed, the absence of adequate financial controls at Tingwall Airport, and within ICT, poor stock control, lack of logging firewall activity and inadequate recording of the disposal of hard drives. The Capital Project review of Shetland College Phase 3 also identified a number of issues that proper implementation of the Gateway process and of Prince 2 principles should eradicate for future projects.

- 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, governance, and risk management 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.

Conclusion

The Governance Framework has been in place for the financial year ended 31 March 2014 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 & Standards Committee.

Overall, we consider the governance and internal control environment operating in 2013/14 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	Gary Robinson
Chief Executive	Leader of the Council

Remuneration Report

Introduction

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

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

From 2011/12 the Code of Practice on Local Authority Accounting in the UK (the Code) requires the disclosure of exit packages.

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), further amended by Regulations 2013 (SSI No. 2013/351). 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 and was amended by the 2013 Regulations SSI 2013/351, which came into effect on 18 February 2014. For 2013/14 the level of remuneration was £27,058, increasing to £27,329 for the Leader and £20,294, increasing to £20,497 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, increasing to £166,020 (1% uplift) with effect from 18 February 2014 (SSI 2013/119). 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 2013/14 totalled £162,965 (2012/13 £159,800).

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/146 sets the amount of salary for the Chief Executive of Shetland Islands Council for the period 2013 to 2015. 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.

	Number of Employees							
	2012/13	2013/14						
Remuneration Bands		Exit Packages and One-Off Payments	Children's Services	Infrastructure	Community Care	Develop - ment	Corporate & Executive	Total
£50,000 - £54,999	39	8	16	15	4	2	3	48
£55,000 - £59,999	35		8	11		4	2	25
£60,000 - £64,999	10	2	4	10				16
£65,000 - £69,999	8	2	1	1			1	5
£70,000 - £74,999	6	1	1	1			2	5
£75,000 - £79,999	5			7				7
£80,000 - £84,999	5		1			1	1	3
£85,000 - £89,999	2							0
£90,000 - £94,999	0							0
£95,000 - £99,999	0							0
£100,000 - £104,999	0						1	1
£105,000 - £109,999	0							0
£110,000 - £114,999	1							0
Total	**111**	**13**	**31**	**45**	**4**	**7**	**10**	**110**

The table above includes staff that terminated employment during 2012/13 and 2013/14. 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 2012/13 and 2013/14.

Of the 31 staff within Children's Services receiving remuneration over £50k, 21 were head teachers or senior teaching staff.

Of the 45 staff within Infrastructure Services receiving remuneration over £50k, 43 worked in the Ports and Harbours or the Ferries Service.

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 2013/14 of £3.019m (£1.047m in 2012/13) in the table includes £2.378m (£0.597m in 2012/13) 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 £0.641m (£0.449m in 2012/13) 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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
							£000	£000
£0 - £19,999	0	2	9	119	9	121	**68**	**613**
£20,000 - £39,999	0	0	11	19	11	19	**347**	**554**
£40,000 - £59,999	0	0	2	19	2	19	**102**	**902**
£60,000 - £79,999	0	0	0	5	0	5	**0**	**356**
£80,000 - £99,999	0	0	1	3	1	3	**82**	**264**
£100,000 - £149,999	0	0	2	3	2	3	**244**	**330**
£150,000 - £199,999	0	0	0	0	0	0	**0**	**0**
£200,000 - £249,999	0	0	1	0	1	0	**204**	**0**
Total	**0**	**2**	**26**	**168**	**26**	**170**	**1,047**	**3,019**

The table above details the number and cost of exit packages awarded in 2012/13 and 2013/14. 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):

	2012/13 £000	2013/14 £000
Salaries	352	358
Allowances	33	36
Expenses	83	94
Total	**468**	**488**

The annual return of councillors' salaries and expenses for 2013/14 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	2012/13 Total Remuneration £	2013/14 Salary, Fees and Allowances £	Taxable Expenses (b) £	Benefits other than Cash £	Total Remuneration £	Notes
Mr M Bell	Convener	**17,347.17**	20,317.28	0.00	0.00	**20,317.28**	Convener from 24/5/2012
Mr G Robinson	Leader of the Council	**23,316.56**	27,089.14	298.98	0.00	**27,388.12**	Leader from 24/5/2012
Mr C Smith	Chair - Social Services Committee	**18,433.75**	18,825.62	0.00	0.00	**18,825.62**	Chair - Social Services Committee from 24/5/2012
Mr D Ratter (a)	Chair - Shetland College Board	**17,494.45**	20,317.28	542.05	0.00	**20,859.33**	Chair - Shetland College Board from 24/05/2012
Mr A Cooper	Chair - Development Committee	**18,433.75**	18,825.62	0.00	0.00	**18,825.62**	Chair - Development Committee from 24/05/2012
Mr A Duncan	Chair - Audit & Standards Committee	**15,242.72**	17,852.36	0.00	0.00	**17,852.36**	Chair - Audit & Standards Committee from 24/05/2012
Mr F Robertson	Chair - Planning Committee	**18,143.29**	17,852.36	449.72	0.00	**18,302.08**	Chair - Planning Committee from 24/05/2012
Mr A Wishart	Chair - Environment & Transport Committee	**18,433.75**	18,825.62	0.00	0.00	**18,825.62**	Chair - Environment & Transport Committee from 24/05/2012
Mr M G Smith	Chair - Licensing Committee	**15,242.72**	17,852.36	0.00	0.00	**17,852.36**	Chair - Licensing Committee from 24/05/2012
Mrs V Wishart	Chair - Education and Families Committee	**16,073.58**	18,825.62	0.00	0.00	**18,825.62**	Chair - Education & Families Committee from 24/05/2012
Ms A Manson	Chair - Harbour Board	**15,242.72**	17,852.36	0.00	0.00	**17,852.36**	Chair - Harbour Board from 24/05/2012

Notes:

a) 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 £4,065 in 2013/14, which is included in the salary figure above but is reimbursed by the Board.
b) Taxable Expenses – include Telephone Line Rental/ Broadband.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2012/13 Total Remuneration £	2013/14 Salary, Fees and Allowances £	2013/14 Taxable Expenses (a) £	2013/14 Compensation for Loss of Employment £	2013/14 Benefits other than in Cash £	2013/14 Total Remuneration £	Notes
M Boden	Chief Executive	**51,485.38**	101,069.25	0.00	0.00	0.00	**101,069.25**	Chief Executive from 28/09/2012
H Budge	Director: Children's Services	**78,346.84**	80,849.10	0.00	0.00	0.00	**80,849.10**	
M Sandison Full year equivalent £79,865	Director: Infrastructure Services	**N/A**	39,817.24	0.00	0.00	0.00	**39,817.24**	Director: Infrastructure Services from 01/10/2013
P Crossland Full year equivalent £83,322	Director: Infrastructure Services	**81,719.32**	41,370.54	0.00	0.00	0.00	**41,370.54**	Director: Infrastructure Services until 30/09/2013
N Grant	Director: Development Services	**78,346.84**	80,849.10	0.00	0.00	0.00	**80,849.10**	
C Ferguson	Director: Corporate Services	**78,346.84**	80,849.10	101.25	0.00	0.00	**80,950.35**	Director: Corporate Services from 30/07/2012
S Shaw Full year equivalent £79,748	Director: Community Care Services	**52,868.33**	33,211.10	0.00	0.00	0.00	**33,211.10**	Director: Community Care Services until 04/08/2013
J Riise	Executive Manager: Governance & Law	**72,310.62**	72,648.17	0.00	0.00	0.00	**72,648.17**	
J Gray	Executive Manager: Finance (Section 95 Officer)	**67,066.35**	70,401.54	0.00	0.00	0.00	**70,401.54**	Executive Manager: Finance from 6/04/2012
H Leslie	Executive Manager: Childrens and Families	**64,844.52**	67,215.48	0.00	0.00	0.00	**67,215.48**	

Notes:

a) Taxable Expenses - includes taxable mileage and/or expenses outwith HMRC's dispensation.

b) S Bokor Ingram, Director of Community Health and Social Care from 2 February 2014, is employed by NHS Shetland and 50% of are costs funded by the Council. In 2013/14 the Council paid £9,211.34 to NHS Shetland in respect of this post.

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 2013	Year ending 31 March 2014		As at 31 March 2013	As at 31 March 2014	Increase / (Decrease)	
		£'000	£'000		£'000	£'000	£'000	
Mr M Bell	Convener	3	4	Pension	0	1	1	
				Lump Sum	0	0	0	
Mr G Robinson	Leader of the Council	5	5	Pension	2	4	2	
				Lump Sum	1	1	0	
Mr C Smith	Chair - Social Services Committee	3	4	Pension	2	2	0	
				Lump Sum	1	1	0	
Mr D Ratter	Chair - Shetland College Board	3	4	Pension	0	5	5	
				Lump Sum	0	0	0	
Mr A Cooper	Chair - Development Committee	3	4	Pension	2	2	0	
				Lump Sum	1	1	0	
Mr A Duncan	Chair - Audit & Standards Committee	3	3	Pension	2	2	0	
				Lump Sum	1	1	0	
Mr F Robertson	Chair - Planning Board	3	0	Pension	2	0	(2)	Benefits taken 20/02/13
				Lump Sum	6	0	(6)	
Mr A Wishart	Chair - Environment & Transport Committee	3	4	Pension	2	2	0	
				Lump Sum	1	1	0	
Mr M G Smith	Chair - Licensing Committees	3	3	Pension	0	1	1	
				Lump Sum	0	0	0	
Mrs V Wishart	Chair - Education & Families Committee	0	0	Pension	0	0	0	
				Lump Sum	0	0	0	
Ms A Manson	Chair - Harbour Board	3	3	Pension	0	1	1	
				Lump Sum	0	0	0	

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
			Year ending 31 March 2013	Year ending 31 March 2014		As at 31 March 2013	As at 31 March 2014	Increase (Decrease)	
			£'000	£'000		£'000	£'000	£'000	
M Boden	Chief Executive	ER	10	19	Pension	1	3	2	Chief Executive from 28/09/2012
		Strain	0	0	Lump Sum	0	0	0	
H Budge	Director: Children's Services	ER	12	12	Pension	20	22	2	
		Strain	0	0	Lump Sum	60	65	5	
M Sandison	Director: Infrastructure Services	ER	0	7	Pension	N/A	17	N/A	Director: Infrastructure Services from 01/10/2013
		Strain	0	0	Lump Sum		34		
P Crossland	Director: Infrastructure Services	ER	15	8	Pension	2	3	1	Director: Infrastructure Services until 30/09/2013
		Strain	0	0	Lump Sum	0	0	0	
N R J Grant	Director: Development Services	ER	15	15	Pension	11	13	2	
		Strain	0	0	Lump Sum	19	19	0	
C Ferguson	Director: Corporate Services	Er	15	15	Pension	34	37	3	Director: Corporate Services from 30/07/2012
		Strain	0	0	Lump Sum	87	89	2	
S Shaw	Director: Community Care Services	ER	13	5	Pension	2	3	1	Director: Community Care Services from 30/07/2012
		Strain	0	0	Lump Sum	0	0	0	
J Riise	Executive Manager: Goverance & Law	ER	14	14	Pension	26	27	1	
		Strain	0	0	Lump Sum	63	62	(1)	
J Gray	Executive Manager: Finance	ER	13	13	Pension	1	2	1	Executive Manager: Finance from 06/04/2012
		Strain	0	0	Lump Sum	0	0	0	
H Leslie	Executive Manager: Childrens & Families	ER	12	13	Pension	22	25	3	
		Strain	0	0	Lump Sum	52	58	6	

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 Parliamentary Elections. A single disclosure of the pension benefits is detailed above and includes Returning Officer accrued pension benefits of £1,006.50 and £1,761.24 lump sum as at 31 March 2014. At 31 March 2013 the comparative figures were £904.03 pension and £1,725.74 lump sum.

c) S Bokor Ingram, Director of Community Health and Social Care from 2 February 2014, is employed by NHS Shetland and whilst 50% of his costs are funded by the Council, his pension benefits are administered by NHS Shetland.

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 2013/14 are as follows:	Contribution Rate 2013/14 %
Whole time pay:	
On earnings up to and including £19,800	5.5
On earnings above £19,800 and up to £24,200	7.25
On earnings above £24,200 and up to £33,200	8.5
On earnings above £33,200 and up to £44,200	9.5
On earnings above £44,200	12

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

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

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

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

Gary Robinson ………………………………………………………. 23 September 2014
Leader of the Council

Mark Boden ……………………………………………………………. 23 September 2014
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 2014.

…………………………………………………………. **23 September 2014**

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

Restated	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 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	23,043	(2,212)	0	0	0	20,831	0	20,831
Other Comprehensive Income and Expenditure							(255)	(255)
Total Comprehensive Income and Expenditure	**23,043**	**(2,212)**	**0**	**0**	**0**	**20,831**	**(255)**	**20,576**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(10,539)	4,049	0	596	0	(5,894)	5,894	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)**
Movement in reserves during 2013/14:								
(Surplus) or deficit on the provision of services	(28,539)	(3,420)	0	0	0	**(31,959)**	0	(31,959)
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	8,688	8,688
Total Comprehensive Income and expenditure	**(28,539)**	**(3,420)**	**0**	**0**	**0**	**(31,959)**	**8,688**	**(23,271)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	789	2,978	0	(1,920)	0	1,847	(1,847)	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**(27,750)**	**(442)**	**0**	**(1,920)**	**0**	**(30,112)**	**6,841**	**(23,271)**
Net Transfers to/(from) Other Statutory Reserves	17,494	442	31,680	0	(37,612)	12,004	(12,004)	0
(Increase)/Decrease in 2013/14	**(10,256)**	**0**	**31,680**	**(1,920)**	**(37,612)**	**(18,108)**	**(5,163)**	**(23,271)**
Balance as at 31 March 2014	**(13,860)**	**0**	**(71,783)**	**(1,920)**	**(153,309)**	**(240,872)**	**(239,118)**	**(479,990)**

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

Comprehensive Income and Expenditure Statement for year ended 31 March 2014

2012/13 Net Expenditure Restated £000		Notes	2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000
41,705	Education Services		45,010	(4,371)	40,639
1,981	Housing Services		5,535	(3,737)	1,798
(2,066)	Housing Revenue Account		4,635	(7,318)	(2,683)
5,594	Cultural and Related Services		5,729	(909)	4,820
6,283	Environmental Services		7,651	(2,145)	5,506
2,191	Fire Services[a]		3	0	3
10,815	Roads and Transport Services		13,593	(3,054)	10,539
10,983	Trading Services		29,593	(18,759)	10,834
1,578	Police Services[a]		32	0	32
6,909	Planning and Development Services		8,044	(2,450)	5,594
31,237	Social Work		35,733	(7,350)	28,383
1,794	Central Services to the Public		2,704	8	2,712
6,694	Corporate and Democratic Core		5,617	0	5,617
792	Non Distributed Costs		1,615	0	1,615
126,490	**Cost of Services**		**165,494**	**(50,085)**	**115,409**
5	Other operating income and expenditure	9			(485)
635	Financing and Investment income and expenditure	10			(32,698)
(106,299)	Taxation and non-specific grant income	11			(114,185)
20,831	**(Surplus) or Deficit on Provision of Services**				**(31,959)**
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
2,797	(Surplus) on revaluation of Property, Plant and Equipment assets	23			(28,289)
(26,493)	(Surplus) on revaluation of available for sale financial assets	23			(7,153)
21,361	Remeasurement of the net defined benefit liability	23			12,690
(2,335)					(22,752)
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
2,080	Amounts recycled from the AFSFI reserve upon derecognition	23			31,440
2,080					31,440
(255)	**Other Comprehensive Income and Expenditure**				**8,688**
20,576	**Total Comprehensive Income and Expenditure**				**(23,271)**

Notes:

a) Police and Fire and Rescue Services transferred to the Scottish Government on 1 April 2013.

Balance Sheet as at 31 March 2014

31 March 2013 £000		Notes	31 March 2014 £000
371,936	Property, Plant and Equipment	12	401,012
4,756	Heritage Assets	13	4,743
622	Intangible Assets	14	575
205,732	Long Term Investments	15	203,483
2,335	Long Term Loans	15	2,126
3	Other Long Term Debtors	18	5,054
585,384	**Long Term Assets**		**616,993**
736	Assets held for Sale	16	875
5,141	Inventories	17	5,372
12,280	Short Term Debtors	18	20,169
4,118	Cash and Cash equivalents	19	7,936
22,275	**Current Assets**		**34,352**
(16,774)	Short Term Creditors	20	(15,670)
(95)	Provisions	21	(192)
(16,869)	**Current Liabilities**		**(15,862)**
(4,663)	Finance Lease Liability	31	(6,089)
(129,250)	Pension Liability	34	(148,562)
0	Provisions	21	(810)
(158)	Other Long Term Liabilities		(32)
(134,071)	**Long Term Liabilities**		**(155,493)**
456,719	**Net Assets**		**479,990**
(222,764)	Usable Reserves	22	(240,872)
(233,955)	Unusable Reserves	23	(239,118)
(456,719)	**Total Reserves**		**(479,990)**

The audited accounts were issued on 23 September 2014.

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

Cash Flow Statement for year ended 31 March 2014

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

2012/13 Restated £000		2013/14 £000	2013/14 £000
	OPERATING ACTIVITIES		
20,831	Net (surplus) or deficit on the provison of services	(31,959)	
(17,367)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 37)	(8,158)	
9,411	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 37)	46,777	
12,875	**Net cash flows from Operating Activities**	**6,660**	
(6,362)	Investing Activities (Note 38)	(11,521)	
23	Financing Activities (Note 39)	1,043	
6,536	**Net (increase) or decrease in cash and cash equivalents**		**(3,818)**
10,654	Cash and Cash Equivalents at 1 April		4,118
(6,536)	Net movement of Cash and Cash Equivalents during the year		3,818
4,118	**Cash & Cash Equivalents at 31 March**		**7,936**

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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 derived from a Corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.

- 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;

  - **net interest cost on the defined benefit liability** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;

  - **Remeasurements comprising:**

    - **return on scheme assets** – excluding amounts included in net interest on the net defined benefit liability – charged to Pensions Reserve as Other Comprehensive Income and Expenditure;

- **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 – charged 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.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions 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 are 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 Liabilities

Financial liabilities 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 and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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.

However, the Council has made a loan to a local organisation at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the borrowing organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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 (based on average prices) 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 2013/14 (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 end 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 the last year of its introductory phase, which ends on 31 March 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

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS 10 Consolidated Financial Statements (May 2011)
- IFRS 11 Joint Arrangements (May 2011)
- IFRS 12 Disclosure of Interests in Other Entities (May 2011)
- IAS 27 Separate Financial Statements (as amended in May 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)
- IAS 32 Financial Instruments: Presentation (as amended in December 2011)

- Annual Improvements to IFRS 2009-2011 Cycle

The Code requires implementation from 1 April 2014 and there is therefore no impact on the 2013/14 financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 relate specifically to the group accounts. These new or amended standards include a change to the definition of control and will require consideration of joint arrangements, a reassessment of the group boundary and potentially further disclosure. IAS 32 outlines disclosure requirements in respect of offsetting financial assets and liabilities. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

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 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.
- The UK Government has agreed to pay £10m to the Council to reduce the historic housing debt and has transfer this to the Scottish Government to be paid to the Council, (50% in 2014/15 and 50% in 2015/16). The Council has accrued this as income in 2013/14 on the basis that the expenditure has already been incurred.

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 2014 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% decrease in the discount rate assumption would result in a decrease in the pension liability of £47.820m, however the assumptions interact in complex ways. During 2013/14, the authority's actuaries advised that the net pensions liability had increased by £19.312m as a result of updated assumptions.

b) Arrears

At 31 March 2014, the authority had a balance on sundry debtors of £5.899m within short term debtors. A review of significant balances suggested that an impairment of doubtful debts of £0.150m 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 £8.270m levied during 2013/14.

c) Reserves

While the Council has a sufficient level of reserves to mitigate short term unanticipated expenditure or reduced income in the current financial climate, it has been recognised that reserves are not sufficient to sustain the current level of expenditure in the long term and the Council is currently implementing a plan to reduce spending to sustainable levels.

5. Material Items of Income and Expenditure

It was announced by the Chancellor of the Exchequer in the 2013 Autumn Statement that the Council would receive £10m of funding towards the outstanding housing debt balance. This has been recognised as income in 2013/14 and a debtor in the balance sheet, of which £5m is due to be received in both 2014/15 and 2015/16.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Manager - Finance on 23 September 2014. 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 2014, 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.

2013/14	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	(12,527)	(1,468)			13,995
Revaluation losses on Property, Plant and Equipment	(473)	(175)			648
Amortisation of intangible assets	(64)				64
Capital grants and contributions applied	6,384	460			(6,844)
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	(504)	(496)			1,000
Capital repayment in respect of finance leases	68				(68)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	10,793	2,499			(13,292)
Capital expenditure charged against the General Fund and HRA balances	1,214	1,249			(2,463)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,920			(1,920)	
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	579	906	(1,485)		
Use of the Capital Receipts Reserve to finance new capital expenditure			1,485		(1,485)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(20,385)	(128)			20,513
Employer's pensions contributions and direct payments to pensioners payable in the year	13,760	131			(13,891)
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	24				(24)
Total Adjustments	**789**	**2,978**	**0**	**(1,920)**	**(1,847)**

2012/13 Comparative Figures Restated	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)				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 and 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:					
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)		
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	(16,576)	(83)			16,659
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	**(10,539)**	**4,049**	**0**	**596**	**5,894**

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 2013/14.

	Balance at 1 April 2012 £000	Transfers out 2012/13 £000	Transfers in 2012/13 £000	Balance at 31 Mar 2013 £000	Transfers out 2013/14 £000	Transfers in 2013/14 £000	Balance at 31 Mar 2014 £000
General Fund:							
General Fund Balance	**(3,000)**	25,080	(25,080)	**(3,000)**	39,317	(49,130)	**(12,813)**
Council Tax Second Homes Receipts	**(511)**	117	(9)	**(403)**	0	(301)	**(704)**
Hansel	**(104)**	0	(7)	**(111)**	0	(9)	**(120)**
School Funds	**0**	0	(87)	**(87)**	0	(77)	**(164)**
Central Efficiency	**(43)**	41	(1)	**(3)**	0	(56)	**(59)**
Total	**(3,658)**	**25,238**	**(25,184)**	**(3,604)**	**39,317**	**(49,573)**	**(13,860)**
Capital:							
Capital Fund	**(100,542)**	18,558	(1,824)	**(83,808)**	37,568	(15,996)	**(62,236)**
Capital Efficiency/Spend to Save Reserve	**(9,096)**	584	(165)	**(8,677)**	1,058	(918)	**(8,537)**
Pilot Boat Renewal Fund	**(960)**	0	(18)	**(978)**	0	(32)	**(1,010)**
Usable Capital Receipts	**0**	0		**0**	0	0	**0**
Capital Fund (HRA Debt Contingency)	**0**	0	(10,000)	**(10,000)**	10,000	0	**0**
Total	**(110,598)**	**19,142**	**(12,007)**	**(103,463)**	**48,626**	**(16,946)**	**(71,783)**
Other Revenue/ Statutory Funds:							
Revenue Efficiency/Spend to Save Reserve	**(510)**	154	(9)	**(365)**	313	(12)	**(64)**
Marine Fund	**(2,021)**	253	(37)	**(1,805)**	133	(374)	**(2,046)**
Reserve Fund	**(57,129)**	39,946	(1,036)	**(18,219)**	235	(6,895)	**(24,879)**
Repairs & Renewals Fund	**(51,576)**	7,868	(936)	**(44,644)**	8,000	(9,034)	**(45,678)**
Quarry Repairs & Renewals Fund	**(153)**	0	(3)	**(156)**	0	(5)	**(161)**
Housing Repairs & Renewals Account	**(12,259)**	0	1,837	**(10,422)**	1,477	(1,919)	**(10,864)**
Insurance Fund	**(293)**	77	(5)	**(221)**	0	(7)	**(228)**
Potential Contingent Liabilities	**(849)**	0	(16)	**(865)**	0	(343)	**(1,208)**
Equalisation Fund	**0**	0	0	**0**	0	(15,000)	**(15,000)**
Local Investment Fund	**0**	0	0	**0**	0	(11,422)	**(11,422)**
Council Tax Reduction Scheme	**0**	0	0	**0**	0	(202)	**(202)**
Reserve Fund (Harbour Contingency)	**0**	0	(39,000)	**(39,000)**	0	(2,557)	**(41,557)**
Total	**(124,790)**	**48,298**	**(39,205)**	**(115,697)**	**10,158**	**(47,770)**	**(153,309)**
Housing Revenue Account	**0**	2212	(2,212)	**0**	3420	(3,420)	**0**
Capital Grants Unapplied	**(596)**	596	0	**0**	0	(1,920)	**(1,920)**
Total Usable Reserves	**(239,642)**	**95,486**	**(78,608)**	**(222,764)**	**101,521**	**(119,629)**	**(240,872)**

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 2012/13 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.

The Equalisation Fund is a new fund created in 2013/14 to accumulate returns which exceed the long term average rate of return, to be released in years when the returns are below the long term average rate of return.

The Local Investment Fund has been set up to earmark income from Shetland Development Trust for investment in local businesses and distributing any investment income to Shetland Charities.

Council Tax Reduction Scheme Fund has been set up to ear-mark income received from government grants to fund the Council Tax Reduction Scheme.

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. This fund has been used to write off £10m of the outstanding debt in 2013/14.

9. Other Operating Income and Expenditure

31 March 2013 £000		31 March 2014 £000
5	(Gains)/losses on the disposal of non-current assets	(485)
5	**Total**	**(485)**

10. Financing and Investment Income and Expenditure

31 March 2013 Restated £000		31 March 2014 £000
4,979	Pensions interest cost and expected return on pensions assets	5,830
(36)	Interest receivable and similar income	(68)
(1,888)	Other investment income	(1,884)
(2,420)	Realised gains in relation to available for sale financial assets	(36,576)
635	**Total**	**(32,698)**

11. Taxation and Non-Specific Grant Income

31 March 2013 £000		31 March 2014 £000
(8,865)	Council tax income	(8,284)
(15,035)	Non domestic rates	(16,177)
(76,107)	Non ring fenced government grants	(70,961)
(6,292)	Capital grants and contributions	(8,763)
0	UK government housing debt funding	(10,000)
(106,299)	**Total**	**(114,185)**

12. Property, Plant and Equipment

Movement in 2013/14	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 2013	52,846	143,889	65,686	154,559	6,835	548	16,440	440,803
Additions	1,463	4,085	2,227	969	85	-	7,718	16,547
Revaluation increases/(decreases) recognised in the Revaluation Reserve	17,861	2,021	(8)	-	-	73	-	19,947
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(185)	(460)	-	-	-	-	-	(645)
Derecognition – disposals	(305)	(187)	(1,016)	-	-	(72)	-	(1,580)
Assets reclassified (to)/ from Assets Held for Sale	(111)	(549)	-	-	-	-	-	(660)
Other movements in cost or valuation	3,944	3,084	574	1,399	-	511	(9,512)	-
At 31 March 2014	75,513	151,883	67,463	156,927	6,920	1,060	14,646	474,412
Accumulated Depreciation and Impairment								
At 1 April 2013	-	(10,324)	(22,819)	(35,477)	(8)	(239)	-	(68,867)
Depreciation charge	(1,501)	(4,931)	(3,819)	(3,669)	-	(62)	-	(13,982)
Depreciation written out to the Revaluation Reserve	1,483	4,441	2,392	-	-	55	-	8,371
Depreciation written out to the Surplus/Deficit on the Provision of Services	10	25	62	-	-	-	-	97
Derecognition – disposals	7	6	968	-	-	-	-	981
Assets reclassified (to)/ from Assets Held for Sale	2	52	-	-	-	-	-	54
Other movements in depreciation or impairment	(1)	3	(316)	316	-	(56)	-	(54)
At 31 March 2014	0	(10,728)	(23,532)	(38,830)	(8)	(302)	0	(73,400)
Net Book Value								
At 31 March 2014	75,513	141,155	43,931	118,097	6,912	758	14,646	401,012
At 31 March 2013	52,846	133,565	42,867	119,082	6,827	309	16,440	371,936

Comparator 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 and impairment at 31 March 2013	3	3	-	-	-	(7)	-	(1)
At 31 March 2013	-	(10,324)	(22,819)	(35,477)	(8)	(239)	-	(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

a) Capital Commitments

At 31 March 2014, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years, budgeted to cost £4.065m. Similar commitments at 31 March 2013 were £5.019m. The major commitments are:

- Shetland College Phase 3 £0.310m
- Fibre Optic Cable Phase 1 - 3 £0.372m
- Vehicle & Plant Replacement £1.250m
- Edward Thomason & Taing House Extension £1.524m
- Brae New Housing £0.331m

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 with the exception of the Waste to Energy Plant which is held on a ground lease;
- 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 Kenn Allan (MRICS) of the Asset and Properties Unit. The basis for valuation is set out in the statement of accounting policies. It should be noted that the Council Dwellings and Vehicles, Plant and Equipment are valued every year resulting in the full valuation figure in the current year.

	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				156,927	6,920		14,646	178,493
Valued at fair value as at:								
2013 - 2014	75,513	25,050	67,463			524		168,550
2012 - 2013		14,486				70		14,556
2011 - 2012		24,502				59		24,561
2010 - 2011		15,966				72		16,038
2009 - 2010		71,879				335		72,214
Total Cost or Valuation	75,513	151,883	67,463	156,927	6,920	1,060	14,646	474,412

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 Memorial £000	Total Assets £000
Net Value				
At 1 April 2012	1,439	3,269	60	**4,768**
Depreciation	(12)	-	(1)	**(13)**
Other movements	1	-	-	1
At 31 March 2013	**1,428**	**3,269**	**59**	**4,756**
Net Value				
At 1 April 2013	1,428	3,269	59	**4,756**
Depreciation	(12)	-	(1)	**(13)**
At 31 March 2014	**1,416**	**3,269**	**58**	**4,743**

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 20th century items, but most significant are the 19th century oil paintings.

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

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

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

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

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

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

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

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

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

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

Archived Books – The Archives collection of published works, mainly books and pamphlets from the 17th to the 21st centuries, comprise modern publications about Shetland, purchased regularly, and antiquarian works, some of them parts of bigger donated collections, including those formed by E S Reid Tait and Provost Goudie of Lerwick. The more modern books are available on open shelves in the search room, invigilated at all times by an archivist; the older and more valuable material is held in the Archives repository, and access to it is via requisition slips signed by visitors. This asset was 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 5 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 £0.064m was charged directly to the following service headings in the Cost of Services: Education Services, Environmental Services, Planning & Development Services, Social Work and Central Services to the Public.

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 GIS Innogistic System Encryption/ Web Filter Software
5	Payroll/ HR/ Pension Systems Housing Stock Management System Libraries Systems Building/ DLO Stores System Council Tax/ Housing Benefits/ Rents
10	Financial Management Systems Risk Assessment Software
20	Occupational Therapy Stock Control System Facility Management System Planning Systems Client Records System Microsoft Licenses

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

31 March 2013 £000		31 March 2014 £000
	Balance at start of year:	
2,287	Gross carrying amounts	2,438
(1,729)	Accumulated amortisation	(1,816)
558	**Net carrying amount at start of year**	**622**
230	Purchases	24
(166)	Amortisation for the period	(64)
0	Other changes	(7)
622	**Net carrying amount at end of year**	**575**
	Comprising:	
2438	Gross carrying amounts	2,455
(1,816)	Accumulated amortisation	(1,880)
622		**575**

15. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term 31 March 2013 £000	Current 31 March 2013 £000		Long-Term 31 March 2014 £000	Current 31 March 2014 £000
		Financial Assets:		
		Investments:		
205,732	0	Available for sale financial assets	203,483	0
205,732	**0**	**Total Investments**	**203,483**	**0**
		Debtors:		
2,335	945	Loans and receivables	2,126	1,274
2,335	**945**	**Total Debtors**	**2,126**	**1,274**

Material Soft Loans

An interest free loan has been provided to Hjatland Housing Association to contribute towards securing an overall increase in the supply of housing in Shetland, through partnership arrangements. The finance and investment income not received as a result has been negated by a reduction in the grant provided to this organisation.

31 March 2013 £000		31 March 2014 £000
	Balance at start of year:	
0	Nominal value of new loans granted in the year	776
0	Fair value adjustment on initial recognition	(14)
0	Loans repaid	(132)
0	Increase in discounted amount	4
0	**Total Investments**	**634**

Valuation Assumptions

The interest rate at which the fair value of this loan has been made is arrived at by taking the prevailing cost of borrowing (1.57%) and adding an allowance for the risk that the loan might not be repaid by Hjatland Housing Association, in this case a zero rate.

b) Income, Expense, Gains and Losses

31 March 2013				31 March 2014		
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
14	0	**14**	Impairment losses	(2)	0	**(2)**
0	910	**910**	Fee expenses	0	1,023	**1,023**
14	**910**	**924**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**(2)**	**1,023**	**1,021**
(146)	(1,888)	**(2,034)**	Interest & dividend income	(120)	(1,884)	**(2,004)**
0	(2,420)	**(2,420)**	Gains on de-recognition	0	(36,576)	**(36,576)**
(146)	**(4,308)**	**(4,454)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(120)**	**(38,460)**	**(38,580)**
0	(26,493)	**(26,493)**	Gains on revaluation	0	(7,153)	**(7,153)**
0	2,080	**2,080**	Amounts recycled	0	31,440	**31,440**
0	**(24,413)**	**(24,413)**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES**	**0**	**24,287**	**24,287**
(132)	**(27,811)**	**(27,943)**	**Net (Gain)/Loss for the Year**	**(122)**	**(13,150)**	**(13,272)**

There were gains for available for sale financial assets on revaluation of £7.153m as at 31 March 2014 (£26.493m at 31 March 2013) 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 2013			31 March 2014	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
3,280	3,280	Loans and Receivables	3,400	3,400

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 2013 £000		31 March 2014 £000
392	**Balance outstanding at start of year**	**736**
	Assets newly classified as held for sale:	
664	Property, Plant and Equipment	660
(91)	**Revaluation Losses**	(120)
106	**Revaluation Gains**	0
	Assets declassified as held for sale:	
(130)	Property, Plant and Equipment	0
(205)	**Assets sold**	(401)
736	**Balance outstanding at year-end**	**875**

17. Inventories

	Ports & Harbours		Trading Operations		Infrastructure		Total	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Balance outstanding at start of year	**3,344**	**3,441**	**1,061**	**1,177**	**496**	**523**	**4,901**	**5,141**
Purchases	638	572	3,050	2,635	1,310	1,116	4,998	4,323
Recognised as an expense in the year	(539)	(399)	(2,932)	(2,549)	(1,286)	(1,133)	(4,757)	(4,081)
Written off Balances	(2)	0	(2)	(2)	0	(9)	(4)	(11)
Reversals of write offs in previous years	0	0	0	0	3	0	3	0
Balance outstanding at year end	**3,441**	**3,614**	**1,177**	**1,261**	**523**	**497**	**5,141**	**5,372**

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

18. Short-Term Debtors

31 March 2013 £000		31 March 2014 £000
1,835	Central Government Bodies	6,940
2,494	Other Local Authorities	2,625
74	NHS Bodies	175
1,184	Public Corporations and Trading Funds	1,241
6,693	Other Entities and Individuals	9,188
12,280	**Total**	**20,169**

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 2013 £000		31 March 2014 £000
(363)	Opening balance - General Fund	(302)
22	Miscellaneous Invoices written off	32
39	Council Tax written off	50
0	Change in General Fund Provision	11
(302)	**Closing Balance**	**(209)**
(120)	Opening balance - Housing Revenue Account	(93)
0	Miscellaneous Invoices written off	
27	Rents written off	39
(93)	**Closing Balance**	**(54)**

b) Long Term Debtors

In 2013/14 £5.054m of debtors have been classified as long term debtors (£0.003m 2012/13). This includes £5m of funding from UK government for repayment of housing debt. A further £5m to be received in 2014/15 is included within short-term debtors – central government bodies above.

19. Cash and Cash Equivalents

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

31 March 2013 £000		31 March 2014 £000
28	Cash held by the Authority	42
4,089	Bank current accounts	7,894
1	Short-term certificates of deposit	0
4,118	**Total**	**7,936**

20. Short-Term Creditors

31 March 2013 £000		31 March 2014 £000
(3,206)	Central Government Bodies	(3,273)
(2,620)	Other Local Authorities	(2,687)
(73)	NHS Bodies	(135)
(686)	Public Corporations and Trading Funds	(574)
(10,189)	Other entities and individuals	(9,001)
(16,774)	**Total**	**(15,670)**

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 2013/14, participating authorities will submit the annual report on their emissions for the 2013/14 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2014. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2014 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

A provision of £810k has been recognised for landfill decommissioning costs which are expected to be incurred between 2015 and 2026. The provision has been calculated at today's prices based on the estimated remaining life of the landfill site and the current usage. Total estimated costs will be adjusted in the year when events indicating a change is required become known.

2012/13				2013/14		
Short-term		Long-term		Short-term		Long-term
Carbon Reduction Commitment £000	Outstanding Legal Fees £000	Landfill De-commissioning £000		Carbon Reduction Commitment £000	Outstanding Legal Fees £000	Landfill De-commissioning £000
(142)	**0**	**0**	**Balance at 1 April**	**(95)**	**0**	**0**
(82)	0	0	Additional provisions made	(92)	(100)	(810)
129	0	0	Amounts used	95	0	0
(95)	**0**	**0**	**Balance at 31 March**	**(92)**	**(100)**	**(810)**

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 2013 £000		31 March 2014 £000
(3,604)	General Fund Balance	(13,860)
(103,463)	Capital Receipts Reserve/Capital Funds	(71,783)
0	Capital Grants Unapplied	(1,920)
(115,697)	Other Revenue/ Statutory Funds	(153,309)
(222,764)	**Total balance of usable reserves at 31 March**	**(240,872)**

23. Unusable Reserves

Reconciliation of Unusable Funds to the balance sheet

31 March 2013 £000		31 March 2014 £000
(62,886)	Revaluation Reserve	(89,201)
(45,736)	Available for Sale Financial Instruments Reserve	(21,449)
(257,246)	Capital Adjustment Account	(279,669)
129,250	Pensions Reserve	148,562
2,663	Employee Statutory Adjustment Account	2,639
(233,955)	**Total balance of unusable reserves at 31 March**	**(239,118)**

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 2013 £000		31 March 2014 £000	£000
(67,923)	**Balance at 1 April**		**(62,886)**
(2,345)	(Upward)/ Downward revaluation of assets	(24,858)	
5,142	(Upward)/ Downward revaluation of assets and impairment (gains)/ losses not charged to the Surplus or Deficit on the Provision of Services	(3,431)	
2,797	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(28,289)
1,810	Difference between fair value depreciation and historical cost depreciation	1,661	
430	Accumulated gains on assets sold or scrapped	313	
2,240	Amount written off to the Capital Adustment Account		1,974
(62,886)	**Balance at 31 March**		**(89,201)**

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 2013 £000		31 March 2014 £000
(21,323)	**Balance at 1 April**	**(45,736)**
(26,493)	Upward revaluation of assets	(7,153)
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0
(26,493)		(7,153)
2,080	Removal of previously unrealised gains in relation to assets sold	31,440
(45,736)	**Balance at 31 March**	**(21,449)**

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 2013 Restated £000		31 March 2014 £000
104,524	**Balance at 1 April**	**129,250**
21,361	Actuarial (gains) and losses on pensions assets and liabilities	12,690
16,659	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	20,513
(13,294)	Employer's pensions contributions and direct payments to pensioners payable in the year	(13,891)
129,250	**Balance at 31 March**	**148,562**

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 2013 £000		31 March 2014 £000	31 March 2014 £000
(255,514)	**Balance at 1 April**		**(257,246)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
14,592	Charges for depreciation and impairment of Non-Current assets	13,995	
1,445	Revaluation losses on Property, Plant and Equipment	647	
166	Amortisation of Intangible assets	64	
(23)	Repayment of capital on finance leases	(68)	
510	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	687	
16,690			15,325
(1,810)	Adjustment amounts written out of the Revaluation Reserve		(1,661)
14,880	Net written out amount of the cost of Non-Current assets consumed in the year		13,664
	Capital financing applied in the year:		
(937)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,485)	
(6,292)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(6,844)	
(596)	Application of grants to capital financing from the Capital Grants Unapplied Account	0	
(3,231)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(23,292)	
(3,615)	Capital expenditure charged against the General Fund and HRA balances	(2,463)	
(14,671)			(34,084)
(584)	Capital Spend to Save Reserve		(1,057)
(1,357)	Capital Fund Reserve		(946)
(257,246)	**Balance at 31 March**		**(279,669)**

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 2013 £000		31 March 2014 £000
2,583	**Balance at 1 April**	**2,663**
(2,583)	Settlement or cancellation of accrual made at the end of the preceding year	(2,663)
2,663	Amounts accrued at the end of the current year	2,639
2,663	**Balance at 31 March**	**2,639**

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 2013/14	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Executive £000	Boards (Harbour & College) £000	Total £000
Employee expenses	33,963	26,783	2,617	15,455	6,922	9,921	95,661
Operating costs	7,999	15,521	8,189	21,873	7,208	8,628	69,418
Transfer Payments	1,335	8,549	1,538	373	237	43	12,075
Total expenditure	**43,297**	**50,853**	**12,344**	**37,701**	**14,367**	**18,592**	**177,154**
Total income	(2,452)	(21,129)	(3,678)	(17,948)	(1,057)	(19,899)	(66,163)
Net expenditure	**40,845**	**29,724**	**8,666**	**19,753**	**13,310**	**(1,307)**	**110,991**

Income and Expenditure Analysis Comparative Figures 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**

31 March 2013 £000	Summary reconciliation between Budget reported and Comprehensive Income and Expenditure Statement	31 March 2014 £000
113,299	Net expenditure in the Income and Expenditure Analysis	110,991
13,191	Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis	12,834
0	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(8,416)
126,490	**Cost of Services in Comprehensive Income and Expenditure Statement**	**115,409**

Detailed reconciliation between Budget reported and Comprehensive Income and Expenditure Statement

2013/14	Income and Expenditure Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Total £000
Employee expenses	95,662	774	0	96,436
Other service expenses	74,043	185	(2,461)	71,767
Support service recharges	1,445	(2,831)	0	(1,386)
Depreciation, amortisation and impairment	0	14,706	0	14,706
Interest Payments	6,004	0	(5,955)	49
Total expenditure	**177,154**	**12,834**	**(8,416)**	**181,572**
Fees, charges & other service income	(61,780)	0	0	(61,780)
Interest and investment income	(120)	0	0	(120)
Government grants and contributions	(4,263)	0	0	(4,263)
Total Income	**(66,163)**	**0**	**0**	**(66,163)**
Cost of Services	**110,991**	**12,834**	**(8,416)**	**115,409**

Comparative Figures 2012/13	Income and Expenditure Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Total £000
Employee expenses	99,844	(1,535)	0	98,309
Other service expenses	80,895	14,375	0	95,270
Support service recharges	0	(15,852)	0	(15,852)
Depreciation, amortisation and impairment	0	16,203	0	16,203
Interest Payments	53	0	0	53
Total expenditure	**180,792**	**13,191**	**0**	**193,983**
Fees, charges & other service income	(62,910)	0	0	(62,910)
Interest and investment income	(142)	0	0	(142)
Government grants and contributions	(4,441)	0	0	(4,441)
Total Income	**(67,493)**	**0**	**0**	**(67,493)**
Cost of Services	**113,299**	**13,191**	**0**	**126,490**

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 2013/14 are as follows:

	2011/12		2012/13		2013/14	
	£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	(7,511)		(8,226)		(7,249)	
Expenditure	7,139		8,036		7,033	
(Surplus)		(372)		(190)		(216)
Cumulative (surplus) - over last three financial years		**(900)**		**(760)**		**(778)**
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	(4,171)		(4,096)		(4,111)	
Expenditure	4,226		4,021		4,032	
(Surplus)		55		(75)		(79)
Cumulative (surplus) - over last three financial years		**(355)**		**(145)**		**(99)**

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 2011/12, 2012/13 and 2013/14 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 2013 £000		31 March 2014 £000
(52)	Net (Surplus)/Deficit on Services to the public included in Cost of Services	(62)
(213)	Support services recharged to Expenditure of Continuing Operations	(233)
(265)	**Net (surplus)/deficit on trading operations**	**(295)**

26. Agency Services

The authority is required by legislation to provide a collection service for Scottish Water, involving the collection of around £2.9m 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.

Until 31 March 2013 the authority provided a cashiers provision to the Shetland Charitable Trust per a service level agreement.

Shetland Islands Council has provided payroll services on behalf of several organisations: Shetland Charitable Trust, Shetland Arts Trust and Schools Parent Councils.

31 March 2013 £000		31 March 2014 £000
18	Expenditure incurred in collection service for Scottish Water	30
(61)	Commission payable by Scottish Water	(68)
0	Expenditure incurred in collection service for SHEAP	0
(4)	Income payable by SHEAP	(4)
0	Expenditure incurred in cashier service for Shetland Charitable Trust	0
(1)	Income payable by Shetland Charitable Trust for Cashier Service	0
10	Expenditure incurred in payroll services to other organisations	5
(10)	Income payable by other organisations for payroll services	(5)
(48)	**Net surplus arising on the agency arrangements**	**(42)**

27. External Audit Costs

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

31 March 2013 £000		31 March 2014 £000
216	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	204
216	**Total**	**204**

28. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

31 March 2013 £000		31 March 2014 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,865)	Council tax income	(8,284)
(15,035)	Non domestic rates	(16,177)
(76,107)	Non ring fenced government grants	(70,961)
(6,292)	Capital grants and contributions	(8,763)
0	UK Government Housing Debt Funding	(10,000)
(106,299)	**Total**	**(114,185)**
	Credited to Services	
(365)	NHS	(362)
(751)	Council Tax Benefits Subsidy	0
(3,185)	Housing Benefit Subsidy	(2,991)
(761)	Housing Support Grant	(840)
(46)	ERDF & ESF	(35)
(330)	Training Grants	(263)
(16)	Central - Government Grants	(26)
(205)	Cultural - Government Grants	(239)
(2,622)	Education - Government Grants	(2,395)
(413)	Environment - Government Grants	(156)
(344)	Planning & Development - Government Grants	(895)
(58)	Roads & Transport - Government Grants	(34)
(471)	Social Work - Government Grants	(973)
(9,567)	**Total**	**(9,209)**

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 £8.365m in 2013/14 (£3.735m in 2012/13) 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.

This has been out of line with the internal borrowing balances for several years and a review was carried out in 2013/14 to realign this. This has resulted in the restatement of the 2012/13 comparative figures

Restated 31 March 2013 £000		31 March 2014 £000
53,779	**Opening Capital Financing Requirement**	**55,922**
	Capital Investment:	
18,549	Property, Plant and Equipment	16,547
230	Intangible Assets	24
	Sources of Finance:	
(937)	Capital Receipts	(1,485)
(6,888)	Government Grants and Other Contributions	(6,844)
(1,941)	Funding from Reserves	(2,004)
	Sums set aside from Revenue:	
(3,616)	Direct Revenue Contributions	(2,463)
(23)	Lease principal	(68)
(3,231)	Loans Fund Principal	(23,292)
55,922	**Closing Capital Financing Requirement**	**36,337**
	Explanation of Movements in Year:	
(2,553)	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(23,040)
0	Decommissioning Obligations	810
4,696	Assets acquired under finance leases	2,645
2,143	**Increase/(Decrease) in Capital Financing**	**(19,585)**

31. Leases

a) The Authority as a Lessee

Finance Leases

In addition to the administrative building acquired in 2012/13, the Council has acquired a music, cinema and creative industries centre under a finance lease during 2013/14. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2013 £'000		31 March 2014 £'000
4,570	Other Land and Buildings	7,127
0	Vehicles, Plant, Furniture and Equipment	0
4,570		7,127

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 2013 £'000		31 March 2014 £'000
	Finance lease liabilities (net present value of minimum lease payments)	
(33)	Current	(84)
(4,663)	Non Current	(6,089)
(8,964)	Finance costs payable in future years	(9,052)
(13,660)	**Minimum Lease Payments**	**(15,225)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
Not later than one year	467	554	(33)	(84)
Later than one year and not later than five years	1,868	2,218	(168)	(387)
Later than five years	11,325	12,453	(4,495)	(5,702)
	13,660	**15,225**	**(4,696)**	**(6,173)**

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. There were contingent rents of £28k payable in 2013/14 (nil in 2012/13).

Operating Leases

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 £0.947m 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 2013 £000		31 March 2014 £000
2,474	Not later than one year	2,078
9,492	Later than one year and not later than five years	10,935
16,292	Later than five years	12,030
28,258	**Total**	**25,043**

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

31 March 2013 £000		31 March 2014 £000
2,796	Minimum lease payments	2,390
(1,491)	Sublease payments receivable	(1,163)
1,305	**Total**	**1,227**

b) The Authority as a Lessor

Finance Leases

During 2012/13 and 2013/14 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 culture and arts, 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 2013 £000		31 March 2014 £000
(1,400)	Not later than one year	(1,090)
(5,573)	Later than one year and not later than five years	(6,622)
(10,219)	Later than five years	(10,449)
(17,192)	**Total**	**(18,161)**

The total value of rental income, excluding subleases, recognised during the period was £0.622m (2012/13 - £0.501m).

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

31 March 2013 £000		31 March 2014 £000
(438)	Not later than one year	(459)
(737)	Later than one year and not later than five years	(831)
(2,600)	Later than five years	(2,416)
(3,775)	**Total**	**(3,706)**

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 2012/13 and 2013/14 no contingent rents were receivable by the Council.

32. Termination Benefits

The Council terminated 170 employee contracts in 2013/14 (26 in 2012/13), incurring liabilities of £2.467m (£0.659m in 2012/13).

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 a multi-employer defined benefit scheme. The scheme is unfunded and the SPPA uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years. The scheme has in excess of 160 participating employers and consequently, 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. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2014, the Council's own contributions equated to approximately 0.7%.

In 2013/14, the Council paid £2.275m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£2.378m and 14.9% for 2012/13). 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 2013/14, these amounted to £0.873m (£0.840m for 2012/13), representing 5.83% of teachers pensionable pay (4.97% for 2012/13). These costs are accounted for on a defined benefit basis. The authority is not liable to the scheme for any other entities' obligations under the plan.

34. Defined Benefit Pension Schemes

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. The pensions 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.) There is no automatic entitlement to a lump sum in respect of post-2009 service. Members may however opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The scheme's normal retirement age is 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

- 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.

Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Fund Consultative Panel of Shetland Islands Council. The Panel comprises of elected members of Shetland Islands Council along with employee and employer representatives and a pension/deferred member representative.

Policy is determined in accordance with the Pensions Fund Regulations. Management of the Fund's investments is carried out by the Council which receives recommendations from the Fund's Consultative Panel. The Council selects and appoints a number of external investment managers/partners and monitors their investment performance.

Under the Regulations, employers fall into three categories, scheme employers (also known as scheduled bodies), community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

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:

2012/13 Restated £000	Local Government Pension Scheme	2013/14 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
10,888	Current service cost	13,068
792	Past service cost (including curtailments)	1,615
	Financing and Investment Income and Expenditure:	
4,979	Net Interest Expense	5,830
16,659	**Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**20,513**
	Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(23,361)	Return on plan assets (excluding the amount included in the net interest expense)	(6,296)
44,450	Actuarial (gains) and losses arising on changes in financial assumptions	17,408
272	Actuarial gains and losses arising from other experience	1,578
38,020	**Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**33,203**
	Movement in Reserves Statement	
38,020	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	33,203
	Actual amount charged against the General Fund balance for pensions in the year:	
(13,294)	**Employer's contributions and direct payments to pensioners payable in the year**	**(13,891)**

The amount included in the balance sheet arising from the Council's obligation in respect of the pension fund is as follows:

	2012/13 £000	2013/14 £000
Present value of the defined benefit obligation	(396,663)	(441,095)
Fair value of assets in the Local Government Pension Scheme	267,413	292,533
Net liability arising from Defined Benefit Obligation	**(129,250)**	**(148,562)**
Local Government Pension Scheme	(100,292)	(116,831)
Unfunded liabilities for Pension Fund	(12,826)	(14,818)
Unfunded liabilities for Teachers	(16,132)	(16,913)
Total	**(129,250)**	**(148,562)**

Assets and Liabilities in Relation to Post-Employment Benefits

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

2012/13 Restated £000		2013/14 £000
227,233	**Opening balance at 1 April**	267,413
11,044	Interest income	12,173
	Re-measurement gains and (losses)	
23,361	Return on assets excluding amounts included in net interest	6,296
13,294	Employer contributions	13,891
3,313	Contributions by scheme participants	3,122
(10,832)	Benefits paid	(10,362)
267,413	**Closing balance at 31 March**	**292,533**

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

2012/13 Restated £000		2013/14 £000
331,757	**Opening balance at 1 April**	396,663
10,888	Current service cost	13,068
16,023	Interest Cost	18,003
3,313	Contributions by scheme participants	3,122
	Remeasurement (gains) and losses:	
44,450	Actuarial (gains) and losses from changes in financial assumptions	17,408
272	Actuarial (gains) and losses from other experience	1,578
(10,832)	Benefits paid	(10,362)
792	Past service costs including curtailments	1,615
396,663	**Closing balance at 31 March**	**441,095**

Analysis of Pension Fund's Assets

Shetland Islands Council's share of the Pension Fund's assets at 31 March 2014 comprised:

2012/13 £000	Quoted Prices not in Active Markets	2013/14 £000
9,295	Cash and cash equivalents	10,728
	Property:	
14,249	UK Property	16,959
2,727	Overseas Property	2,749
16,976	**Sub-total Property**	**19,708**
	Investment Funds and Unit Trusts	
218,850	Equities	237,831
22,292	Bonds	24,266
241,142	**Sub-total Investment Funds and Unit Trusts**	**262,097**
267,413	**Total Assets**	**292,533**

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 Islands 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:

2012/13		2013/14
	Long-term expected rate of return on assets in the scheme:	
4.5%	Investment Funds and Unit Trusts	4.3%
	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	3.6%
5.1%	Rate of increase in salaries	5.1%
2.8%	Rate of increase in pensions	2.8%
4.5%	Rate for discounting scheme liabilities	4.3%
70.0%	Take-up of option to convert annual pension into retirement lump sum	70.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

Change in assumptions as at 31 March 2014	Approximate increase to employer liability %	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	11%	47,820
1 year increase in member life expectancy	3%	13,233
0.5% increase in the Salary Increase Rate	4%	17,706
0.5% increase in the Pension Increase Rate	7%	29,049

Shetland Islands Council does not have an asset and liability matching strategy.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employers' common contribution rate has been set at 18.8% for 2014-2015. The next three years will be set following completion of the triennial valuation as at 31 March 2014.

The Fund will need to take account of impending national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to a new career average revalued earning scheme (CARE) for future accruals.

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2015 is £11.289m.

The weighted average duration of the defined benefit obligation for scheme members is 19.1 years, 2013/14.

Change in Accounting Policy IAS19

On 1 April 2013, the Council implemented a change of accounting policy relating to the June 2011 amendments to the accounting standard IAS19 Employee Benefits. The key change relates to the expected return on assets. In order to permit a meaningful comparison between financial years, some figures in the previous year's audited financial statements have been amended.

There has been a redistribution of costs within the CI&ES. The pension interest cost within the Surplus or Deficit on the Provision of Services has increased with a corresponding reduction in actuarial (gains) or losses on pension assets and liabilities in Other Comprehensive Income and Expenditure. Essentially, the expected return on schemes assets that was credited to the Surplus or Deficit on the Provision of Services has been effectively replaced with an equivalent figure using the discount rate.

The effects of the restatement on the financial statements are as follows (only those lines that have changed are shown):

Effect on Comprehensive Income and Expenditure Statement

CIES	As Previously Stated 2012/13	As Restated 2012/13	Amendment 2012/13
	£000	£000	£000
Financing and Investment Income and Expenditure	(1,665)	635	2,300
(Surplus) or Deficit on the Provision of Services	18,531	20,831	2,300
Actuarial (gains) or losses on pension fund assets and liabilities	23,661	21,361	(2,300)
Other Comprehensive Income and Expenditure	2,045	(255)	(2,300)

Movement in Reserves Statement – Usable Reserves 2012-2013

Movement in Reserves Statement	As Previously Stated 2012/13	As Restated 2012/13	Amendment 2012/13
	£000	£000	£000
(Surplus) or Deficit on the Provision of Services	20,743	23,043	2,300
Total Comprehensive Income and Expenditure	20,743	23,043	2,300
Adjustments between Accounting Basis and Funding Basis under Regulations	(8,239)	(10,539)	(2,300)

Movement in Reserves Statement – Unusable Reserves 2012-2013

Movement in Reserves Statement	As Previously Stated 2012/13 £000	As Restated 2012/13 £000	Amendment 2012/13 £000
Other Comprehensive Income and Expenditure	2,045	(255)	(2,300)
Total Comprehensive Income and Expenditure	2,045	(255)	(2,300)
Adjustments between Accounting Basis and Funding Basis under Regulations	3,594	5,894	2,300

Cash Flow Statement

	As Previously Stated	As Restated	Amendment
	2012/13 £000	2012/13 £000	2012/13 £000
OPERATING ACTIVITIES			
Net (surplus) or deficit on the provision of services	18,531	20,831	2,300
Adjustment to net surplus or deficit on the provision of services for non-cash movements	(15,067)	(17,367)	(2,300)

35. Contingent Liabilities

At 31 March 2014, there were 2 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.

Shetland Islands Council is responding to three claims under the Equal Pay Act 1970 relating to past pay inequalities with male colleagues. The claimants allege that they were carrying out work which has been rated equivalent or alternatively is work of equal value to a number of comparator posts. The claims do not provide sufficient detail about the comparator jobs to allow an accurate 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 outwith the Council's own bank during the financial year 2013/14.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2014, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Estimated maximum exposure at 31 March 2013 £000	Amount at 31 March 2014 A £000	Historical experience of default (expressed as % of A) B %	Historical experience adjusted for market conditions at 31 March 2014 C %	Estimated maximum exposure to default and uncollectability at 31 March 2014 A*C £000
Deposits with Banks	0	9,429	0	0	0
Customers	24	118	25	25	30

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 £2.342m of the £5.932m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2013 £000		31 March 2014 £000
691	Less than three months	1,424
439	Three to six months	187
121	Six months to one year	200
460	More than one year	531
1,711	**Total**	**2,342**

Liquidity Risk

The authority has external investments with fund managers amounting to £204m at 31 March 2014. 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 were no current external capital borrowings at 31 March 2014.

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 which increases diversification. During 2013/14 the Council implemented a new investment strategy following a specific investment review. The new strategy invests in a wider range of assets and funds, which spreads interest rate risk across more investments. As at 31 March 2014 the composition of these funds was diversified between the following asset classes:

- UK Equities
- Overseas Equities
- Diversified Growth Fund
- Emerging Market Equities
- UK Index Linked Gilts
- UK Corporate Bonds
- Other Bonds
- Cash

The Council at 31 March 2014 had no external variable or fixed rate borrowing and was 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 Diversified Growth Fund, which is the fund with the largest investment exposure, would have resulted in a gain or loss in the region of £0.383m for 2013/14.

b) Price risk

The authority had £204m of investments as at 31 March 2014 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The authority is consequently exposed to losses arising from movement in the price of these investment categories.

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 UK shares (positive or negative) would have resulted in a £1.6m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2013/14.

c) Foreign exchange risk

The authority has £92.9m invested in overseas equities held within unitised products, which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is 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 2013 £000		31 March 2014 £000
(1,887)	Dividends received	(1,884)
(1,887)	**Total**	**(1,884)**

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

31 March 2013 Restated £000		31 March 2014 £000
(14,592)	Depreciation	(13,995)
(1,459)	Impairment and downward valuations	(647)
(166)	Amortisation	(64)
3,000	(Increase)/decrease in creditors	1,280
21	Increase/(decrease) in debtors	12,940
240	Increase/(decrease) in inventories	231
(3,365)	Movement in pension liability	(6,622)
(942)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(1,000)
(104)	Other non-cash items charged to the net surplus or deficit on the provision of services	(281)
(17,367)	**Total**	**(8,158)**

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

31 March 2013 £000		31 March 2014 £000
2,420	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	36,576
937	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,485
6,054	Any other items for which the cash effects are investing or financing cash flows	8,716
9,411	**Total**	**46,777**

38. Cash Flow Statement – Investing Activities

31 March 2013 £000		31 March 2014 £000
14,059	Purchase of property, plant and equipment, investment property and intangible assets	13,006
4,579	Purchase of short-term and long-term investments	2,941
(937)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,485)
(17,770)	Proceeds from short-term and long-term investments	(17,220)
(6,293)	Other receipts from investing activities	(8,763)
(6,362)	**Total**	**(11,521)**

39. Cash Flow Statement – Financing Activities

31 March 2013 £000		31 March 2014 £000
23	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,043
23	**Total**	**1,043**

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

2012/13 £000		2013/14 £000	£000
	Expenditure		
2,263	Repairs and maintenance	2,346	
541	Supervision and management	493	
1,701	Depreciation and impairment of non-current assets	1,643	
252	Other expenditure	153	
4,757	**Total expenditure**		**4,635**
	Income		
(5,892)	Dwelling rents	(6,180)	
(123)	Non-Dwelling rents	(131)	
(761)	Housing Support Grant	(840)	
(47)	Other Income	(167)	
(6,823)	**Total income**		**(7,318)**
(2,066)	**Net (income)/ cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**(2,683)**
163	HRA services' share of Corporate and Democratic Core		146
(1,903)	**Net Cost/(Income) of HRA Services**		**(2,537)**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
109	(Gain) or loss on sale of HRA non-current assets		(409)
404	Interest payable and similar charges		1,905
(222)	Interest and investment income		(1,919)
(600)	Capital grants and contributions		(460)
(309)	**Net HRA share of operating expenditure**		**(883)**
(2,212)	**(Surplus) or deficit for the year on HRA services**		**(3,420)**

c) Movement on the Housing Revenue Account Statement

2012/13 £000		2013/14 £000
0	**Balance on the HRA at the end of the previous year**	0
(2,212)	(Surplus) or deficit on the HRA Income and Expenditure Statement	(3,420)
	Adjustment between accounting basis and funding basis under statute	
(1,617)	Charges for depreciation and impairment of non-current assets	(1,468)
(84)	Revaluation losses on Property, Plant and Equipment	(175)
600	Capital grants and contributions applied	460
(742)	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	(496)
2,484	Statutory provision for the financing of capital investment	2,499
2,762	Capital expenditure charged against HRA balances	1,249
633	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	906
13	Employer's pensions contributions and direct payments to pensioners payable in the year	3
1,837		(442)
(1,837)	Transfers to or (from) reserves	442
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.

2012/13 Number	Housing Stock	2013/14 Number
105	1 Apartment	104
397	2 Apartment	412
535	3 Apartment	534
676	4 Apartment	673
38	5 Apartment	36
1	6 Apartment	1
2	8 Apartment	2
1,754	**Total**	**1,762**

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.

2012/13 £000		2013/14 £000
137	**Rent Arrears**	**161**
306	Number of properties in arrears (Number)	319
17.4%	Properties in arrears as share of total stock (%)	18.1%
£373	Average amount per property in arrears (£)	£503

3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2013/14:

2012/13 £000		2013/14 £000	£000
(120)	**Balance as at 1 April**		**(93)**
	Bad rent debt written off:		
0	Council approved *	13	
27	Delegated authority *	26	
27			39
0	Miscellaneous bad debt written off		0
(93)			(54)
0	Contribution to/(from) Housing Revenue Account		0
(93)	**Balance as at 31 March**		**(54)**

* Council Approval was required for bad debts written off over £5k.

4) Void Rents

The following table summarises the income lost due to voids in 2013/14. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2012/13 £000		2013/14 £000
48	General Needs Void Rents and Charges	74
32	Sheltered Housing Void Rents and Charges	38
17	Refurbishment Properties Void Rents and Charges	7
97	**TOTAL**	**119**

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

2012/13 £000		2013/14 £000
(10,031)	**Gross Council Tax levied and contributions in lieu**	**(10,117)**
(9)	Council Tax benefits (net of Government grant)	0
0	Council Tax Reduction Scheme	690
1,158	Other discounts and reductions	1,157
39	Write-offs of uncollectable debts	50
(39)	Allowance for impairment of uncollectable debts	(91)
17	Adjustment to previous years' Community Charge and Council Tax	27
(8,865)	**Transfer to General Fund**	**(8,284)**

a) Council tax base

Overleaf is the analysis of the Council Tax base used to set the 2013/14 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 2013/14

	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)	0	3,033	1,799	2,667	1,735	1,262	234	58	1	**10,789**
Gross Tax Base (Properties x Weighting)	0	18,198	12,593	21,336	15,615	13,882	3,042	870	18	**85,554**
Adjusted Properties (Band D Equivalents)	0	2,022	1,399	2,371	1,735	1,542	338	97	2	**9,506**
Vacant Properties (Number.):	0									
Mandatory Standard Exemptions	0	(145)	(53)	(72)	(41)	(15)	(3)	(4)	(1)	**(334)**
Chargeable Dwellings subject to Disabled Reduction (Number)	0	(13)	(3)	(11)	(10)	(4)	0	0	0	**(41)**
Dwellings Effectively Subject to Tax by Virtue of :										
Disabled Relief (Number)	13	3	11	10	4	0	0	0	0	**41**
Class 18 (MoD) Dwellings (Number)	0	0	0	0	0	1	0	0	0	**1**
Revised Total Properties (Number)	13	2,878	1,754	2,594	1,688	1,244	231	54	0	**10,456**
Types of Property (Number):										
Single Discount (25%)	5	1,182	721	976	387	186	19	8	0	**3,484**
Double Discount (50%)	0	285	83	86	45	27	2	0	0	**528**
No Discount (0%)	8	1,411	950	1,532	1,256	1,031	210	46	0	**6,444**
	13	2,878	1,754	2,594	1,688	1,244	231	54	0	**10,456**
Properties Subject to Council Tax (Number)	12	2,440	1,532	2,307	1,569	1,184	225	52	0	**9,321**
Net Tax Base (Properties x Weighting)	60	14,640	10,724	18,456	14,121	13,024	2,925	780	0	**74,730**
Adjusted Properties (Band D Equivalents)	7	1,627	1,192	2,051	1,569	1,447	325	87	0	**8,305**
COUNCIL TAX 2013/14:										
General Fund Charge										
Tax Yield (£)	8,424	1,712,880	1,254,708	2,159,352	1,652,157	1,523,808	342,225	91,260	0	**8,744,814**
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

2012/13 £000		2013/14 £000
20,297	Gross rates levied and contributions in lieu	20,567
(4,435)	Reliefs and other deductions	(5,098)
0	Payment of interest	0
4	Write-offs of uncollectable debts	(8)
(4)	Allowance for impairment of uncollectable debts	(2)
15,862	Net non-domestic rate income	15,459
(72)	Adjustment to previous years' national non-domestic rates	(1,787)
15,790	**Contribution to non-domestic rate pool**	**13,672**
(15,035)	Distribution from non-domestic rate pool	(16,177)
0	Adjustment for years prior to the pool	0
(15,035)	**Transfer to Comprehensive Income & Expenditure Statement**	**(16,177)**

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	553	7,352
Industrial	503	24,790
Other	912	12,812
TOTAL	**1,968**	**44,954**

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 2013/14 is 46.2p (up from 45.0p) with a large business supplement of 0.9p 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, 6 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.

2012/13 £000		2013/14 £000
(11,191)	Shetland Development Trust	(10,905)
(656)	Zetland Educational Trust	(659)
(55)	Gilbertson Trust	0
(3)	Samuel Mullay Bequest	0
(3)	Others (4 Trusts)	(3)
(11,908)	**Total**	**(11,567)**

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

The Zetland Educational Trust, with an income of £20,819 and expenditure of £17,895 in 2013/14, pays bursaries to university students, aids apprentices and supports educational trips.

The funds of the Gilbertson Trust and the Samuel Mullay Bequest have been transferred to Shetland Charitable Trust and the Shetland Health Board's Endowments Funds respectively, in accordance with the decision of the Council on 21 March 2012, and by the approved application to the Office of the Scottish Charities Regulator (OSCR) under Section 39 of the Charities and Trustee Investment (Scotland) Act 2005.

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 2013/14 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 2013/14.

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 2014:

- Shetland Development Trust; and
- Zetland Transport Partnership.

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

A Council decision was taken in March 2008 to wind up the Sheltand Development Trust transferring all assets and undertakings to the Council. The wind up is planned to be completed by November 2015.

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 two entities that meet the definition of an associate, and as such, have been included in the group accounts as associates. These are:

- Orkney and Shetland Valuation Joint Board; and
- Shetland Charitable Trust.

In 2012/13 the Council identified Northern Joint Police Board and Highlands and Islands Fire Board as associates. The Police and Fire Reform (Scotland) Act 2012 (the 2012 Act) transferred 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 have therefore been wound up at 31 March 2013 and will no longer be part of the Council's group arrangements.

2) Method of Consolidation

In accordance with the Code, the subsidiaries have been fully consolidated and have a financial year-end of 31 March 2014. 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 two associates have been consolidated at their financial year-ends of 31 March 2014 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 2013/14 that share was as follows:

- Orkney and Shetland Valuation Joint Board – The Council contributed 49.2% of the Board's operating costs (51.3% in 2012/13); 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 2013/14. 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 2013/14

	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 2013	**(3,604)**	**0**	**(103,463)**	**0**	**(115,697)**	**(117,278)**	**(340,042)**	**(233,955)**	**32,666**	**(201,289)**	**(541,331)**
Less: Police and Fire & Rescue reserve balances transferred on 1 April 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(31,333)**	**(31,333)**	**(31,333)**
	(3,604)	**0**	**(103,463)**	**0**	**(115,697)**	**(117,278)**	**(340,042)**	**(233,955)**	**1,333**	**(232,622)**	**(572,664)**
Movement in Reserves during 2013/14											
(Surplus) or deficit on the provision of services	(28,539)	(3,420)	0	0	0	(1,206)	**(33,165)**	0	0	**0**	**(33,165)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	8,688	97	**8,785**	**8,785**
Total Comprehensive Income and Expenditure	**(28,539)**	**(3,420)**	**0**	**0**	**0**	**(1,206)**	**(33,165)**	**8,688**	**97**	**8,785**	**(24,380)**
Adjustments between accounting basis & funding basis under regulations	789	2,978	0	(1,920)	0	(28)	**1,819**	(1,847)	28	**(1,819)**	**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	**(27,750)**	**(442)**	**0**	**(1,920)**	**0**	**(1,234)**	**(31,346)**	**6,841**	**125**	**6,966**	**(24,380)**
Transfers to/from Earmarked Reserves	17,494	442	31,680	0	(37,612)	(39)	**11,965**	(12,004)	39	**(11,965)**	**0**
(Increase)/Decrease in 2013/14	**(10,256)**	**0**	**31,680**	**(1,920)**	**(37,612)**	**(1,273)**	**(19,381)**	**(5,163)**	**164**	**(4,999)**	**(24,380)**
Balance at 31 March 2014	**(13,860)**	**0**	**(71,783)**	**(1,920)**	**(153,309)**	**(118,551)**	**(359,423)**	**(239,118)**	**1,497**	**(237,621)**	**(597,044)**

Group Movement in Reserves Statement 2012/13

	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 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 Comprehensive Income and Expenditure Account for year ended 31 March 2014

2012/13 Net Expenditure £000		2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000
42,009	Education Services	45,010	(4,371)	40,639
1,981	Housing Services	5,535	(3,737)	1,798
(2,066)	Housing Revenue Account	4,636	(7,319)	(2,683)
13,236	Cultural and Related Services	5,729	(909)	4,820
6,520	Environmental Services	7,651	(2,145)	5,506
2,191	Fire Services[a]	3	0	3
10,815	Roads and Transport Services	13,725	(3,186)	10,539
6,833	Trading Services	29,593	(18,759)	10,834
1,578	Police Services[a]	32	0	32
6,927	Planning and Development Services	8,044	(2,450)	5,594
37,541	Social Work	35,733	(7,350)	28,383
1,794	Central Services to the Public	2,704	8	2,712
8,707	Corporate and Democratic Core	6,836	(1,315)	5,521
833	Non Distributed Costs	1,615	0	1,615
7,171	Associates Accounted for on an Equity Basis	7,081	(2,944)	4,137
146,070	**Cost of Services**	**173,927**	**(54,477)**	**119,450**
119,975	Other operating expenditure			(485)
(21,279)	Financing and investment income and expenditure			(32,698)
(106,124)	Taxation and non-specific grant income			(113,803)
(6,067)	Share of (surplus) or deficit on provision of services by Associates			(5,629)
132,575	**(Surplus) or Deficit on Provision of Services**			**(33,165)**
	Amounts that will not be reclassified to the (Surplus) or Deficit on Provision of Services			
2,779	(Surplus) on revaluation of Property, Plant and Equipment assets			(28,289)
2,080	Amounts recycled from AFS reserve upon derecognition			31,440
24,952	Remeasurement of the net defined benefit liability			12,690
1,559	Share of other comprehensive income and expenditure of Associates and Joint Ventures			97
31,370				**15,938**
	Amounts that will not be reclassified to the (Surplus) or Deficit on Provision of Services			
(26,493)	(Surplus) on revaluation of available for sale financial assets			(7,153)
(26,493)				**(7,153)**
4,877	**Other Comprehensive Income and Expenditure**			**8,785**
137,452	**Total Comprehensive Income and Expenditure**			**(24,380)**

Notes:

a) Police and Fire and Rescue Services transferred to the Scottish Government on 1 April 2013.

Group Balance Sheet as at 31 March 2014

31 March 2013 £000	Transfer of Police and Fire & Rescue balances £000	Adjusted Opening Balances 1 April 2013 £000		Notes	31 March 2014 £000
371,936		371,936	Property, Plant and Equipment		401,012
4,756		4,756	Heritage Assets		4,743
7,905		7,905	Intangible Assets	3	6,912
205,900		205,900	Long-term Investments	4	203,592
105,436		105,436	Investment in Associates		106,876
3,537		3,537	Long-term Loans	4	3,534
3		3	Other Long-term Debtors		5,054
699,473		**699,473**	**Long-Term Assets**		**731,723**
736		736	Assets Held for Sale		875
5,141		5,141	Inventories		5,372
12,903		12,903	Short-term Debtors	5	20,644
7,317		7,317	Cash and Cash Equivalents	6	11,920
26,097		**26,097**	**Current Assets**		**38,811**
(18,058)		(18,058)	Short-term Creditors	7	(17,078)
(95)		(95)	Provisions		(192)
(18,153)		**(18,153)**	**Current Liabilities**		**(17,270)**
0		0	Provisions		(810)
(4,663)		(4,663)	Finance Lease Liability		(6,089)
(129,250)		(129,250)	Pension Liability		(148,562)
(32,015)	31,333	(682)	Liabilities in Associates/Joint Ventures		(727)
(158)		(158)	Other Long-term Liabilities		(32)
(166,086)	**31,333**	**(134,753)**	**Long-Term Liabilities**		**(156,220)**
541,331	**31,333**	**572,664**	**Net Assets**		**597,044**
(340,041)		(340,041)	Usable Reserves		(359,423)
(201,290)	(31,333)	(232,623)	Unusable Reserves		(237,621)
(541,331)	**(31,333)**	**(572,664)**	**Total Reserves**		**(597,044)**

Group Cash Flow Statement for the year ended 31 March 2014

2012/13 £000		2013/14 £000	2013/14 £000
	OPERATING ACTIVITIES		
19,808	Net (surplus) or deficit on the provison of services	(31,673)	
(15,237)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 10)	(8,898)	
9,344	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 10)	46,777	
13,915	**Net cash flows from Operating Activities**	**6,206**	
4,142	Investing Activities (Note 11)	(11,852)	
23	Financing Activities (Note 12)	1,043	
18,080	**Net (increase) or decrease in cash and cash**		**(4,603)**
25,397	Cash and Cash Equivalents at 1 April		7,317
(18,080)	Net movement of Cash and Cash Equivalents during the year		4,603
7,317	**Cash & Cash Equivalents at 31 March**		**11,920**

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 Orkney & Shetland Valuation Joint Board (OS&VJB) and the Shetland Charitable Trust (SCT) as associates.

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 49.2% of the Board's operating costs (51.3% in 2012/13) and its share of the year-end net liability of £0.727m (£0.683m in 2012/13) 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:

	2012/13 £000	2013/14 £000
Gross Income	(316)	(316)
Gross Expenditure	422	361
Net (Surplus)/Deficit	106	45
Non-Current Assets	0	0
Current Assets	2	13
Current Liabilities	(5)	(18)
Non-Current Liabilities	(680)	(722)
Capital and Reserves	683	727

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2014 (2013: 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:

	2012/13 £000	2013/14 £000
Gross Income	(27,956)	6,880
Gross Expenditure	139,398	(8,320)
Net (Surplus)/Deficit	111,442	(1,440)
Non-Current Assets	103,339	103,687
Current Assets	4,522	4,914
Current Liabilities	(1,641)	(887)
Non-Current Liabilities	(784)	(838)
Capital and Reserves	(105,436)	(106,876)

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

3) Group Intangible Assets

Group 31 March 2013 £000		Group 31 March 2014 £000
	Balance at start of year:	
20,846	Gross carrying amounts	21,076
(12,060)	Accumulated amortisation	(13,171)
8,786	**Net carrying amount at start of year**	**7,905**
230	Purchases	24
(1,111)	Amortisation for the period	(1,010)
0	Other changes	(7)
7,905	**Net carrying amount at end of year**	**6,912**

Included in the group intangible assets is a Fish Quota for £6.070m and a Fishing Boat Licence for £0.267m both relating to Shetland Development Trust. The costs of these assets are amortised over a period of 20 years, being their estimated useful lives.

4) Group Financial Assets

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

Group			Group	
Long-Term	Current		Long-Term	Current
31 March 2013 £000	31 March 2013 £000		31 March 2014 £000	31 March 2014 £000
		Financial Assets:		
		Investments:		
205,732	0	Available for sale financial assets	203,483	0
168	0	Unquoted equity investment at cost	109	0
205,900	**0**	**Total Investments**	**203,592**	**0**
		Debtors:		
3,537	945	Loans and receivables	3,534	1,274
3,537	**945**	**Total Debtors**	**3,534**	**1,274**

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 31/03/2014	5,496	2,938
Total provision at 31/03/14	(5,387)	(1,530)
Net Value	**109**	**1,408**

5) Group Short-Term Debtors

Group 31 March 2013 £000		Group 31 March 2014 £000
2,017	Central Government Bodies	7,117
2,494	Other Local Authorities	2,625
74	NHS Bodies	175
1,184	Public Corporations and Trading Funds	1,241
7,134	Other Entities and Individuals	9,486
12,903	**Total**	**20,644**

6) Group Cash and Cash Equivalents

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

Group 31 March 2013 £000		Group 31 March 2014 £000
28	Cash held by the Authority	42
7,288	Bank current accounts	11,878
1	Short-term certificates of deposit	0
7,317	**Total**	**11,920**

7) Group Short-Term Creditors

Group 31 March 2013 £000		Group 31 March 2014 £000
(3,206)	Central Government Bodies	(3,344)
(2,752)	Other Local Authorities	(2,819)
(73)	NHS Bodies	(135)
(686)	Public Corporations and Trading Funds	(574)
(11,341)	Other Entities and Individuals	(10,206)
(18,058)	**Total**	**(17,078)**

8) Financial Impact

The inclusion of the four 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 £597.044m is an increase of £117.054m from the Council's net worth of £479.990m. This is mainly due to the inclusion of the Shetland Charitable Trust that added £106.876m to the balance sheet.

9) 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.

10) Cash Flow - Operating Activities

Cash flows for operating activities include the following:

31 March 2013 £000		31 March 2014 £000
(212)	Interest received	(131)
(2,037)	Dividends received	(2,124)
(2,249)	**Total**	**(2,255)**

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

31 March 2013 £000		31 March 2014 £000
(14,592)	Depreciation	(13,995)
(1,459)	Impairment and downward valuations	(738)
(1,112)	Amortisation	(1,010)
269	(Increase)/decrease in impairment for bad debts	569
4,295	(Increase)/decrease in creditors	1,156
(210)	Increase/(decrease) in debtors	12,792
240	Increase/(decrease) in inventories	231
(1,065)	Movement in pension liability	(6,622)
(942)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(1,000)
(661)	Other non-cash items charged to the net surplus or deficit on the provision of services	(281)
(15,237)	**Total**	**(8,898)**

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

31 March 2013 £000		31 March 2014 £000
2,420	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	36,576
938	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,485
5,986	Any other items for which the cash effects are investing or financing cash flows	8,716
9,344	**Total**	**46,777**

11) Cash Flow - Investing Activities

31 March 2013 £000		31 March 2014 £000
14,059	Purchase of property, plant and equipment, investment property and intangible assets	13,006
4,579	Purchase of short-term and long-term investments	3,884
(938)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,485)
(18,552)	Proceeds from short-term and long-term investments	(18,494)
4,994	Other receipts from investing activities	(8,763)
4,142	**Total**	**(11,852)**

12) Cash Flow - Financing Activities

31 March 2013 £000		31 March 2014 £000
23	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,043
23	**Total**	**1,043**

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 2014 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 Accounts, 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 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 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 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

David McConnell, CPFA
Assistant Director
Audit Scotland
4th Floor
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 2013/14 audit

AUDIT SCOTLAND

Prepared for the Audit Committee
September 2014

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 Committee's consideration the matters arising from the audit of the financial statements for 2013/14 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 4 September 2014.

4. We received the unaudited financial statements on 18 June 2014 which was in advance of the agreed timetable of 30 June. 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 2014.

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 Committee on 20 February 2014, 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 2013/14 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 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 23 September 2014 (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.

11. To comply with new LASAAC guidance on accounting for asset decommissioning obligations the 2013/14 financial statements include a provision of £810k for future landfill decommissioning costs. No material issues were identified regarding the accounting treatment of these costs.

12. One monetary error of £11k was identified which was not processed through the financial statements by management. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were not material to the financial statements. The effect of this unadjusted error is detailed in Appendix C.

13. 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

14. 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

15. 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. There were no significant issues identified regarding these matters.

Outstanding matters

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

17. **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

18. 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 2014 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 Accounts, 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 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 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 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

David McConnell, CPFA

Assistant Director

Audit Scotland

4th Floor

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 2013/14

This representation letter is provided in connection with your audit of the financial statements of Shetland Islands Council for the year ended 31 March 2014 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 2014 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 2014.

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 2013/14 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 2014.

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 2013/14.

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 2013/14.

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 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2014, 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.

Infrastructure Support Funding

During 2013/14 the UK government agreed to provide £10 million over 2 years to the council to support infrastructure development. I confirm that the expenditure to which this funding relates has already been incurred by the council and therefore this funding has been properly accounted for as income in the year.

Assets

The assets shown in the Balance Sheet at 31 March 2014 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 2014.

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 2013/14. 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 2014 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 2014.

Inventories

All inventories are included in the Balance Sheet at the lower of cost (based on average prices) 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. All obsolete, damaged or unusable inventory has been written-off during the year.

Yours sincerely

James Gray, Executive Manager - Finance

Section 95 Officer

Appendix C: Non-Adjusted Errors -

Non-Adjusted Errors within the 2013/14 Financial Statements

Below is a summary of the non-adjusted error which has not been processed in the financial statements, with an explanation.

Narrative	DR £000	CR £000
Statement of Comprehensive Net Expenditure		
Other Operating Income & Expenditure		11
Revaluation of PPE	11	
Statement of Financial Position		
Revaluation Reserve	9	
Capital Adjustment Account		9
Movement In Reserves Statement		
Surplus on Provision of Services		11
Other Operating Income & Expenditure	11	
Totals		

Agenda Item
2

Shetland Islands Council

Special Audit Committee	**23 September 2014**
Special Shetland Islands Council	**23 September 2014**
Pension Fund Consultative Panel	**(Date to be set)**

Pension Fund Final Audited Accounts 2013/14	
F-047-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 2013/14 and to receive Audit Scotland's report to those charged with governance on the 2013/14 audit.

2.0 Decision Required

2.1 The Audit Committee and Pension Fund Consultative Panel are asked to consider, and the Council is asked to APPROVE:

a) the final signed and audited Pension Fund accounts for 2013/14; and

b) Note Audit Scotland's report to those charged with governance on the 2013/14 audit.

3.0 Detail

3.1 Audit Scotland's overall conclusion on the 2013/14 financial statements is that they:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the financial transactions of the Pension Fund during the year ended 31 March 2014, 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 2013/14 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.

3.2 Audit Scotland will be issuing an unqualified audit opinion of the 2013/14 Pension Fund accounts.

3.3 The Annual Audit Plan requires the Council to receive the Annual Report and Accounts of the Pension Fund by December 2014.

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 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 2014.

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

<u>List of Appendices</u>

Appendix 1: Pension Fund Final Audited Accounts 2013/14.

Appendix 2: Pension Fund report to those charged with governance on the 2013/14 audit by Audit Scotland.

END

Shetland Islands Council

Pension Fund
Annual Report and Accounts
2013-14

Securing the Best for Shetland

Contents

Page

Inside cover photograph of Crofthouse Museum, Dunrossness by Andrew J Shearer

Foreword

Introduction

Welcome to the Annual Report and Accounts for the Shetland Islands Council Pension Fund for the year ended 31 March 2014.

The Local Government Pension Scheme (Scotland Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulations 2010) requires the Council, as administering authority of the Pension Fund, to prepare a separate 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 17)
The Fund Account is the revenue account of the Pension Fund, and 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 18)
The Net Assets Statement discloses the size and type of net assets of the scheme at the end of the financial year.

These statements do not take account of the obligations to pay pensions and benefits, which fall due after the end of the year. 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.

Valuation and Membership

At 31 March 2014, the value of the Fund stood at £333m, an increase of £27m on the previous year. The increase in value of the fund is predominately investment gains and also through excess employer and employee contributions over benefit payments.

The Pension Fund membership increased during the financial year by 248 to 5,805 members. This increase in members is due to pensioner and deferred members increasing while employee members reduced slightly.

Future Influences

Administration

Reform of the Local Government Pension Scheme in Scotland has been finalised. The new Scheme will commence on 1 April 2015 and will meet the conditions laid down by recent legislation on public sector pensions.

The key changes are:

- A move to benefits being worked out using career average related earnings (CARE) rather than final salary.
- Pension being built up at a rate of 1/49th of annual pensionable pay.

- Member's normal retirement age being linked to their own State Pension Age. Members will still be able to retire any time from age 60 but a reduction for early payment may apply.
- Protection of benefits for members age 55 and over at 1 April 2012 who will be guaranteed that their benefits will not be less than they would have been if the 2015 scheme had never been introduced.
- Benefits built up before April 2015 will continue to be calculated using actual final pensionable pay at date of leaving.

The move towards a CARE Scheme is going to have significant implications for the Fund in relation to the transition to and administration of a new a scheme, as well as implications in relation to the Fund's assets, liabilities and future funding requirements. A cost control mechanism is to be developed to make sure the Scheme remains affordable and sustainable in the future.

Pension 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.

Investments

The Shetland Islands Council approved a new Pension Fund investment strategy on the 17th March 2014. This new strategy is focusing on improving the funding position, with an aim of achieving a 100% funding position before employer and employee contributions match pension benefits payable.

The new strategy requires the allocation of three new investment mandates to complement the existing two mandates. These mandates will be in active equities, a diversified growth fund and an alternative credit fund. It is anticipated that the new strategy will be in place by the end of the 2014/15 financial year.

Acknowledgement

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 2014

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, makes comments and 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, union, 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 Executive Committee was renamed the Policy and Resources Committee on the 14th May 2014.

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 positions. 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 2014 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 2014 the Fund had a return of 6.5% compared to the benchmark return of 6.7%.

The Pension Fund's investment return for the financial year to 31 March 2014 is shown for each investment area in the following table:

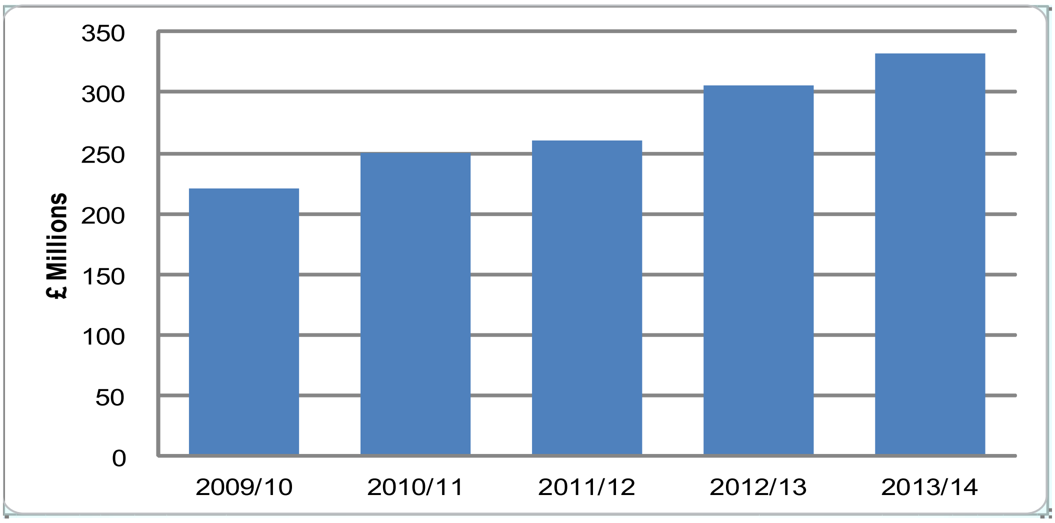
Asset Class	Asset Allocation %	Investment Return 2013/14 %
UK Equities	39	8.8
North America	9	10.3
Continental Europe	13	17.3
Japan	9	-1.6
Total Pacific (ex Japan)	9	-5.8
UK Government Bonds	5	-3.8
Corporate Bonds	5	-2.6
Cash	4	0.4
Property	7	14.0
Total	100	6.5

The total investment return of 6.5% for 2013/14 is calculated from a combination of the quarterly investment returns during 2013/14. 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:

	2009/10 %	2010/11 %	2011/12 %	2012/13 %	2013/14 %	3 Year Annualised %	5 Year Annualised %
Fund Return	39.7	6.5	0.9	15.0	6.5	7.3	12.9
Benchmark	38.8	7.3	1.3	14.6	6.7	7.4	13.0
Performance	0.9	-0.8	-0.4	0.4	-0.2	-0.1	-0.1

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 Islands 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), a Union Representative, a pensioner and a 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.

Investment Strategy Review

The Shetland Islands Council approved a new Pension Fund investment strategy on the 17th March 2014. This new strategy is focusing on improving the funding position, with an aim of achieving a 100% funding position before employer and employee contributions match pension benefits payable.

The new strategy requires the allocation of three new investment mandates to complement the existing two mandates. These mandates will be in active equities, a diversified growth fund and an alternative credit fund. It is anticipated that the new strategy will be in place by the end of the 2014/15 financial year.

The investment strategy review was carried out by the Pension Fund's investment consultants Hymans Robertson. They are also conducting the three tender exercises in conjunction with the Council's Finance Service.

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* The Executive Committee was renamed the Policy and Resources Committee on the 14th May 2014.

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. Considerable work has been undertaken in relation to improving the financial governance framework and ensuring that the Council's arrangements comply with the regulations of CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

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;
- 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 are externally audited and assessed on an annual basis).

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 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: i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	i) Yes ii) Yes 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 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 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 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 Policy and Resources Committee (previously named 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 that 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.	Lay members are included in formal governance arrangements.
Access	
That subject to any rules in the Council's 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 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 2014

……………………………….
James Gray

Executive Manager – Finance

Date: 23 September 2014

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 2014.

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

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Pension Fund Account 2013/14

2012/13 £000		Notes	2013/14 £000	2013/14 £000
	Dealings with members, employers and others directly involved in the scheme			
(17,323)	Contributions	7	(17,623)	
(762)	Transfers in from other pension funds	8	(1,477)	
(27)	Other income		(28)	
(18,112)				(19,128)
10,209	Benefits payable	9	11,887	
624	Payments to and on account of leavers	10	189	
207	Administrative expenses	11	242	
3	Other payments		6	
11,043				12,324
(7,069)	**Net (additions)/withdrawals from dealing with members**			(6,804)
	Returns on investments			
(849)	Investment income	12	(935)	
(38,600)	(Profits) and losses on disposal of investments and change in market value of investments	15b	(19,407)	
442	Investment management expenses	13	462	
(39,007)	**Net returns on investments**			(19,880)
(46,076)	**Net (increase)/decrease in the net assets available for benefits during the year**			(26,684)

Net Assets Statement as at 31 March 2014

2012/13 £000		Notes	2013/14 £000	2013/14 £000
294,661	Investment Assets	14	318,840	
10,610	Cash Deposits	14	13,139	
305,271				331,979
1,868	Current Assets	19		2,142
(924)	Current Liabilities	20		(1,222)
306,215	**Net assets of the fund available to fund benefits at the period end**			332,899

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 2014.

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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 benefit 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 2013		Shetland Islands Council Pension Fund	31 March 2014	
	19	Number of employers with active members		19
		Number of employees in scheme		
2,507		Shetland Islands Council	2,455	
351		Other employers	360	
	2,858	**Total**		**2,815**
		Number of pensioners/dependants		
1,187		Shetland Islands Council	1,337	
80		Other employers	93	
	1,267	**Total**		**1,430**
		Deferred pensioners		
1,221		Shetland Islands Council	1,334	
211		Other employers	226	
	1,432	**Total**		**1,560**
	5,557	**Scheme Total**		**5,805**

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 2014. 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. 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. 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 2013/14 financial year and its position at year-end as at 31 March 2014. 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 2013/14 are:

- IAS 32 Financial Instruments: Presentation (as amended in December 2011)
- Annual Improvements to IFRS 2009-2011 Cycle

There should be no material impact of not adopting these standards in 2013/14. These will be adopted in the 2014/15 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 2014 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 £47.820m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £17.706m, and a one-year increase in assumed life expectancy would increase the liability by approximately £13.233m.

6. Events after the Balance Sheet Date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category

31 Mar 2013 £000		31 Mar 2014 £000
(13,168)	Employers - normal	(12,904)
(328)	Employers - augmentation	(1,021)
(3,827)	Members - normal	(3,698)
(17,323)	**Total**	**(17,623)**

By authority

31 Mar 2013 £000		31 Mar 2014 £000
(15,094)	Administering authority	(15,340)
(120)	Scheduled bodies	(119)
(2,109)	Admitted bodies	(2,164)
(17,323)	**Total**	**(17,623)**

8. Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 Mar 2013 £000		31 Mar 2014 £000
(762)	Individual transfers in	(1,477)
(762)	**Total**	**(1,477)**

The Pension Fund received 51 transfers in during 2013/14 with an average value of £29,000 compared to 42 transfers in during 2012/13 with an average value of £18,000.

9. Benefits Payable

By category

31 Mar 2013 £000		31 Mar 2014 £000
7,144	Pensions	7,858
2,745	Commutation and lump sum retirement benefits	3,765
320	Lump sum death benefits	264
10,209	**Total**	**11,887**

By authority

31 Mar 2013 £000		31 Mar 2014 £000
9,408	Administering authority	10,918
69	Scheduled bodies	71
732	Admitted bodies	898
10,209	**Total**	**11,887**

10. Payments to and on Account of Leavers

31 Mar 2013 £000		31 Mar 2014 £000
14	Refunds to members leaving service	23
11	Payments for members joining state scheme	48
599	Individual transfers	118
624	**Total**	**189**

11. Administrative Expenses

31 Mar 2013 £000		31 Mar 2014 £000
121	Staff time allocations	140
49	Support services and system costs	61
1	Printing and publications	5
3	Governance costs	0
1	Actuarial fees	4
32	External audit fees	32
207	**Total**	**242**

12. Investment income

31 Mar 2013 £000		31 Mar 2014 £000
(668)	Pooled property unit trusts - UK	(749)
(72)	Pooled property unit trusts - Overseas	(81)
(57)	Interest on cash deposits	(58)
(52)	Other	(47)
(849)	**Total**	**(935)**

13. Investment Expenses

31 Mar 2013 £000		31 Mar 2014 £000
208	Management fees	229
163	Unit trust manager charges	123
35	Custody fees	30
33	Performance monitoring service	48
3	Actuarial fees - investment consultancy	3
0	Consultancy costs	29
442	**Total**	**462**

14. Investments

Market Value 31 Mar 2013 £000		Market Value 31 Mar 2014 £000
	Investment assets	
249,810	Pooled funds	267,813
25,446	Fixed income unit trusts	29,575
19,378	Pooled property unit trusts	21,431
10,610	Cash deposits	13,135
27	Property income due	21
0	Cash income due	4
305,271	**Total investment assets**	**331,979**

14a. Reconciliation of movements in investments

	Market Value 01/04/2013 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2014 £000
Investment assets					
Pooled funds	249,810	8,760	(9,047)	18,290	267,813
Fixed income unit trusts	25,446	4,219	0	(90)	29,575
Pooled property unit trusts	19,378	1,965	(1,119)	1,207	21,431
	294,634	14,944	(10,166)	19,407	318,819
Property income due	27				21
	294,661				318,840
Other investment balances:					
Cash deposits	10,610				13,135
Cash income due	0				4
Net investment assets	**305,271**	**14,944**	**(10,166)**	**19,407**	**331,979**

	Market Value 01/04/2012 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2013 £000
Investment assets					
Pooled funds	208,266	4,465	(267)	37,346	249,810
Fixed income unit trusts	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
Property income due	17				27
	249,129				294,661
Other investment balances:					
Cash deposits	10,562				10,610
Cash income due	5				0
Net investment assets	**259,696**	**9,980**	**(3,058)**	**38,600**	**305,271**

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

14b. Analysis of investments

31 Mar 2013 £000		31 Mar 2014 £000
	Additional analysis	
122,169	Pooled funds (UK)	131,983
127,641	Pooled funds (Overseas)	135,830
13,332	Fixed income unit trusts (UK bonds)	14,930
12,114	Fixed income unit trusts (UK corp bonds)	14,645
16,265	Pooled property unit trust (UK)	18,689
3,113	Pooled property unit trust (Overseas)	2,742
294,634	**Total investment assets**	**318,819**

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

Market Value 31 Mar 2013 £000	%		Market Value 31 Mar 2014 £000	%
284,971	93	BlackRock	309,724	93
20,300	7	Schroders	22,255	7
305,271			**331,979**	

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

Market Value 31 Mar 2013 £000	%		Market Value 31 Mar 2014 £000	%
40,742	13.3	BlackRock Europe ex UK index	43,926	13.2
28,908	9.5	BlackRock Japan index	29,304	8.8
29,335	9.6	BlackRock North American index	32,139	9.7
28,656	9.4	BlackRock Pacific Rim index	30,460	9.2
121,957	40.0	Aquila Life UK equity index	131,953	39.7

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 2013				31 Mar 2014		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
249,810	-		Pooled funds	267,813	-	
25,446	-		Fixed income unit trusts	29,575	-	
19,378	-		Pooled property unit trusts	21,431	-	
-	11,160		Cash	-	13,819	
27	-		Property income due	21	-	
-	1,318		Debtors	-	1,429	
294,661	**12,478**	**0**		**318,840**	**15,248**	**0**
			Financial liabilities			
-	-	(924)	Creditors	-	-	(1,222)
0	**0**	**(924)**		**0**	**0**	**(1,222)**
294,661	**12,478**	**(924)**		**318,840**	**15,248**	**(1,222)**

15b. Net gains and losses on financial instruments

31 Mar 2013 £000		31 Mar 2014 £000
	Financial assets	
(38,600)	Fair value through profit and loss	(19,407)
(38,600)	**Total**	**(19,407)**

15c. Value of financial instruments

31 Mar 2013			31 Mar 2014	
Book value £000	Market value £000		Book value £000	Market value £000
		Financial assets		
187,608	294,661	Fair value through profit and loss	195,890	318,840
187,608	**294,661**	**Total**	**195,890**	**318,840**

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 2014/15 reporting period:

Pooled fund (UK)	12.10%
Pooled funds (Overseas)	11.74%
Fixed income unit trust (UK bonds)	5.41%
Fixed income unit trust (UK corp bonds)	5.28%
Pooled property unit trusts (UK)	2.07%
Pooled property unit trust (Overseas)	8.85%
Cash	0.02%

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 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and cash equivalents	13,135	0.02%	13,138	13,132
Investment portfolio assets:				
Pooled funds (UK)	131,983	12.10%	147,953	116,013
Pooled funds (Overseas)	135,830	11.74%	151,776	119,884
Fixed income unit trust (UK bonds)	14,930	5.41%	15,738	14,122
Fixed income unit trust (UK corp bonds)	14,645	5.28%	15,418	13,872
Pooled property unit trusts (UK)	18,689	2.07%	19,076	18,302
Pooled property unit trusts (Overseas)	2,742	8.85%	2,985	2,499
Investment income due	25	0.00%	25	25
Total assets	**331,979**		**366,109**	**297,849**

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£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
Investment income due	27	0.00%	27	27
Total assets	**305,271**		**339,524**	**271,018**

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 2013 and 31 March 2014 are set out below:

31 Mar 2013 £000		31 Mar 2014 £000
	Asset type	
10,610	Cash and cash equivalents	13,139
550	Cash balances	680
11,160	**Total**	**13,819**

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 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	13,139	131	(131)
Cash balances	680	7	(7)
Total change in assets available	**13,819**	**138**	**(138)**

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)**

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 2014 and as at the previous period end:

31 Mar 2013 £000		31 Mar 2014 £000
	Asset type	
127,641	Pooled Funds - overseas equities	135,830
3,113	Pooled Property Unit Trusts - overseas	2,742
130,754	**Total**	**138,572**

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 5.07%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 5.07% 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 2014	Change to net assets available to pay benefits	
		+5.07%	-5.07%
	£000	£000	£000
Pooled Funds - overseas equities	135,830	142,717	128,943
Pooled Property Unit Trusts - overseas	2,742	2,881	2,603
Total change in assets available	**138,572**	**145,598**	**131,546**

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**

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 laced 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 2014 was £13.819m (31 March 2013: £11.160m). This was held with the following institutions:

31 Mar 2013 £000		31 Mar 2014 £000
	Fund manager deposits	
9,891	BlackRock - Liquidity Heritage Fund	12,364
683	Schroders cash	772
36	BlackRock cash	3
	Bank current accounts	
550	Bank of Scotland Plc	680
11,160	**Total**	**13,819**

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 into cash. As at 31 March 2014 the value of illiquid assets was £21.4m, which represented 6.7% of the Fund assets (31 March 2013: £19.4m, which represented 6.6% 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.

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 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 method 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 pay growth was assumed to be 1% p.a. for 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 2013	year of birth, medium cohort and 1% p.a. minimum improvements from 2008	year of birth, medium cohort and 1% p.a. minimum improvements from 2008

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 2014 was £478 million (31 March 2013: £432 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 2013 % p.a.	Year ended	31 March 2014 % p.a.
2.8%	Inflation/pension increase rate	2.8%
5.1% *	Salary increase rate	5.1%
4.5%	Discount rate	4.3%

*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 2013 £000		31 Mar 2014 £000
	Debtors:	
311	• Contributions due - employees	307
965	• Contributions due - employers	1,059
35	• Transfer values receivable	59
7	• Sundry debtors	4
0	Prepayments	33
550	Bank current accounts	680
1,868	**Total**	**2,142**

The significant majority of debtors are other local authorities.

Analysis of debtors

31 Mar 2013 £000		31 Mar 2014 £000
9	Central government bodies	15
1,105	Other local authorities	1,184
204	Other entities and individuals	230
1,318	**Total**	**1,429**

20. Current Liabilities

31 Mar 2013 £000		31 Mar 2014 £000
(104)	Sundry creditors	(203)
(820)	Benefits payable	(1,019)
(924)	**Total**	**(1,222)**

Analysis of creditors

31 Mar 2013 £000		31 Mar 2014 £000
(1)	Central government bodies	(2)
(616)	Other local authorities	(729)
(32)	Public corporations and trading funds	(22)
(275)	Other entities and individuals	(469)
(924)	**Total**	**(1,222)**

21. Unfunded Pension

31 Mar 2013 £000		31 Mar 2014 £000
631	Added years pension	672

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 2013 £000		31 Mar 2014 £000
4,067	Prudential	4,040
107	Equitable Life	86
4,174	**Total**	**4,126**

AVC contributions of £0.484m were paid directly to Prudential during the year (2012/13 £0.598m).

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 £0.210m (2012/13 £0.175m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The investments of the Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations. Costs incurred were £0.017m (2012/13 £0.016m) in relation to investment of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council incurred costs of £7.858m (2012/13 £7.144m) in relation to pensioner payments, which was subsequently reimbursed by the Fund.

In addition the Council is the single largest employer of Pension Fund members, and contributed £12.212m to the Fund (2012/13 £11.830m).

All monies owed to the Council, and due from the Pension Fund to the Council, 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 2013/14

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 2013/14.

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

Experience has been poorer than expected since the 2011 valuation (excluding the effect of any membership movements). Real bond yields have fallen considerably, leading to an increase in liabilities. This has been partially offset by stronger than expected asset returns meaning that the funding level is likely to have fallen since the 2011 valuation.

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
2 June 2014

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 2014 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 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the financial transactions of the fund during the year ended 31 March 2014, 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 2013/14 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 matter

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, CPFA September 2014
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
G2 1BT

Contact Details

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Shetland Islands Council Pension Fund

Report to those charged with governance on the 2013/14 audit

AUDIT SCOTLAND

Prepared for members of Shetland Islands Council Pension Fund
September 2014

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 Committee's consideration, matters arising from the audit of the financial statements for 2013/14 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 4 September 2014.

4. We received the unaudited financial statements on 19 June 2014, 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 2014.

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 Committee on 20 February 2014 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 2013/14 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 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 23 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 2014 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 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the financial transactions of the fund during the year ended 31 March 2014, 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 2013/14 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 matter

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, CPFA

Assistant Director

Audit Scotland

4th Floor, South Suite

The Athenaeum Building

8 Nelson Mandela Place

G2 1BT

September 2014

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 2013/14

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 2014 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 2014, 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 2014.

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 2013/14 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 2014.

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 2013/14.

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 2014 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 2013/14.

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 2014

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
3

Shetland Islands Council

Special Audit Committee	**23 September 2014**
Special Shetland Islands Council	**23 September 2014**

Final Audited Zetland Educational Trust Annual Report and Financial Statements to 31 March 2014	
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 Zetland Educational Trust Annual Report and Financial Statements to 31 March 2014, and to note and to receive Audit Scotland's Annual Report on the 2013/14 Audit.

2.0 Decision Required

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

a) The final signed and audited Annual Report and Financial Statements for the Zetland Educational Trust for 2013/14; and

b) Note Audit Scotland's report to those charged with governance on the 2013/14 Audit.

3.0 Detail

3.1 The Office of the Charities Regulator (OSCR) requires the Council to produce Accounts and an Annual Report for all charities which it administers and submit these within 9 months of the financial year-end. The Audited Annual Report and Financial Statements for the Zetland Educational Trust have been appended to this report at Appendix 1.

3.2 The Accounts have been prepared by staff in Finance Services, in accordance with the 2005 Charities Statement of Recommended Practice (SORP) and the Charities Accounts (Scotland) Regulations 2006.

3.3 This is the first full audit of the Annual Report and Financial Statements by Audit Scotland. Previously an Independent Examination has been sufficient.

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 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 submit to OSCR the Annual Report and Financial Statements in respect of the charities which it administers, within nine months of the end of the financial year. The accounts for Zetland Educational Trust are subject to external audit and currently Audit Scotland is the Council's nominated auditors. Audit Scotland has now confirmed that the accounts give a correct financial position at 31 March 2014.

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For further information please contact:
James Gray **Executive Manager -Finance**
Email: james.gray2@shetland.gov.uk
Telephone: 01595 744607

List of Appendices

Appendix 1: Zetland Educational Trust Annual Report and Accounts 2013/14

Appendix 2: Zetland Educational Trust report to those charged with governance on the 2013/14 audit by Audit Scotland.

Background documents:

Scottish Charity Accounts – An updated guide to the 2006 Regulations
http://www.oscr.org.uk/managing-your-charity/charity-accounting/#Scottish Charity Accounting
END

Zetland Educational Trust Schemes 1961 to 1965

Scottish Charity No SC001146

Annual Report & Financial Statements

For the Year Ended 31 March 2014

(Audited)

Contents

Trustee's Annual Report
For the Year Ended 31 March 2014

The trustee has pleasure in presenting this report together with the financial statements and the independent examiner's report for the year ended 31 March 2014.

Reference & Administration Information

Charity Name - Zetland Educational Trust Schemes 1961 to 1965 known as Zetland Educational Trust and sometimes referred to as ZET.

Charity No – SC001146

Address – Office Headquarters, 8 North Ness Business Park, Lerwick, Shetland, ZE1 0LZ

Current Trustee
Shetland Islands Council

Structure Governance & Management

Constitution
The Zetland Educational Trust, as currently constituted, was formed in 1961 (and amended in 1965) by the amalgamation of a number of bequests.

Trustee
The trustee is Shetland Islands Council, the local authority for the Shetland Islands area.

Management
The elected members are responsible for any major decisions relating to the Trust.

Authority to award grants has been delegated to the education service. The nominated officer is the Executive Manager – Quality Improvement.

The Executive Manager – Quality Improvement has the power to authorise expenditure within the limits of the income of the Trust. Nominated staff within the Schools Service are then responsible for the day-to-day administration of the funds.

Objectives & Activities

Charitable Purposes
The purpose of the Trust is educational in nature, to enhance the educational benefit of people belonging to Shetland.

The Zetland Educational Trust comprises of a number of endowments as specified in the Zetland Educational Trust schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland.

The Zetland Educational Trust will not generally cover activities where alternative sources of funding are available.

The Zetland Educational Trust will only provide a grant of 75% of total project costs unless under exceptional circumstances, the remainder of project costs to be met by fundraising activities or in-kind support. The Trust will not give funds retrospectively.

The Trust aims to support a wide range of beneficiaries with smaller sums (e.g. £200-£2000) of money that will allow projects to happen that wouldn't otherwise be able to take place. The Trust will also consider larger projects where it is thought the overall educational benefits would make a real difference to the enhancement of education in Shetland. The amount of monies available through the ZET will vary year on year depending on interest generated on funds held. Projects that are considered to be innovative and make creative use of resources as well as being new will be viewed favourably. All applications are expected to be of a certain quality and will be judged by the ZET management group on their own merit. The final decision rests with the Executive Manager – Quality Improvement.

The Trust will fund projects that fall under the following headings:

Educational Excursions
The Trust may provide assistance to meet the costs of organised educational excursions for the benefit of pupils attending school centres in Shetland. Suitable excursions may include visits to places of historical interest, museums, art galleries, zoological gardens, workshops, exhibitions, and any other places and also attendance at lectures, concerts, performances and displays. The pupils and young persons should derive some educational benefit from attending the excursion.

Special Equipment
The Trust may fund improving education by providing or assisting to provide special equipment which is in addition to what the local authority may reasonably be expected to supply.

Promotion of Ability and Skill in Swimming
The Trust may spend money for the promotion and encouragement of swimming among pupils in Shetland by organised instruction, meeting travelling and other expenses of teams, paying fees, travelling expenses and personal expenses of instructors and other methods as appear appropriate.

Promotion of Knowledge of Shetland
The Trust may spend money in promoting a knowledge of Shetland, its character, its skills and its arts among persons being educated in Shetland by, for example, assisting to establish and maintain a museum at a suitable centre in Shetland, assisting to meet the costs of making films designed to develop the knowledge of Shetland and any other methods as appear appropriate.

Educational Experiments and Research
The Trust may spend money providing assistance to bodies and persons approved by them to undertake educational experiments and research, including archaeological research which, in the opinion of the Trust, will be for the educational benefit of persons in Shetland.

Application Process
Applications are invited on an annual basis from individuals, schools and other educational organisations operating in Shetland.

Monitoring Process
A project evaluation form is completed by those receiving an award, giving a summary of how the money was spent and how the award benefited the school/group/etc. Any funding not utilised as specified is repaid.

Achievements & Performance
During the year thirteen bursaries were disbursed to university students to support their studies. These are issued in the name of the original donors E. & M. Gair and Arthur Anderson. There are currently eight and five recipients respectively with payments in the year totalling £2,600.

The Trust also provides grants for projects of a general educational nature, in line with the objectives set out above. In the year ended 31 March 2014 this totalled £15,242 (2013: £14,015).

A breakdown of the total expenditure on grants and donations of £17,842 (2013: £16,215) is shown at Note 4.

Financial Review

The Trust holds assets at 31 March 2014 of £659,286 (2013: £656,362).

In the year, the Trust earned £20,819 (2013: £20,978) from bank investments and made payments of £17,842 (2013: £16,215) on grants and donations. After expenses of £53 (2013: £52), the Trust's current account was left with a surplus/(deficit) in the year of (£17,076) due to £20,000 being transferred to a long term investment account (£2013: £4,711).

The only source of funding of the Trust is bank interest. In response to the low UK base rate, most of the Trust's cash is placed into fixed term investments. A 2-year fixed term account was set up in March 2012, this provides a guaranteed interest rate on the anniversary and at maturity. Thus ensuring that bursaries and grants are awarded within a known income.

Bursaries of £200 are awarded annually for university students, two in the name of E. & M. Gair and one in the name of Arthur Anderson. These continue to be awarded as the students progress through their degrees.

Any remaining interest will reflect the number and value of grants available to be paid during the year.

Reserves Policy
Revenue income not spent in the year, other than £600, is transferred to the capital of the Trust and is not available for distribution.

There is no charge made by the Council for work involved in the administration of the Trust.

Declaration

Approved by the trustee on 23 September and signed on its behalf by:

________________________________Dated :______________________________
James Gray MA (Hons) CPFA
Executive Manager - Finance

Statement of Receipts and Payments - For the Year Ended 31 March 2014

	Note	Unrestricted funds	Total 2014	Total 2013
		£	£	£
Receipts				
Income from bank investments		20,819	20,819	20,978
Total receipts		20,819	20,819	20,978
Payments				
Investment management costs	(5)	3	3	2
Independent Examiner's Fee		50	50	50
Grants and donations	(4)	17,842	17,842	16,215
Transfer to Investment		20,000	20,000	-
Total payments		37,895	37,895	16,267
Net receipts / (payments)		(17,076)	(17,076)	4,711
Surplus / (deficit) for year		(17,076)	(17,076)	4,711

Statement of Balances - As at 31 March 2014

Cash Funds	Unrestricted funds £	Total 2014 £	Total 2013 £
Cash and bank balances at start of year	26,362	26,362	21,651
Surplus / (deficit) shown on receipts and payments account	(17,076)	(17,076)	4,711
Cash and bank balances at end of year	9,286	9,286	26,362

Investments		Market valuation £	Last year £
Bank of Scotland - Fixed Term Deposit		650,000	630,000
	Total	650,000	630,000

Trust balances at 31 March 2014

		£	£
Cheque Account		9,286	26,362
Fixed Term Deposit		650,000	630,000
	Total	659,286	656,362

The Notes on page 7 form an integral part of these accounts

Approved by the trustee on 23 September and signed on its behalf by:

______________________________Dated :______________________________

James Gray MA (Hons) CPFA
Executive Manager - Finance

Notes to the Accounts – For the Year Ended 31 March 2014

1 Basis of Accounting
These accounts have been prepared on the Receipts & Payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2 Nature and purpose of funds
The unrestricted funds of the ZET are used to achieve the objectives of the charity, within the limits of the annually available income. The only source of income is interest. The majority of the funds are held within a fixed interest account and a working balance is held in a cheque account which forms part of the Shetland Islands Council's banking contract and is interest bearing.

3 Related Parties Transactions
During 2013/14 most of the grant awards, went to projects directly run by the trustee, Shetland Islands Council, or were paid directly to accounts controlled by trustee staff. Typically these have been created for particular educational excursions or for activities outwith formal learning.

4 Bursaries & Grants made

Type of activity or project supported

	Total 2014		**Total 2013**	
	Number	£	Number	£
Arthur Anderson Bursaries	5	1,000	5	1,000
E & M Gair Bursaries	8	1,600	6	1,200
Educational Excursion	12	8,716	15	7,377
Special Equipment	4	5,233	8	4,981
Swimming	-	-	2	927
Knowledge of Shetland	3	1,773	8	2,002
Experiments and Research	1	691	2	390
<u>Previous Grants Repaid</u>				
Educational Excursion	4	(1,075)	1	(400)
Special Equipment	1	(85)	-	-
Knowledge of Shetland	1	(11)	1	(1,262)
		17,842		**16,215**

Combined grants were paid to 2 bodies in 13/14 (7 bodies in 12/13).These have been split evenly within the categories where the awards were approved and are included in the number of grants in each category.

5 Costs
The Independent Examiner's fee and Bank charges are the only costs, which the Trust incurs.

6 Trustee remuneration
No remuneration was paid during the period to any charity trustee or person connected to a trustee.

7 Trustee expenses
No expenses were paid to any charity trustee during the period.

Independent Auditor's Report

Independent auditor's report to the trustees of Zetland Educational Trust and the Accounts Commission for Scotland

I have audited the financial statements of Zetland Educational Trust for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances, and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

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 trustees and auditor

The trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. 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 or 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 charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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:

- properly present the receipts and payments of the charity for the year ended 31 March 2014 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Other matter - unaudited comparative amounts

The financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the financial statements for the year ended 31 March 2014 are therefore unaudited.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report 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 by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper 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.

I have nothing to report in respect of these matters.

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

September 2014

David McConnell is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973

Zetland Educational Trust

Report to those charged with governance on the 2013/14 audit

AUDIT SCOTLAND

Prepared for the members of Shetland Islands Council
September 2014

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. An audit is required for the first time, for the 2013/14 financial statements of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) regulations 2006.

2. The Assistant Auditor General wrote to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Account Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. The auditor of Shetland Islands Council, Audit Scotland, has been appointed as the auditor of the relevant charities for the year ended 31 March 2014.

3. 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.

4. Prior to the sign-off of the financial statements, the trustees of the charity will be given the opportunity to discuss the points raised within the ISA 260 report directly with External Audit.

5. This report sets out for the trustees' consideration the matters arising from the audit of the financial statements for 2013/14 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, as the sole trustees of Zetland Educational Trust and no responsibility to any third party is accepted.

Status of the Audit

6. Our work on the financial statements is now complete. The issues arising from the audit were included in a matters arising schedule issued to the Executive Manager - Finance on 28 July 2014. Satisfactory responses have been received for all matters raised.

7. We received the unaudited financial statements by 30 June 2014, in accordance with the agreed timetable. The working papers in support of the financial statements were of good standard. Finance staff provided good support to the audit team and we completed our on-site fieldwork on 28 July 2014.

Matters to be reported to those charged with governance

Conduct and scope of the audit

8. In 2013/14 we are required to audit the financial statements of Zetland Educational Trust, as the sole trustee is Shetland Islands Council.

9. This is the first year of our audit appointment and our audit work relates only to transactions occurring from 1 April 2013. The financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the financial statements for the year ended 31 March 2014 are therefore unaudited. However, we have obtained sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

10. 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 of Shetland Islands Council presented to the Audit Committee on 20 February 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

11. 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 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

12. 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 trustees 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

13. 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 audit report on 29 September 2014 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

14. 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 £10. There were none identified as part of our audit work.

15. 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.

16. The Council has decided not to recharge any administration or audit costs to the trusts in 2013/14. This policy is disclosed in the Notes to the Accounts for all trusts. As a result, the costs incurred in administering the trusts are not known to the trustees.

17. 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 C. This should be signed and returned by the Executive Manager - Finance with the signed financial statements prior to the independent auditor's opinions being certified.

Accounting and internal control systems

18. 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

19. There are no significant issues 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.

Acknowledgements

20. 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 trustees of Zetland Educational Trust and the Accounts Commission for Scotland

I have audited the financial statements of Zetland Educational Trust for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances, and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

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 trustees and auditor

The trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. 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 or 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 charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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:

- properly present the receipts and payments of the charity for the year ended 31 March 2014 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Other matter - unaudited comparative amounts

The financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the financial statements for the year ended 31 March 2014 are therefore unaudited.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report 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 by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper 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.

I have nothing to report in respect of these matters.

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

September 2014

Appendix B: ISA 580 - Letter of Representation

September 2014

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

Dear David

Zetland Educational Trust

Annual Accounts 2013/2014

This representation letter is provided in connection with your audit of the financial statements of the Zetland Educational Trust for the year ended 31 March 2014 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 2014, 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 Zetland Educational Trust for the year ended 31 March 2014.

General

I acknowledge my responsibility and that of the Zetland Educational Trust 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 presents a balanced picture of the Zetland Educational Trust and is consistent with the financial statements.

I am not aware of any uncorrected misstatements in the financial statements.

Financial Reporting Framework

The financial statements comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

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 charity for the year ended 31 March 2014.

Accounting policies and estimates

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 trustees have assessed the ability of the Zetland Educational Trust to carry on as a going concern and have 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 and 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.

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 confirm that there are no issues or deficiencies in internal control that require to be disclosed.

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.

Trustee Remuneration

I confirm that no remuneration was paid to any trustee or any person connected to a trustee during the period to 31 March 2014.

Trustee Expenses

I confirm that no expenses were paid to any trustee during the period to 31 March 2014.

Assets

The cash fund and investments shown in the statement of balances at 31 March 2014 were owned by Zetland Educational Trust. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value of classification of the assets within the financial statements.

Yours sincerely

James Gray
Executive manager - Finance

Agenda Item
4

Shetland Islands Council

Special Shetland Islands Council **23 September 2014**

Shetland Partnership Board – Appointment of Members	
Report No. GL-15-F	
Report Presented by **Executive Manager – Governance and Law**	**Corporate Services Department**

1.0 Summary

1.1 In the process of discharging its functions, the Council contributes to membership, along with other authorities and organisations, to a number of national and local organisations.

1.2 At its meeting on 20 May 2014, the Shetland Partnership Board agreed to revise its membership, and the purpose of this report is to provide an opportunity for the Council to make the necessary appointments in line with that revised membership.

2.0 Decision Required

2.1 That the Council **RESOLVES** to:

2.1.1 Appoint the Leader and Convener and a further 5 Councillors to the Shetland Partnership Board, having regard to geographical representation, as well as functional responsibilities; and

2.1.2 Appoint the Depute Leader to deputise for the Leader on the Shetland Partnership Board, should the Leader be unable to attend Board meetings.

3.0 Detail

3.1 Current Councillor Representation on the Shetland Partnership Board is the Convener and the Leader.

3.2 The Shetland Partnership Board, at its meeting on 20 May, considered a report which contained proposals for a revised membership, with a view to ensuring the Shetland Partnership is fit for purpose and can effectively deliver on future projects.

3.3 It was agreed it was essential that Councillors, and the communities they represent, can contribute to and are engaged with the Shetland Partnership, and following the Council's recent governance review, it was seen as an opportune time to redress the membership of the Partnership Board, and in particular to ensure Ward representation in order to support the Strengthening Community Involvement project.

3.4 Accordingly, the Board resolved to approve the following proposal, and to submit this to the Council for its consideration:

> "That the Council appoint five Councillors to the Shetland Partnership Board, in addition to the Leader and Convener, having regard to geographical representation as well as functional responsibilities. The Council should also be asked to consider whether the Depute Leader should deputise for the Leader on the Partnership Board, should the Leader be unable to attend Board meetings."

3.5 For geographical representation, appointments would be required from the following Wards: North Isles, Shetland North, Shetland Central, Shetland South and Lerwick South.

3.6 The Council is asked to note that, unless appointed as one of the 7 Councillors, the Chair of ZetTrans, as a statutory partner of Community Planning Partnerships, will remain a Shetland Partnership Board member, in addition to the 7 Councillors.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The recommendation in this report is not linked directly to any of the Corporate Priorities, but will support the Council's Improvement Plan in terms of Governance, Accountability and partnership working.

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/or Delegated Authority – In terms of confirming approved duty status, appointments and nominations to external organisations can only be determined by the Council or its Committees.

4.4 Risk Management – None.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial – There are no significant financial implications arising from this Report. The majority of expenses incurred by Members in attending meetings are classed as an approved duty and shall be met from the Members' Expenses budget head.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 This report seeks the Council's approval to make appointments to the revised membership of the Shetland Partnership Board.

For further information please contact:
Anne Cogle, Team Leader – Administration
01595 744554 anne.cogle@shetland.gov.uk
8 September 2014

List of Appendices
None.

Background documents:
Shetland Partnership Board – 20 May 2014

END

Agenda Item
5

Shetland Islands Council

Shetland Islands Council **23 September 2014**

Approval of Local Police Plan 2014-17 and Local Fire & Rescue Plan 2014-17	
Report: GL-16-14 F	
Report Presented by Executive Manager	**Governance and Law**

1.0 Summary

1.1 The purpose of this report is to present the Local Police Plan 2014-17 and the Local Fire & Rescue Plan 2014-17 for approval by the Council.

1.2 The Local Police Plan 2014-17 and the Local Fire & Rescue Plan 2014-17 were created following a joint community consultation by Police Scotland and the Scottish Fire & Rescue Service (SFRS), and in line with the Single Outcome Agreement and the respective national strategic plans and objectives of each Service. The Plans are attached to this document as Appendix 1 and Appendix 2 respectively.

2.0 Decision Required

2.1 The Council RESOLVES to approve the Local Police Plan 2014-17 and the Local Fire & Rescue Plan 2014-17.

2.2 The Council FURTHER RESOLVES to delegate authority for the approval or modification of the Local Police and Fire & Rescue Plans to the Policy and Resources Committee.

3.0 Detail

3.1 The Police and Fire Reform (Scotland) Act 2012 empowers Local Authorities to monitor and provide feedback on local service delivery; make recommendations for improvements in the delivery of service and approve Local Police and Fire & Rescue Plans.

3.2 Both Plans must be reviewed at least every 3 years.

3.3 Both Plans may be modified at any time. Fire & Rescue plans may be modified by the Scottish Fire & Rescue Service and Local Police Plans may be modified on the agreement of the Local Commander and the Local Authority.

Local Police Plan 2014-17

3.4 Under S47 of the Police and Fire Reform (Scotland) Act 2012 a Local Police Plan must be submitted to the Local Authority for approval.

3.5 The Local Police Plan outlines the local policing priorities and objectives for the Shetland Area Command for 2014-2017. These have been set as:

1. Roads Safety
2. The Supply, Abuse and Misuse of Drugs
3. Protecting People
4. Antisocial Behaviour and Alcohol Related Disorder
5. Emergency/Major Incident Response and Resilience

3.6 Shetland Community Safety and Resilience Board (SCSRB) scrutinised the Local Policing Plan throughout the consultation, drafting and implementation process, particularly welcoming Priority 3 - Protecting People. The SCSRB also noted the Plan is specifically focused towards performance and does not include issues relating to retaining staffing levels.

3.7 Police Scotland present a quarterly report to the SCSRB measuring their performance against the Local Policing Plan and informing on the progress made against the objectives outlined in the Plan.

Local Fire & Rescue Plan for Shetland 2014-17

3.8 Under S41E of the Fire (Scotland) Act 2005 as amended, a local Fire & Rescue Plan must be submitted to the Local Authority for approval.

3.9 The Local Fire & Rescue Plan for Shetland outlines the priorities for SFRS within Shetland for 2014-17. These have been set as:

1. Local Risk Management and Preparedness
2. Reduction of Accidental Dwelling Fires
3. Reduction in Fire Fatalities and Casualties
4. Reduction of Deliberate Fire Setting
5. Reduction of Fires in Non Domestic Properties
6. Contribute to a Reduction in Casualties from Road Traffic Collisions and other Non-Fire Emergencies
7. Reduction of Unwanted Fire Alarm Signals
8. Enhance our Contribution to Community Planning

9. Enhance our Local Engagement Practices

3.10 The SCSRB scrutinised the Local Fire & Rescue Plan for Shetland 2014-17 throughout the consultation, drafting and implementation process, giving particular consideration to Priority 1 – Local Risk Management and Preparedness in relation to the recruitment of Retained Fire-Fighters in rural areas.

3.11 SFRS presents a quarterly report to the SCSRB measuring their performance against the Local Fire & Rescue Plan for Shetland 2014-17 and informing on the progress made against the objectives outlined in the Plan.

Approval Process

3.12 The SCSRB agreed to the priorities set out in the Local Policing Plan and the Local Fire & Rescue Plan.

3.13 The Chair of the SCSRB presented the Board's report on the agreement of both the Local Police Plan and Local Fire & Rescue Plan to the Shetland Partnership Board on 27th August 2014, and the agreement of the Plans were endorsed on this date.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Local Police Plan and Local Fire & Rescue Plan form part of the remit of the SCSRB which delivers on the SAFER strand of the Community Plan, specifically "Shetland stays a safe place to live, and we have strong, resilient and supportive communities."

As part of the Corporate Plan we must also work with our partners to achieve the best possible results. This includes reform of the Police and Fire & Rescue Services.

4.2 Community /Stakeholder Issues – Consultation and discussion has been carried out through the SCSRB which has the remit for developing relevant plans including the Police and Fire & Rescue Plans

4.3 Policy And/Or Delegated Authority – There is no prescribed mechanism for such approval to be given by a Local Authority and it is for the Council to determine how it wishes to deal with this matter. As approval is sought for two Plans with significant impact it is for the Council to give approval in this instance. In future, the Policy and Resources Committee, which has a remit for coordinating the activities of partner organisations, could have delegated authority for the approval of new and modified Local Plans.

4.4 Risk Management – Failure to have a mechanism for approval of Local Police and Fire & Rescue Plans will result in an inability to maximise the potential for influencing the content of these Plans and ensure local accountability for their delivery.

4.5 Equalities, Health And Human Rights – Equality Impact Assessments have been carried out on both of the Local Plans and the high level Plans above them from the Scottish Police Authority, Police Scotland and Scottish Fire and Rescue Service.

4.6 Environmental – None

Resources

4.7 Financial – None

4.8 Legal – it is a statutory requirement that Local Police Plans and Local Fire & Rescue Plans are submitted to the Local Authority for approval at least every three years from the date of publication of the previous Plan.

4.9 Human Resources – None

4.10 Assets And Property – None

5.0 Conclusions

5.1 The Local Police Plan and Local Fire & Rescue Plan need to be given formal approval by the Council and a mechanism for future approvals and modifications must be determined.

For further information please contact:
Sara Fox, Community Safety Officer
01595 744527 sara.fox@shetland.gov.uk
5 September 2014

List of Appendices

Appendix 1: Shetland Local Police Plan 2014-17
Appendix 2: Local Fire & Rescue Plan for Shetland 2014-17

Background documents:

Scottish Police Authority Strategic Plan
http://www.spa.police.uk/assets/128635/strategic-police-plan-web

Police Scotland Annual Police Plan 2014-15
http://www.scotland.police.uk/assets/pdf/138327/150739/policescotlandannualpoliceplan2014-15?view=Standard

Scottish Fire and Rescue Service Strategic Plan 2013 -16
http://www.firescotland.gov.uk/media/388032/strategic_plan_2013_2016_final.pdf

Police and Fire Reform (Scotland) Act 2012
http://www.legislation.gov.uk/asp/2012/8/contents/enacted

END

POLICE SCOTLAND
Keeping people safe

SEMPER VIGILO

Shetland

Local Policing Plan 2014

Shetland Islands Council

SHETLAND LOCAL POLICE PLAN 2014-2017

1. Introduction and purpose of plan

1.1 This Plan outlines the local policing priorities and objectives for the Shetland Islands for 2014-2017 and is a statutory requirement for the Police and Fire Reform (Scotland) Act 2012. It is produced as part of a planning process which takes account of the Scottish Government's national outcomes, the setting of Shetland Partnership objectives through single outcome agreements, the strategic police priorities set by Scottish Ministers, the Scottish Police Authorities Strategic Police Plan and Police Scotland's Annual Policing Plan.

1.2 The purpose of this plan is to set out the policing priorities and objectives which the Shetland Area Command, Highland and Islands Division and the wider Police Scotland will focus on for the next 3 years. These priorities and objectives have been identified by looking at the national and local intelligence; community safety trends as well as the views and concerns of the public, locally elected officials and community planning partners. The priorities and objectives identified in this Plan support the overall objectives within the Shetland Island Single Outcome Agreements (SOA). The Plan will be reviewed by the Shetland Community Safety Board and the Local Policing Commander on an annual basis. Furthermore, this plan is supported by 7 Multi Member Ward Policing Plans which outline the policing priorities at a ward level.

2. Foreword

2.1 Chief Constable Sir Stephen House QPM

The first year of Police Scotland has seen significant change in many aspects of the organisation, however, the delivery of locally-focused operational policing remains the bedrock of this service. I remain strongly committed to the principle that community-based policing, which responds to local need and demand, is crucial to delivering services that keep people safe and maintain public confidence.

One of the ways in which we can visibly demonstrate this commitment to local policing is by listening to communities and asking them to help shape our priorities. We have consulted widely across the council area with local people and other organisations to help identify our priorities. By combining the information we received through this consultation process with analysis of crime and other performance data we have established the priorities and objectives that are set out in this plan.

In developing this plan the Local Policing Team, led by the Local Commander, has worked closely with public, private and third sector organisations as well as directly with communities, because we recognise that partnership working is critical to making our communities safer. Importantly, this approach has also ensured that our planning process is aligned to the broader vision set out in the Community Plan and supports the Single Outcome Agreement. This plan is therefore a commitment to working across agencies to deliver better outcomes for communities as well as setting out how policing will be delivered in this area.

I am pleased to say that we have achieved much in the first year of Police Scotland to tackle crime and prevent harm - reducing the number of people who have been the victims of violence and the number killed and injured on our roads as well as addressing other crucial priorities for communities. This plan sets out an agenda to build on that success by tackling the issues that will improve the safety and well being of communities across this local authority area.

Chief Constable Sir Stephen House QPM.

2.2 Chair of the Scottish Police Authority – Mr Vic Emery

I passionately believe that the establishment of Police Scotland and the SPA has created significant opportunities to strengthen the effectiveness of policing. We want you the public to have a real say on local priorities and for policing to listen to that public voice. This plan is where that comes together. It sets out what your local priorities are – identified from what local people are saying is most important to them, and underpinned by local evidence and intelligence gathered by policing in this area.

We want you to be able to question, and judge, how well the police are performing against those priorities. So we will expect your local commander to report publicly and regularly on how they are achieving the priorities set in this plan, so you and your community can assess for yourselves how policing is working for you. - 259 -

We want residents to be able to see how money invested in policing is being used and what results it brings, and to understand better how national and local policing decisions are made and why.

Scotland is a country with reducing levels of crime, and a strong bond of trust between the Police service and the Scottish public. Local partnerships, a focus on prevention and collaboration, and genuine accountability at both local and national level underpin that bond.

Working together to turn this plan into results, as professionals and members of the public, is about making this part of Scotland a place of greater safety – and a greater place to live.

Vic Emery OBE

2.3 Chair of Community Safety and Resilience Board- Councillor Cooper

In Shetland, Police Scotland reports to the Community Planning Partnership through the Community Safety and Resilience Board. It provides an excellent forum to disseminate police activity to a variety of partners and thereby obtain a wide range of community feedback. At the end of the Board's first year the excellent working relationship with the police has been strengthened and most importantly the community continues to feel safe wherever they go in Shetland.

The Local Policing Plan for the second year builds on the success of the first and has been the subject of wide ranging community consultation. Engagement was mixed but was especially good in the outer islands. What is important is that the service listened and the community concerns have been embedded in the Plan. I have every confidence that Police Scotland and the community will continue to work in close co-operation to maintain Shetland's reputation as one of the safest places to live, work and do business in the United Kingdom. This Plan, with regular scrutiny from the Board, will ensure that Shetland continues to enjoy community policing at its best.

2.4 Shetland Area Commander – Chief Inspector Eddie Graham

It is with great pleasure that I, as the new Area Commander for Shetland, am introducing the Local Policing Plan covering the period 2014-2017 for the Shetland Islands. This plan identifies the key strategic priorities for the policing of Shetland and has been formulated from a range of information sources including crime analysis and national policing priorities. However, the main influence on the priorities has been the wide scale consultation with the community and partners in Shetland to identify what matters to them and how we, as Police Scotland, can address their concerns.

Our effective partnership working with Shetland Islands Council and our Community Planning Partners is vital to keeping our communities safe and delivering many of the objectives outlined in this plan. Moreover, we will continue to call upon support from both the Highlands and Islands Division and other supporting specialisms from the wider Police Scotland, when we need them. Our aim is to deliver the most effective and efficient policing service which meets the needs and expectations of the communities of Shetland. Due to our remoteness from the mainland Scotland there is a recognised need to resource the local policing team to maintain resilience. We are committed to ensuring that staffing levels are enhanced both from resources across Scotland and local recruitment.

Shetland is prospering from the continuing development of infrastructure around the energy sector. We are forging new partnerships within the sector to ensure that our community remain one of the safest places in Scotland to live. We have seen a number of significant incidents over the last year none more so than the helicopter accident off Sumburgh in August 2013 in which 4 people lost their lives. Tragedies like this only serve to remind us of the need to continue to work together, as partner agencies, to implement the most effective response possible to achieve the most positive outcome. A multi agency approach to the emergency planning processes and procedures will continue to form an important strand of the local plan.

To be successful local policing needs to reflect and compliment the community that it serves. Consultation, engagement and early intervention will continue to be our main focus, working with everyone in Shetland to keep our islands safe.

3. Priorities and Objectives

3.1 **Priority - Roads Safety** – Road Safety continues to be one of the main areas of concern for communities within the Shetland Islands. The level of serious accidents remains low but when they do occur they have a significant impact on the affected families and communities. Through the Road Safety Advisory Board we will continue to participate in initiatives to promote good driver behaviour. We will continue to target speeding and inappropriate driving throughout the Shetland Islands and particularly around schools, within communities and on the main routes such as A970 and A968.

3.1.1 Long Term Outcomes

- To reduce the number of people killed, seriously injured or slightly injured on Shetland's Roads.
- Reduce concern with reference to Road Safety / Road Crime within Shetland.

3.1.2 Objectives

- Prevention Activities - Participate in activities to promote safe driving including:

  -- A yearly Driving Ambition Campaign at each of the High Schools.
  -- The Trunk Road / Divisional Road Policing Units to conduct a targeted motorcycle campaign each spring.
  -- Participate in all Police Scotland Road Safety Campaigns.

- Increase number of drivers detected for speeding, drink and drug driving, seat belt and mobile phone offences.

3.2 **Priority - The Supply, Abuse and Misuse of Drugs** – Concern with reference to the supply, abuse and misuse of drugs remains high within Shetland. The use of illegal drugs has detrimental impact on the quality of life of individuals, their families and the community in which they live. Drugs users are vulnerable to exploitation and can become involved in acquisitive crimes to feed their addition. With our partners in the Shetland Drug and Alcohol partnership we will continue to concentrate our educational efforts on informing young people on the risks involved in taking illegal drugs and 'legal highs'. Our enforcement activity will focus on disrupting the supply of illegal drugs into Shetland by using assets such as the Dogs Against Drugs capability. The community also has a significant role to play in reporting any suspicious activities which may be linked to illegal drugs.

3.2.1 Long Term Outcomes

- Reduce the community impact and costs of drug misuse and abuse within Shetland.
- Decrease the number of illegal drug users in Shetland.

3.2.2 Objectives

- Prevention Activities - Over a 3 yearly period conduct a programme of illegal drug awareness activities with all students at each of the High Schools and Junior High Schools in Shetland.
- Increase the proportion of positive stop and searches for drugs.
- Increase the number of offences reported for the supply of drugs or being concerned with the supply of drugs.
- Increase the number of deployment and detections by the 'Dogs against Drugs' assets

3.3 **Priority - Protecting People** – Whilst often a hidden crime, there are people in Shetland who are victims of physical, sexual or emotional abuse or are neglected.

Domestic abuse blights the lives of individuals as well as their families. Police Scotland has made domestic abuse and other forms of abuse, such as hate crimes, a high priority. We will endeavour to prevent abuse and neglect by early and effective interventions and by the effective sharing of information with relevant community safety partners. In conjunction with Women's Aid we will, through the Shetland Domestic Abuse Partnership, support victims of domestic abuse and encourage them to report incidents of abuse. We will manage the risk posed by dangerous offenders and protect those at risk through the Multi Agency Risk Assessment Conference, Multi Agency Public Protection Arrangements and Multi Agency Tasking and Coordinating Group.

3.3.1 Long Term Outcomes

- Decrease in the number of people who are victims of sexual or domestic violence / abuse.
- Decrease in the number of people who are victims of hate crimes.

3.3.2 Objectives

- Prevention Activities - In support of the Shetland Community Safety Board play and active role in preventative initiatives and campaigns
- Increase the reporting of domestic abuse incidents
- Increase the reporting of sexual crime incidents
- Increase the detection rates for domestic abuse
- Increase the detection rates for sexual crimes
- Increase the reporting of Hate incidents
- Increase the detection rates for Hate Crimes

3.4 **Priority - Antisocial Behaviour and Alcohol Related Disorder** – Although there has been a significant decrease in antisocial behaviour and alcohol related disorder over the past few years, it continues to be a concern for some communities within Shetland. The Shetland Partnership aims to 'prevent harm by changing the culture of alcohol use in Shetland...through work on antisocial behaviour'. The overall decrease has been achieved in part by focussing on both the very few individuals who behave in an unacceptable way and by working in cooperation with the licensees and the Shetland Licensing Board to reduce the likelihood of alcohol related disorder. With our partners in the Shetland Antisocial Behaviour Working Group, we will endeavour to intervene as early as possible when instances of antisocial behaviour arise; this includes managing persistent offenders and locations through Operation Notebook. Where necessary we will use legislative measures such as Antisocial Behaviour Contracts and vehicle seizures to influence offender behaviour.

3.4.1 Long Term Outcome

- Decrease in the number of people who are victims or impacted by antisocial behaviour and alcohol related disorder.

- Change the culture and attitude, to one of unacceptability, in reference to alcohol abuse and misuse by elements of the community.

3.4.2 Objectives

- Prevention Activities -
  - Maintain the level of licensed premises checks.
  - Conduct an annual test purchasing operation.
  - Contribute to the Antisocial Behaviour Working Group initiatives and campaigns.
- Increase the number of positive stop searches / confiscations for those possessing alcohol:
  - In Lerwick where byelaws are in force prohibiting alcohol consumption.
  - The number of alcohol seizures in relation to age.
- Reduce in the amount of disorder.
- Reduce the occurrences of petty assaults
- Reduce the number of premises currently identified as causing significant and persistent disorder or serious nuisance to the community.
- Reduce the number of incidents of vandalism.

3.5 **Priority - Emergency / Major Incident Response and Resilience – The** helicopter crash in late 2013 indicates that Shetland is not immune to major incidents. Furthermore, the ongoing increase in activities surrounding the oil and gas as well as renewable industries is likely to increase the risk of future incidents. Therefore, there is a continued requirement for the Shetland Islands to provide an effective and resilient local response to major / emergency incidents until additional resources can be deployed to the Islands to assist. Any major incident response will be coordinated through the Shetland Emergency Planning Forum and if necessary the Highland and Islands Local Resilience Partnership. Emergency plans will be reviewed regularly to ensure they are up to date. Furthermore, we will ensure that those police officers who are responding major incidents have the requisite skills and have jointly practiced their response with partner agencies.

3.5.1 Long Term Outcome

- Shetland maintains a robust capability to deal with major incidents.

3.5.2 Objectives

- Annually review and exercise, in partnership with relevant partners, major incident / facility response plans.
- Ensure sufficient officers and staff, against an identified skills / training matrix, for dealing with a major incident.
- Identify a location for a multi agency incident room

4. How we identified our priorities

4.1 To identity Shetland's policing priorities we have used a wide range of information and intelligence. There has been a comprehensive consultation process which has included an extensive series of meetings with a wide range of community groups across Shetland as well as engagement with locally elected officials and the Shetland Partnership. Furthermore, in autumn 2013, Police Scotland conducted an extensive survey across all the Wards within Shetland and the information from this survey, along with the legacy Northern Constabulary 2012/13 Community Consultation Survey, has been used to understand the public's views on community safety and policing issues within the Shetland Islands.

4.2 In addition to the consultation, we have considered the intelligence picture, through our strategic assessment process, to identify current and emerging community safety and crime trends. We have also reviewed the Shetland Island SOA, especially in respect to the 2 main priorities within the 'Shetland stays a safe place to live' outcome.

4.2.1 Substance misuse, specifically alcohol, legal highs and new trends'

4.2.2 Domestic Abuse, including all forms of gender based violence.

5. Local Policing arrangements

5.1 Shetland Area Command is one of the 6 Area Commands within the Highland and Island Division of Police Scotland. The main police station is in Lerwick with satellite police stations in Baltasound, Whalsey, Mid Yell and Brae as well as a shared facility at Sumburgh Airport. The permanent officer establishment includes operational uniformed police officers on shift 24 hours a day, criminal investigations officers, officers involved in public protection arena and a community safety officer. Furthermore, Shetland Area Command can rapidly call upon additional unformed officers and specialist from both the Division and the wider Police Scotland.

6. National Outcomes

Policing Plan Priorities	Strategic Policing Priorities	National Outcomes	Shetland CPP Outcomes / Objectives
Road Safety	- Increase road safety and reduce road crime. - Protect the public	8,9	Keep People Safe on our Road
Supply and Misuse of Drugs	- Protect the public - Tackle serious organised crime and terrorism	8,9,11	Promote Public confidence by decreasing the fear of crime
Protecting People	- Reduce violence, disorder and antisocial behaviour - Protect the public	5,7,8,9,11	Work with partners to support and contribute to reducing offending and prevent victimisation
Antisocial Behaviour and Alcohol Related Disorder	- Reduce violence, disorder and antisocial behaviour - Protect the public	7,9,11	Promote Public confidence by decreasing the fear of crime
Emergency and Major Incident Response and Resilience	- Effectively police major events and threats.	1,9,11,16	Shetland stays a safe place to live

7. Performance, Accountability and Scrutiny

7.1 The Shetland Island Policing Plan is an agreement between the Local Policing Commander and the Local Policing Committee on priorities and objectives for the next 3 years. In Shetland, the role of Local Policing Committee is undertaken by the Shetland Community Safety Board which has 7 Elected Members – one from each Ward. The

Community Safety Board has the responsibility for monitoring the policing performance against the agreed Local Policing Plan and to hold the Local Policing Commander to account against the Plan. The Community Safety Board meets four times a year and the Local Policing Commander is required to provide reports on progress against the Policing Plan and provide any relevant information to the Board to enable it to perform its scrutiny role. The minutes of the Committee Meetings and the submitted reports can be viewed on the Shetland Islands Council Website.

8. Engagement

8.1 The Shetland Area Command is a key partner in the overall Shetland Partnership and the Shetland Community Safety Board. The Shetland Area Command is also a member of a number of committees and forums including The Alcohol and Drugs Partnership, The Road Safety Advisory Board, The Child and Adult Protection Committees and the Domestic Abuse Forums. In respect to wider community engagement the Shetland Area Command will make every attempt to attend or contact Community Council and Community Group meetings when invited. Furthermore, with the recent introduction of the Community Contact Van access to policing and other public services, especially in the more remote areas, will increase.

9. Equalities

9.1 All our work is underpinned by our commitment to equality and diversity, both in our dealings with the public we serve as well as our own staff. We are committed to; eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Equality Act 2010; advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and foster good relations between people who share a protected characteristic and those who do not.

9.2 We recognise that effective and fair policing is about reflecting the needs and expectations of individuals and local communities as our formal public consultation emphasises. Survey results show that difference communities have differing expectations and contrasting experience of the services provided by the police. Our aim is to ensure that our service is fair and consistent to all, according to their needs, keeping those who are most vulnerable safe.

9.3 To further this aim, and to satisfy our statutory duties under The Equalities Act 2010, we have developed national equality and diversity outcomes to explicitly outline our commitment to meet the needs of members of the public and our staff who share relevant protected characteristics. We have included local priorities and objectives which contribute to achieving these outcomes and these will be reported in the Chief Constable's Annual Report.

9.4 Police Scotland's Equality and Diversity Outcomes are:

9.4.1 People better recognise hate crime and incidents and feel confident in reporting them.

9.4.2 Individuals within the protected groups feel safe and secure within their local community

9.4.3 Victims of gender-based violence are confident that the police are responsive to their needs

9.4.4 People from, and across, the protected groups are meaningfully engaged with us and their views contribute to the service.

9.4.5 Everyone in Scotland is able to contact the police when they require our assistance and the experience is positive.

9.4.6 We have a workforce that is reflective of our communities to increase trust and confidence in the police.

9.4.7 We have a workforce where people feel valued and encouraged to maximise their potential to ensure the most efficient and effective service is delivered.

10. Local Contact Details

10.1 Your local point of contact for this plan is the Shetland Islands Area Commander who can be contacted through the 101 Non Emergency Contact Number or via the Lerwick Police Station, Market Street, Lerwick, ZE1 0JN.

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SCOTTISH
FIRE AND RESCUE SERVICE
Working together for a safer Scotland

LOCAL FIRE AND RESCUE PLAN
FOR SHETLAND
2014-2017

Working together for a safer Scotland

Contents

Foreword

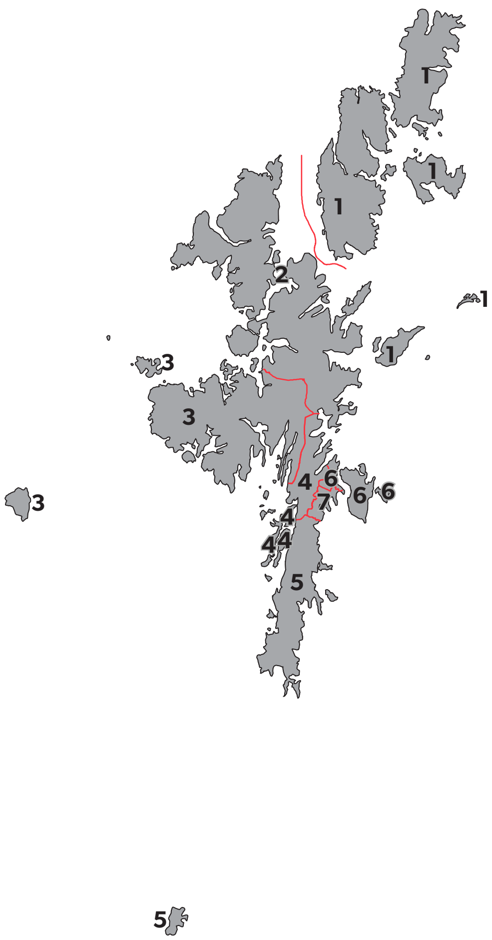
Welcome to the Scottish Fire & Rescue Services (SFRS) Local Fire and Rescue Plan for Shetland. This plan uses the strategic aims of the SFRS's Strategic Plan 2014-2017 and the community planning outcomes defined in the Shetland Single Outcome Agreement 2012-2015 to meet the agreed needs of the Shetland communities.

The plan sets out the priorities and objectives for the SFRS within Shetland for 2014-2017 and allows our Shetland local authority partners to scrutinise our performance against the intended outcomes. SFRS will continue to work closely with our partners in Shetland to ensure we are all "Working Together for a Safer Scotland" through targeting the identified risks to our communities at a local level.

The Local Fire and Rescue Plan and its associated action plans are aligned to the Shetland Partnership which is the multi-agency community planning group within Shetland. Through partnership we will deliver continuous improvement in our performance and effective service delivery in our area of operations.

The SFRS will continue to use data analysis techniques to identify risk and to ensure resources are allocated to the point of need within our communities. While considering the strategic priorities of the SFRS, we will develop local solutions to local needs and ensure equitable access to Fire and Rescue resources. Through on-going involvement with our multi-agency partners in Shetland we will continue to develop our understanding of local needs and proactively seek out consultation opportunities with all sections of the community. Using this approach we will ensure that the service we deliver is driven by consultation, in line with public expectations and helps to build strong, safe and resilient communities.

1	*North Isles*
2	*Shetland North*
3	*Shetland West*
4	*Shetland Central*
5	*Shetland South*
6	*Lerwick North*
7	*Lerwick South*



Introduction

The Scottish Government provides an overarching vision for public services that focuses on the creation of a more successful country, with opportunities for all through a sustainable increase in economic growth.

This direction is supported by Strategic Objectives to make Scotland a wealthier & fairer, smarter, healthier, safer & stronger and greener place. Through a concordat between the Scottish Government and the Convention for Scottish Local Authorities (COSLA), the Strategic Objectives have been expanded into Local Single Outcome Agreements which include indicators and targets that provide the framework for how Local Authorities and their community planning partners, such as the SFRS, will deliver services.

The Police and Fire Reform (Scotland) Act 2012 provides the statutory basis for the SFRS to deliver a range of core services and functions. This means that, while the service is ready to respond to fire and other emergencies, it also maintains a strong focus on prevention and protection arrangements to ensure the safety of our communities. The associated Fire and Rescue Framework for Scotland 2013 sets the overarching strategic direction for the SFRS in the delivery of its services to the communities of Shetland.

The Police and Fire Reform (Scotland) Act 2012 requires local fire and rescue plans to contain:

- *priorities and objectives for SFRS in carrying out duties and functions in the local authority's area;*
- *the reasons for selecting each of those priorities and objectives;*
- *how SFRS proposes to deliver those priorities and objectives;*
- *in so far as is reasonably practicable, outcomes by reference to which delivery of those priorities and objectives can be measured;*
- *how those priorities and objectives are expected to contribute to the delivery of any other relevant local outcomes which are identified by community planning;*
- *such other matters relating to the carrying out of SFRS's functions in the local authority's area as SFRS thinks fit.*

Strategic Assessment

A strategic assessment for the SFRS's activities in Scotland has established the type, frequency and impact of incidents that we attend. With this assessment in place the Local Senior Officer for Shetland can effectively identify key priority areas for the SFRS to target its resources at a local level.

National Assessment

The Scottish Government within their National Performance Framework have identified 16 National Outcomes they wish to achieve. Through delivery of this Local Plan the SFRS in particular will contribute to the following Outcomes:

- National Outcome 1: We live in a Scotland that is the most attractive place for doing business in Europe
- National Outcome 4: Our young people are successful learners, confident individuals, effective contributors and responsible citizens
- National Outcome 6: We live longer healthier lives
- National Outcome 8: We have improved the life chances for children, young people and families at risk
- National Outcome 9: We live our lives safe from crime disorder and danger
- National Outcome 12: We value and enjoy our built and natural environment and protect it and enhance it for future generations
- National Outcome 15: Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it

The priorities for the SFRS have been laid out in the Fire and Rescue Framework for Scotland 2013 with the following Strategic Aims defined within the Strategic Plan 2013-2016:

Strategic Aim 1: Improve safety of our communities and staff

Strategic Aim 2: More equitable access to fire and rescue stervices

Strategic Aim 3: Improved outcomes through partnership

Strategic Aim 4: Develop a culture of continuous improvement

Equality Assessment

On 30 April 2013, the Scottish Fire and Rescue Service published its Equality Outcomes, in compliance with the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012. The SFRS Equality Outcomes are.

Outcome 1:	People from all Scotland's community groups feel confident in contacting the Fire and Rescue Service for advice and information on relevant non-emergency issues
Outcome 2:	Disabled, LGBT, BME, older people and people from minority faiths are aware of the services provided by the SFRS, particularly how these can be adapted to meet their own individual needs
Outcome 3:	People from all Scotland's community groups feel safer in their homes and on our roads
Outcome 4:	Establish the Scottish Fire and Rescue Service as an employer of choice for people across protected characteristics
Outcome 5:	Provide a positive and healthy workplace culture that welcomes, embraces and develops people from across all protected characteristics
Outcome 6:	People from across all communities are enabled to live lives free from hate crime, harassment and domestic abuse/violence
Outcome 7:	Gypsy Travellers and migrant workers are safer, better informed and confident in Scottish Fire and Rescue Service engagement

Local Assessment

The local assessment addresses issues relevant to the local area. Through analysis of data, partnership working and consultation, local improvement and demand reduction plans can be developed to ensure positive outcomes and results are achieved.

The key priority areas in Shetland that are considered in the Local Assessment and those that action plans will be developed for are:

- Local Risk Management and Preparedness
- Reduction of Accidental Dwelling Fires
- Reduction in Fire Fatalities and Casualties
- Reduction of Deliberate Fire Setting
- Reduction of Fires in Non Domestic Properties
- Contribute to a Reduction in Casualties from Road Traffic Collisions and other Non Fire Emergencies
- Reduction of Unwanted Fire Alarm Signals
- Enhance our contribution to Community Planning
- Enhance our Local Engagement Practices

Local Operational Assessment

Identified local key priority areas are monitored through the gathering and analysis of operational activity data.

Local Operational Assessment - Shetland

Performance Indicator	2010/11	2011/12	2012/13	3 year average	Trend
All deliberate primary fires	1	0	1	1	—
All deliberate other building fires	0	0	0	0	—
All deliberate secondary fires	0	4	3	2	—
All accidental dwelling fires	5	7	16	9	↑
All accidental other building fires	1	6	7	5	—
All fatal fire casualties	0	0	1	0	—
Non-fatal fire casualties excl. precautionary checkups	1	1	3	2	—
Non-fatal fire casualties incl. precautionary checkups	1	1	3	2	—
Special Service RTCs	3	7	10	7	↑
Special Service flooding	1	6	7	5	—
Special Service extrication	0	1	2	1	—
Special Service 'others'	6	17	11	11	—
False Alarm: AFAs	54	52	92	66	↑
False Alarm: Good Intent	7	10	16	11	↑
False Alarm: Malicious	2	2	0	1	—

Please see Glossary of Terms for an explanation of the above.

Local Risk Profile

The Shetland Islands form Scotland's most northerly and most isolated local authority area. The significant distance between mainland Scotland and Shetland often combines with severe climatic conditions generated by the Atlantic Ocean and North Sea environment to delay the arrival of any external physical support. This necessitates a Shetland based emergency response which is largely self-sufficient.

The population of Shetland is diverse in its make-up and widely geographically spread. Large areas of Shetland are remote, rural and sparsely populated. Some of Shetland's numerous outlying islands are home to the most isolated communities in Scotland. These isolated locations pose challenges in terms of our ability to deliver both prevention services and an appropriate emergency response service. The people living within Shetland's capital, Lerwick, account for approximately 33% of the total population and form the largest concentrated residential life risk.

Shetland is a relatively safe place and our emergency incidents are rare. Thankfully, the number of fires occurring in Shetland is low. However, there are an increasing number of people living alone and the levels of drug and alcohol misuse, within a significant proportion of the population, are factors which contribute to the likelihood of accidental fires and fire casualties. Shetland's people are generally living longer and, whilst an increase in age does not in itself increase the risk from fire, other related factors do, such as limited mobility, disability, and mental health issues.

Due to increased investment in the expansion of the petrochemical industry, Shetland has a large transient working population which can increase the day-to-day population of the islands by up to 10%. The various forms of additional sleeping accommodation provided for these workers create an additional risk to life which we must adequately audit.

Industries within Shetland make a significant contribution to the local economy and the economy of Scotland. The destructive nature of fire in these industries could have immediate and long-term consequences for businesses and consumers nationally. The two major petrochemical plants at Sullom Voe form a significant industrial risk.

Transport services to Shetland and within Shetland contribute to the local risk environment. Sumburgh and Scatsta airports facilitate a large number of external aeroplane and helicopter flights. These links support the requirements of Shetland's residents and businesses, but are largely utilised by the expanding off-shore petrochemical industry. The port of Lerwick provides the majority of the lifeline and commercial shipping services for Shetland. It supports the off-shore petrochemical and fishing industries and hosts a significant number of visiting cruise ships and pleasure craft. Inter-island transport is provided by a network of vehicle ferry crossings and aeroplanes which operate from small and often isolated airstrips. Shetland's main arterial roads have benefited from a significant historical upgrade programme but there has been a large increase in bus and heavy commercial traffic due to the infrastructure developments of the petrochemical industry.

Shetland is a developing tourist destination with significant numbers of visitors throughout the year, but especially at peak seasonal times. The islands have numerous sites of historical, cultural and natural significance. Shetland also hosts an annual programme of cultural events.

SFRS relies on employing Shetland residents as part time firefighters. These women and men need to be suitably fit, able and available to crew the Retained Duty System (RDS) fire and rescue units located across Mainland Shetland and the outlying islands. In this respect, the front line fire and rescue service is an emergency service provided by the Shetland communities, for the Shetland communities. Modern employment trends, which take people away from their home community during the daytime, create challenges for us in terms of recruiting part time firefighters who can provide an emergency response for the more isolated and rural fire stations during these hours.

Priorities, Actions and Outcomes

1. Local Risk Management and Preparedness

The SFRS has a statutory duty to reduce the risks to our communities and to make certain that they receive the best possible service. The management of risk within our community means:

- Actively identifying the risks to the community which fall within the scope of responsibility of the SFRS as defined by the Fire (Scotland) Act 2005;
- Implementing a process to prioritise and minimise the effect of these risks;
- Ensuring that appropriate resources and trained fire and rescue personnel are in place to respond to the known risks.

Aligns to:

- **SFRS Strategic Aims**
  - Strategic Aim 1: Improve safety of our communities and staff
  - Strategic Aim 2: More equitable access to fire and rescue services
  - Strategic Aim 3: Improved outcomes through partnership
  - Strategic Aim 4: Develop a culture of continuous improvement

- **Shetland Single Outcome Agreement 2012 – 2015**
  - Outcome 1: Shetland has sustainable economic growth with good employment opportunities;
  - Outcome 2: We take pride in a strong, fair and inclusive society; and in our culture;
  - Outcome 3: We have financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector;
  - Outcome 9: We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need;
  - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
  - Outcome 11: We have a strong voluntary sector and social enterprises, encouraging community enterprise and cooperatives, with increased capacity to deliver services based on needs and aspirations of local communities;
  - Outcome 13: Our internal and external transport systems are efficient, sustainable, flexible and affordable, meet our individual and business needs and enable us to access amenities and services;
  - Outcome 14: We live and work in a renowned natural and built environment which is protected and cared for.

- **Shetland Safety Board Strategic Assessment 2013 – 2016.**

We will achieve it by:

- Ensuring our staff recruitment, training, development and equipment is fit for purpose, meets the current risk profile of Shetland and is adaptable to changing circumstances;
- Engaging with our community planning partners to ensure that suitable and sufficient operational risk information is obtained, communicated and tested;
- Working locally with partner organisations and agencies to ensure effective emergency response plans are developed for the more significant local risks;
- Fulfilling our statutory duties in relation to the Civil Contingencies Act 2004 by engaging and contributing to the work of the Shetland Emergency Planning Forum and the North of Scotland Regional Resilience Partnership.

In doing so we will also add value by:

- Keeping our staff and members of the public safe in the event of an emergency incident;
- Reducing the financial burden and disruption caused to our communities when emergencies occur by planning to mitigate their effects and quickly return to normality;
- Proactively helping the wider community to focus on the prevention of emergencies, with a blue light response being seen as a last resort.

2. Reduction of Accidental Dwelling Fires

The number of accidental fires in Shetland is relatively low, with the majority occurring in domestic dwellings. The types of home involved are varied, but a significant proportion are rented properties. Causes of accidental domestic fires in Shetland tend to include unattended cooking, electrical equipment and candles. These fires are largely avoidable and increase the likelihood of fire fatalities and casualties. They are destructive, creating a negative impact upon individuals and the wider community. They are also costly to occupants and housing providers, placing an increased burden on the limited availability of housing in Shetland. Key factors that contribute to the occurrence of accidental dwelling fires are:

- Lifestyle choices, including smoking and the misuse of alcohol and drugs;
- Individual capability and vulnerability, including mental health issues;
- Physical and mental conditions related to old age.

Aligns to:

- **SFRS Strategic Aims**
    - Strategic Aim 1: Improve safety of our communities and staff
    - Strategic Aim 2: More equitable access to fire and rescue services
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    - Outcome 3: We have financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector;
    - Outcome 5: Our young people are successful learners, confident individuals, effective contributors and responsible citizens;
    - Outcome 6: We have improved the life chances for children, young people and families at risk;
    - Outcome 7: We have reduced key risk factors for poor health outcomes;
    - Outcome 8: We have supported people to achieve their full potential at all life stages – from birth and early years through working lives to old age;
    - Outcome 9: We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need;
    - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
    - Outcome 11: We have a strong voluntary sector and social enterprises, encouraging community enterprise and cooperatives, with increased capacity to deliver services based on needs and aspirations of local communities;
    - Outcome 12: We live in well-designed, sustainable places;
    - Outcome 14: We live and work in a renowned natural and built environment which is protected and cared for.

We will achieve it by:

- Improving information sharing processes between SFRS and our local partner agencies;
- Targeting the delivery of Home Fire Safety Visits to the most at risk and vulnerable members of our community;
- Working with partner agencies to deliver community safety initiatives influenced by evidence and partnership data;
- Effectively deploying the SFRS Post Domestic Incident Response procedures.

In doing so we will also add value by:

- Reducing the financial burden and disruption caused to all housing tenures;
- Reducing risk, personal and social impact of fire on our communities through helping people to be safe in their homes;
- Promoting the wider community safety message to the residents of Shetland.

3. Reduction in Fire Fatalities and Casualties

The reduction of fire casualties is clearly linked to priority 2 **Reduction of Accidental Dwelling Fires.** The reduction of fire fatalities and casualties is at the core of our preventative and early intervention activities carried out by SFRS in Shetland.

Significant contributory factors associated with the number of fire casualties and fatalities include:

- Lifestyle including smoking and consumption of alcohol and prescribed and non-prescribed drugs;
- Individual capability and vulnerability;
- Physical and mental conditions related to old age.

Aligns to:

- **SFRS Strategic Aims**
    - Strategic Aim 1: Improve safety of our communities and staff
    - Strategic Aim 2: More equitable access to fire and rescue services
    - Strategic Aim 3: Improved outcomes through partnership
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    - Outcome 9: We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need;
    - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
    - Outcome 14: We live and work in a renowned natural and built environment which is protected and cared for;
    - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Further developing our referral processes through improved partnership working and information sharing processes with: social housing, social work, adult protection, third sector and other key partners with regards those most vulnerable or at risk from fire;
- Delivery of thematic action plans tailored to meet local need;
- Promoting Home Fire Safety Visits through targeted referrals from our partners for those most vulnerable or at risk;
- Through early intervention initiatives and case conferences we shall increase community fire safety education through a targeted approach;
- Providing risk reduction measures to the people most vulnerable or at risk from fire through the development of casualty reduction plans;
- Effective deployment of SFRS Post Domestic Incident Response procedures.

In doing so we will also add value by:

- Helping people in the Shetland Islands to be safe in their own homes;
- Reducing demand on the SFRS and partner services;
- Assisting in referring vulnerable persons to other service providers;
- Reducing the economic cost to partner agencies of casualty treatment.

4. Reduction of Deliberate Fire Setting

Deliberate fire setting causes unnecessary destruction. It can pose a severe risk to life, property and the environment. As with all fires, the knock on effects for individuals, communities, the public sector and businesses can be costly and detrimental. Deliberate fires are divided into primary fires which are set in property such as buildings and vehicles, and secondary fires which are set in materials such as refuse and growing vegetation.

Deliberate fire setting is not a significant problem in Shetland, but nationally it is linked to the occurrence of anti-social behaviour. SFRS is not complacent in this matter and intends to maintain the current low level of deliberate fire raising activity in Shetland.

Aligns to:

- **SFRS Strategic Aims**
    - Strategic Aim 1: Improve safety of our communities and staff
    - Strategic Aim 2: More equitable access to fire and rescue services
    - Strategic Aim 3: Improved outcomes through partnership
    - Strategic Aim 4: Develop a culture of continuous improvement
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    - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
    - Outcome 14: We live and work in a renowned natural and built environment which is protected and cared for;
    - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Identifying and quickly targeting any fire raising activity through the assistance of partner agencies and communities;
- Supporting fire safety education in schools;
- Implementing our specialist Fire Setters Intervention Programme to counsel individuals who are identified as being responsible for deliberate fire setting activity;
- Supporting associated youth diversion initiatives.

In doing so we will also add value by:

- Minimising the cost and disruption of unnecessary fire damage within Shetland;
- Reducing SFRS costs by using fire prevention personnel to rapidly target the causes of any identified deliberate fire setting activity and minimise the mobilising of RDS firefighters;
- Supporting preventative spend initiatives which divert young people away from anti-social behaviour by encouraging them to be good citizens.

5. Reduction of Fires in Non Domestic Properties

The SFRS has a statutory duty to promote fire safety under Part 2 (Section 8) of the Fire (Scotland) Act 2005 (as amended) to include provision of information and publicity aimed at preventing fire and reducing deaths and injuries, restricting fire spread and advising on means of escape from buildings. All workplaces and business premises involved in fire are classed as Non Domestic Fires. Sleeping risks are seen as a particularly high fire risk since most fatal fires occur at night when people are less vigilant and at their most vulnerable. Residential care homes, student accommodation, Houses in Multiple Occupation and self-contained sheltered housing make up the greatest proportion of these property types.

High fire risk properties are audited on a yearly basis by our staff to ensure that the fire precautions within the property are to a suitable standard.

Secondary Fires include wild fires involving agricultural crops and moorland. These rural areas contribute substantially to the unique Shetland environment providing economic benefit through tourism, employment and industry. The occurrence of wildfires in Shetland is historically very low, but SFRS will monitor any climatic changes that may lead to drier conditions and an increased wildfire risk.

Aligns to:

- **SFRS Strategic Aims**
  - Strategic Aim 1: Improve safety of our communities and staff
  - Strategic Aim 2: More equitable access to fire and rescue services
  - Strategic Aim 3: Improved outcomes through partnership
  - Strategic Aim 4: Develop a culture of continuous improvement
  -
- **Shetland Single Outcome Agreement 2012 – 2015**
  - Outcome 1: Shetland has sustainable economic growth with good employment opportunities;
  - Outcome 3: We have financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector;
  - Outcome 5: Our young people are successful learners, confident individuals, effective contributors and responsible citizens;
  - Outcome 6: We have improved the life chances for children, young people and families at risk;
  - Outcome 8: We have supported people to achieve their full potential at all life stages – from birth and early years through working lives to old age;
  - Outcome 9: We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need;
  - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
  - Outcome 14: We live and work in a renowned natural and built environment which is protected and cared for;
  - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Continuing the audit programme for high risk premises;
- Engagement with the business community to highlight their responsibilities for compliance with fire legislation;
- Identifying fire trends in particular building types and conducting thematic audits.t

In doing so we will also add value by:

- Assisting the private and business sector in understanding their fire safety responsibilities;
- Ensuring that buildings are safer, people feel protected and the opportunities for acts of deliberate or wilful fire raising are reduced;
- Supporting and protecting business continuity and employment.

6. Contribute to a Reduction in Casualties from Road Traffic Collisions and other Non-Fire Emergencies

A core part of the SFRS's local activity is responding to emergencies such as Road Traffic Collisions (RTCs), other rescue situations and flooding. Firefighters are trained to a high standard and have at their disposal the most modern equipment for extricating people in rescue situations and administering first aid to casualties.

The SFRS has a crucial role in working with the Shetland Islands Council and other emergency responders in contributing to the wider road safety agenda. National and local statistics identify that young adults are most at risk.

The SFRS has a duty to respond to and support communities in recovering from these incidents. In addition, the development of strategically located specialist capabilities (where appropriate in partnership with other agencies) have the potential to significantly improve emergency response and public safety.

Aligns to:

- **SFRS Strategic Aims**
    - Strategic Aim 1: Improve safety of our communities and staff
    - Strategic Aim 2: More equitable access to fire and rescue services
    - Strategic Aim 3: Improved outcomes through partnership
    - Strategic Aim 4: Develop a culture of continuous improvement
    -
- **Shetland Single Outcome Agreement 2012 – 2015**
    - Outcome 3: We have financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector;
    - Outcome 5: Our young people are successful learners, confident individuals, effective contributors and responsible citizens;
    - Outcome 9: We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need;
    - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
    - Outcome 13: Our internal and external transport systems are efficient, sustainable, flexible and affordable, meet our individual and business needs and enable us to access amenities and services.

We will achieve it by:

- Continuing to engage with partner agencies on the Shetland Roads Safety Advisory Panel;
- Contributing to the achievement of initiatives from the Encouragement and Education themes of the Shetland Road Safety Strategy and Action Plan 2012 - 2017.

In doing so we will also add value by:

- Developing positive attitudes to road safety within the Shetland community with an emphasis on targeting high risk groups e.g. our young people;
- Reducing the negative impact of death and serious injury on Shetland communities;
- Reducing the cost to the NHS for the treatment of casualties;
- Reducing lost working time, rehabilitation and welfare costs for casualties and their employers;
- Reducing the cost to SFRS from the mobilising of RDS firefighters.

7. Reduction of Unwanted Fire Alarm Signals

The SFRS aims to reduce the impact of false alarms on its service delivery, local business and commerce in Shetland. Unwanted fire alarms fall into three main categories:

- Unwanted Fire Alarm Signals (UFAS) transmitted by an Automatic Fire Detection (AFD) system reporting a fire, where upon arrival of the SFRS, it is found that a fire has not occurred. UFAS are generally avoidable through good system design, management practice, procedure, maintenance and the appropriate use of spaces within buildings;
- Malicious 999 calls;
- Calls made with good intent, when a person genuinely believes that an emergency has occurred and that belief subsequently turns out to be unfounded.

Aligns to:

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- **Shetland Single Outcome Agreement 2012 – 2015**
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    - Outcome 10: Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
    - Outcome 12: We live in well-designed, sustainable places;
    - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Identifying premises with high UFAS activity levels to determine if they comply with the Fire (Scotland) Act 2005 and have appropriate fire safety management procedures in place;
- Engaging with the owners and occupiers of premises with high UFAS activity levels to provide support, advice and guidance for developing suitable action plans for UFAS reduction;
- Call challenging and proactive monitoring of malicious 999 calls, with educational programmes for engaging with those identified as having made malicious calls.

In doing so we will also add value by:

- Reducing unnecessary demand and impact on the public and business sector through lost working time, including the time lost to the Shetland employers who release RDS firefighters to respond to false alarms;
- Reducing the risk to the community and RDS firefighters by minimising unnecessary vehicle movements on Shetland's roads;
- Reducing costs to SFRS from the unnecessary mobilising of RDS firefighters and the operating of SFRS vehicles;
- Reducing the environmental impact of unnecessary vehicle movements.

8. Enhance our Contribution to Community Planning

Community planning partnerships, such as the Shetland Partnership, were established to create a link between communities and public sector organisations. Nationally, the Fire and Rescue Service has a strong track record of success within the community planning arena. The creation of the SFRS provides an opportunity to improve our efficiency and effectiveness by playing our part in the multi-agency aspiration to make our communities safer. Integration at a local level is achieved by collaboration and partnership working.

Better integration with the Shetland Partnership will provide us with opportunities for improvements in front-line outcomes, crucially against a backdrop of budget reductions and restrictions for all public services in Scotland.

The SFRS sees this is an opportunity to truly place local fire and rescue services at the heart of our communities. Through the Shetland Partnership, the Local Senior Officer will perform a lead role in being responsible for ensuring that the SFRS is viewed as a valued partner across all of Shetland's partnership groups.

Aligns to:

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    - Outcome 12: We live in well-designed, sustainable places;
    - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Improving the information sharing processes between SFRS and our Shetland partner agencies;
- Contributing to local partnership safety initiatives, influenced by evidence and partnership data;
- Working with Shetland partners to develop improved engagement structures and strategies which will encourage Shetland communities to contribute to the community planning agenda - including those people traditionally identified as being hard to reach.

In doing so we will also add value by:

- Ensuring that shared partnership information is utilised to identify service delivery needs and partnership opportunities;
- Ensuring that service delivery resources are targeted effectively towards evidenced community and SFRS priority areas;
- Reducing the risk, personal and social impact of fire and other emergencies in Shetland so that people are safer at home and in the wider community;
- Improving the effectiveness and inclusivity of community engagement in Shetland.

9. Enhance our Local Engagement Practices

It is important that we are able to identify and reach out to the members of the Shetland community who are deemed to be at increased risk. For example, the Shetland population has seen an increase in the proportion of people living alone and also those over the age of sixty five. Our services will help to ensure that they are able to live long and independent lives, safe from fire and other emergencies.

Working with our partners we will identify and take steps to meet the needs of those who are vulnerable in society because of their age, their living circumstances, because of a disability or due to social, economic and lifestyle factors.

Whilst the 2011 Census shows only a small number of people of minority ethnicity, the expected rise in the number of migrant workers from those countries which are the newest members of the European Union, means that we must ensure the needs of all members of our community are being considered. We recognise our duties under the Equality Act 2010 in relation to the protected characteristics and we will strive to deliver appropriate services to everyone in Shetland. In doing so, we will support the effective implementation of the SFRS Equality Outcomes and in particular, improve the equality of access and delivery of those services.

Aligns to:

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    - Outcome 12: We live in well-designed, sustainable places;
    - Outcome 15: We will deliver sustainable services and make sustainable decisions, which reduce harmful impacts on the environment.

We will achieve it by:

- Working with Shetland partners to develop improved engagement structures and strategies which will encourage Shetland communities to contribute to the community planning agenda - including those people traditionally identified as being hard to reach;
- Improving the information sharing processes between SFRS and our Shetland partner agencies;
- Ensuring that effective Equality Impact Assessments are carried out for our service delivery activities in Shetland;
- Working with partners to identify the most at risk and vulnerable members of the community.

In doing so we will also add value by:

- Improving the effectiveness and inclusivity of community engagement in Shetland;
- Ensuring that shared partnership information is utilised to identify service delivery needs and partnership opportunities;
- Implementing the SFRS Equality Outcomes to make our service delivery as inclusive as reasonably possible;
- Ensuring that service delivery resources are targeted effectively towards evidenced community and SFRS priority areas.

Achieving Local Outcomes

Achieving Safer Communities in Shetland

Following a process of identifying local risks within Shetland, priority actions to address them and expected outcomes have been set within this plan. Local risks were identified following consideration of political direction set by the Scottish Government, community needs identified through consultation and the operational resources and capacity of the SFRS.

Outcomes

The outcomes expected from the priority areas set out in the Shetland Local Fire and Rescue Plan 2014-2017 will be scrutinised by the Shetland Safety Board. Outcomes will be measured against the reduction set within this plan and those agreed between the SFRS and the Shetland Partnership Board which are set out in the Shetland Single Outcome Agreement.

For the fire and rescue service the outcomes will include reduced demand on operational intervention, resources and operating costs; reductions in reported dwelling house fires and related casualties and fatalities; reduction in fire related antisocial behaviour; and increased delivery of home fire safety visits to those identified as high and very high risk.

Review

To ensure this Local Plan remains flexible to emerging local or national priorities a review may be carried out at any time but will be reviewed at least once in its life time. A review may also be carried out if the Scottish Minister directs it or if a new Strategic Plan is approved.

Following a review the Local Senior Officer may revise the Plan.

Feedback

Contact us

If you have something you'd like to share with us, you can get in touch in a number of ways:

- Use the feedback form on our website to send an email - www.firesecotland.gov.uk
- Contact your local community fire station - details are listed on our website or in your local telephone directory.
- Contact (LSO) Area Headquarters in Inverness on 01463 227000.
- Write to us at the address at the bottom of this page.

We are fully committed to continually improving the service we provide to our communities and recognise that to achieve this goal we must listen and respond to the views of the public.

We use all feedback we receive to monitor our performance and incorporate this information into our planning and governance processes in order to continually improve our service.

We are proud to say that the majority of the feedback we receive is positive, and we are keen to hear examples of good practice and quality service delivery that exemplifies the standards of care that we strive to provide for the communities of Scotland.

In instances where our standards of service are questioned, we welcome the opportunity to investigate the circumstances, and are committed to correcting any lapses and using the learning outcomes to improve our future service delivery.

IF YOU WOULD LIKE A COPY OF THIS DOCUMENT IN A DIFFERENT FORMAT OR A VERSION IN ANOTHER LANGUAGE PLEASE CONTACT:

Scottish Fire and Rescue Service, Service Delivery Area North HQ,
19 North Anderson Drive, Aberdeen, AB15 6TP.
Tel 01224 696666 Fax 01224 692224
or alternatively visit our website **www.firescotland.gov.uk**

Glossary of Terms

Accidental:	Caused by accident or carelessness. Includes fires which accidentally get out of control.
Casualty:	Consists of persons requiring medical treatment beyond first aid given at the scene of the incident, those sent to hospital or advised to see a doctor for a check-up or observation (whether or not they actually do). People sent to hospital or advised to see a doctor as a precaution, having no obvious injury, are recorded as 'precautionary check-ups'. Casualty figures do not include fatalities.
Deliberate:	Covers fires where deliberate ignition is suspected
False Automatic Fire Alarm:	Is defined as an event in which the Fire and Rescue Service believes they are called to a reportable fire and then find there is no such incident. These can be Malicious, of Good Intent or caused by Apparatus. The False Fire Alarms recorded for our indicator are those caused by Apparatus, as these constitute a significant majority of False Fire Alarm incidents.
Fatality:	A casualty whose death is attributed to a fire is counted as a fatality even if the death occurred later. Fatalities associated with Other Incidents can include attendance to assist Police or Ambulance colleagues when a person has been found who has committed suicide, for example. Often there is little we can do as a Service to influence this particular figure.
Primary Fires:	Includes all fires in buildings, vehicles and most outdoor structures or any fire involving casualties, rescues or fire attended by five or more pumping appliances.
Secondary Fires:	These cover the majority of outdoor fires including grassland and refuse fires unless they involve casualties or rescues, property loss or if five or more appliances attend. They include fires in derelict buildings but not chimney fires.

FREE Home Fire Safety Visit and FREE Smoke Alarm

Fire can happen to anyone.

But it is our job to help make sure your home is as safe from fire as it can be. This is why we provide free Home Fire Safety Visits.

Our staff can help you spot a possible fire hazard, offer advice and guidance and fit smoke alarms free of charge if your home requires them.

A Home Fire Safety Visit only takes around 20 minutes. And that 20 minutes might just save your life.

Visits are easy to arrange.

A Home Fire Safety Visit can be organised at a time that suits you, day or night. We would also like community members to think about anyone you know who could be at risk from fire. It could be a friend, relative, or neighbour. To book a free Home Fire Safety Visit for you, or for someone you know:

CALL 0800 0731 999
TEXT 'CHECK' TO 61611
or visit **www.firescotland.gov.uk**

Fact.
Every hour of every day there's a house fire in Scotland.

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Always ask for official identification - all employees of the Scottish Fire and Rescue Service will be happy to produce this on request.

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Draft version 2.1 16th April 2014