Agenda Item
1

Shetland Islands Council

Audit Committee **29 June 2015**

Internal Audit – Annual Report 2014/15	
Report No: IA-10-15-F	
Report Presented by Executive Manager – Audit, Risk & Improvement	**Internal Audit**

1.0 Summary

1.1 This report presents the Audit Committee with an Annual Report (Appendix 1) of the activity of the Internal Audit Service for 2014/15.

1.2 The Annual Report is for noting.

2.0 Decision Required

2.1 The Audit Committee is asked to note the contents of the Annual Report and comment accordingly.

3.0 Detail

3.1 The purpose of Internal Audit, as defined in the Audit Charter, is to reassure Council Members that:

- there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and

- the Council's systems of internal control, corporate governance and risk management are both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

3.2 Appendix 1 details the Internal Audit activity for 2014/15, with a brief description of key audit issues identified since the interim report to the Audit Committee in November 2014. Full copies of most Internal Audit reports, the Strategic Plan (currently under review) and the annual operational plan can be found on Internal Audit's site on the Council Internet.

3.3 Managers have undertaken to rectify issues through the agreed action plans to a satisfactory degree.

3.4 Within service areas subject to Internal Audit review, and assuming implementation of the recommendations made, reasonable assurance can be placed upon the controls in operation.

3.5 Follow up audits in their current form are no longer undertaken, as a matter of course, albeit follow up work was undertaken in relation to ICT inventory control and at Ferries and Ports & Harbours as referred to below. Responsibility rests with managers to update progress on agreed courses of action. Quarterly reports are presented to CMT highlighting agreed actions which have passed their agreed implementation date. It then becomes the appropriate Director's responsibility to progress. Any ongoing matter of particular concern would be reported to Audit Committee.

3.6 It was reported in my 2012/13 and 2013/14 annual reports that compliance with Council Standing Orders and the Small Contracts Procedures continued to be a problem area. It was further advised to Audit Committee in February 2014 that there were still substantial issues of concern, notably in Ferries and Ports & Harbours.

3.7 A follow up audit was recently undertaken in relation to Ferries and Ports & Harbours and whilst there are still issues to be resolved it is clear that progress is being made. It is however likely to be another 2 years before all issues are fully compliant. The Director – Infrastructure Services continues to take a proactive role in relation to these matters.

3.8 It is therefore intended that a corporate review of contracts will be undertaken in 2 years time. This is a situation that is being closely monitored by Audit Scotland and is recorded on the Corporate Risk Register.

3.9 In previous years I have reported that Risk Registers throughout the Council were not fully completed and that a review of the Best Value checklist for risk management also revealed that there were a number of areas in relation to risk management that still required to be improved corporately.

3.10 As Members will be aware as a result of restructure risk management is now within my remit, which has the potential for a conflict of interest with my role as Chief Internal Auditor for the Council. Wording to address this has been incorporated within the Internal Audit Charter (Appendix 3 Para 1.3).

3.11 Notwithstanding the above an independent risk management review was commissioned and an action plan with 26 points was created. These actions are now being progressed with a revised Risk Strategy and Policy being presented to Policy & Resources and the Council during this cycle. The Risk Board has also been reformed with CMT undertaking this important role and risk management training has been rolled out to Executive Managers. The Risk Management Officers will be working with departments to improve risk registers throughout 2015/16 and to progress further the action plan.

3.12 An independent reassessment of the risk management best value checklist will be undertaken by the Principal Internal Auditor in the final quarter of 2015/16 and will be reported to Audit Committee thereafter. Audit Scotland will also be monitoring risk management within the Council.

3.13 Other prime areas of concern identified during 2014/15 were contractual issues within the Energy Unit, VAT issues and spend to save issue within Waste, lack of appropriate SLAs at Environmental Health and Sports & Leisure, relief workers not being appropriately used in the Council, financial management and asset security issues within the College, initial issues with the revised Travel Policy, incomplete Employee Register of Interests records, disclosure issues, non observance of purchasing / invoice procedures, lack of a Post Implementation Review in ICT, and a continuing stock control issue at ICT. In addition secure operating procedures had not been developed for the Covalent System and there were licensing and contractual issues that required clarification.

3.14 Internal Audit also liaises with the Council's External Auditors, Audit Scotland, providing them with copies of all reports issued. This arrangement is reciprocated and is working satisfactorily.

Internal Audit Resourcing

3.15 As advised last year the Internal Audit Service was undergoing some staffing changes.

3.16 This has resulted in a reduction in available resource. The Internal Audit team are currently working on a project to streamline processes in order to concentrate resource on areas of higher risk.

3.17 Staff will continue to progress individual training plans within budgetary constraints.

3.18 The Audit & Systems Assistant is part of a cohort of 4 Council staff currently progressing through the CIPFA Accountancy qualification and has successfully passed the first 2 exams.

Internal Audit Performance

3.19 For 2014/15, Internal Audit have performed 94% of the Audit Plan. This compares to 93% completion in 2012/13. This is directly attributable to the hard work of Internal Audit staff in a period of significant change.

3.20 The performance target of issuing draft final reports within 14 days of audit testing completion was achieved in 100% of cases.

3.21 Internal questionnaires completed and returned by auditees continue to indicate a high level of satisfaction with the service received.

3.22 Quarterly Internal Quality review meetings are held between the Executive Manager and the Principal Internal Auditor. In addition regular team meetings and ongoing quality checks are undertaken. This all contributes towards compliance with the Public Sector Internal Audit Standards (PSIAS).

<u>Public Sector Internal Audit Standards</u>

3.23 As the Committee are aware, a new set of professional standards based on the mandatory elements of the Institute of Internal Auditors (IIA) International Practices framework came into force on 1 April 2013. Shetland Islands Council Internal Audit Service substantially complies with these standards and, as previously advised, moves have been ongoing within SLACIAG (Scottish Local Authority Chief Internal Auditors Group) to ensure an external peer review is undertaken on a 4-yearly basis in compliance with PSIAS requirements.

3.24 A review of the Council's Internal Audit is to be undertaken by the Chief Internal Auditor from the Western Isles in August this year. This will be reported to Audit Committee in due course.

<u>Fraud / National Fraud Initiative (NFI)</u>

3.26 The Council's Strategy for the Prevention and Detection of Fraud and Corruption requires that all suspicions of impropriety must be reported to the Executive Manager – Finance and the Executive Manager – Audit, Risk & Improvement.

3.27 All frauds over £5,000 require to be reported to Audit Scotland. For 2014/15 no issue was formally reported.

3.28 Instances of fraud/ theft are relatively rare in the Council. However, it is essential that adequate controls remain in place and are observed to try and ensure this remains the case.

3.29 The Council is part of the 2014/15 NFI with data submitted, which will be subject to review. It is on Internal Audit's plan to review the adequacy of Council action in the third quarter of this financial year.

<u>SLACIAG</u>

3.30 The annual report of SLACIAG for 2014/15 forms part of this report as Appendix 2. SLACIAG meets quarterly, and in addition there is a Computer Audit Sub Group (CASG) that meets 3 times a year.

3.31 The Principal Internal Auditor and the Executive Manager – Audit, Risk & Improvement contribute to these groups and regularly attend meetings although frequency of attendance has reduced due to budgetary constraints.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – This report, which provides Members with an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance and the priority aim to be a properly led and well managed Council dealing with the challenges of the present and the future and doing that within our means.

4.2 Community /Stakeholder Issues – None.

4.3 Policy and/or Delegated Authority – The Audit Committee remit includes consideration of audit matters and to oversee and review action taken on Internal Audit activity.

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

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 Notwithstanding the issues highlighted above and in Appendix 1, from the work performed as part of the annual audit plan for 2014/15, Internal Audit concluded that the Council's systems of internal control, governance and risk management were generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed, have been or will be addressed.

5.2 Any system of internal control can only provide reasonable, but not absolute, assurance against loss. Internal Audit can only provide reasonable comment that there are no major weaknesses in the systems they have reviewed.

For further information please contact:
Crawford McIntyre – Executive Manager –Audit, Risk & Improvement
01595 744546
crawford.mcintyre@shetland.gov.uk
June 2015

List of Appendices
Appendix 1 - Annual Report for 2014/15.
Appendix 2 - SLACIAG Annual report 2014/15
Appendix 3 - Internal Audit Charter
END

Audit	Auditee	Progress Report / Key Audit Issues
Youth Services c/fwd	Team Leader – Youth Services	Reported Nov 14.
Local Taxation c/fwd	Senior Revenues Officer	Reported Nov 14.
Environment – Environmental Health	Team Leader Environment	The key audit issue was there was no Service Level Agreement in place with CAB. A sum of £49,441 had been paid for services received for this financial year. However, there was no record held or monitoring undertaken to show the level of services being received for this sum. A Service Level Agreement should be in place setting out the level of service required and conditions that should be applied for the funding granted. The issue was accepted and commitment was given to address this and other audit issues identified.
Energy	Team Leader – Environment & Energy	Reported Nov 14.
Waste & Burial Grounds	Executive Manager – Environmental Services	Reported Nov 14.
Finance – Benefits/Rents	Team Leader – Revenues & Benefits	There were no significant areas of concern found during this audit.
Sport & Leisure	Executive Manager – Sport & Leisure	Two key audit issues were identified during this audit. Currently there is no service level agreement between Shetland Islands Council and Shetland Arts for the operation of the Shetland Box Office. However, it is acknowledged that discussions have been held between both parties regarding this issue. The other key issue is that relief employees are working excessive hours without taking the required breaks in service. Further audit issues with commitment given to address matters.

Environment – Trading Standards	Team Leader - Trading Standards	Reported Nov 14.
Economic Development / Development Trust	Executive Manager – Economic Development	No key audit issues were identified and commitment was given to address issue raised.
Shetland College	Acting College Principal – Shetland College	Whilst none of the findings singularly merit a key audit issue the culmination of issues relating to areas of financial management and asset security within the College are considered key. These included the reconciliation of student fees, income and charging for the cafeteria and the Textile Facilitation Unit, a lack of assurance surrounding the security of college property, lack of evidence to support the economic viability of discretely run courses and standing orders / issues relating to leases. Commitment was given to address all issues identified.
Members Allowances	Executive Manager – Executive	No key audit issues identified and commitment was received to address issues identified.

Investigations / Reviews	**Reported to:**	
SUMS College	Acting College Principal – Shetland College	Report issued October 2014.
Hardship Fund	Acting College Principal – Shetland College	Report issued October 2014.
LEADER Funding	Executive Manager – Economic Development	Report issued November 2014.
AXIS 4	Executive Manager – Economic Development	Report issued August 2014.
Performance Indicators	Internal	Review undertaken July 2014.

Travel	Executive Manager	The key audit issues identified were: We are unable to establish if the Capita System is providing the Council with best value. There appeared to be an inconsistency between the Policy's expectations of the Travel Co-ordinators and what the Travel Co-ordinators expects from the traveller for booking travel and accommodation. Correct procedure and authorisation was not always followed for processing and booking of travel and accommodation. Other issues were identified and commitment was given to address all matters.
Register of Interests	Executive Manager – Human Resources	The findings showed that records were not always being completed or if they were they could not be evidenced The current policy was not being collectively observed, guidance and forms are out of date and annual reminders are not being issued consistently. Commitment was given to address these matters.
Disclosures / PVG	Executive Manager – Human Resources	The local policy requirement that a new standard disclosure check or PVG Scheme Record Update should be carried out at three yearly intervals is not being applied with approximately 600 effective/active posts requiring a PVG Update and another 10 who may require a new Standard Disclosure. In addition to this a number of issues were identified with regard to recordkeeping and the application of guidance. Commitment was given to progress all matters.

Purchasing / Invoice Payment including review of new invoice authorisation controls	Executive Manager - Finance	In areas where manual and Integra orders without online approval are still being used, purchase ordering procedures are not being fully observed in over 50% of cases. In particular, goods received are not being evidenced prior to payment and purchase orders are not always being produced. This situation leads to the potential for misappropriation. It was also disappointing to note that payment transactions were not always processed timeously. Commitment was given to progress all issues identified.
Voluntary Severance	CMT	c/fwd to 15/16
HR 21 Project Management and Post Implementation Review	Executive Manager – ICT	The main finding was that a Post Implementation Review (PIR) was not carried out for a project where a PIR was highlighted as a requirement on the Project Initiation Document (PID). Commitment was given to address this.
IT Related Risk Management	Executive Manager – ICT	To Reschedule for 2015/16.
Network Security	Executive Manager – ICT	To reschedule for 2015/16 as training was delayed.
Systems Access	Covalent	Contractual and licensing arrangements could not be sourced and therefore we could not be assured of the security, integrity and continuity of our data or that we are correctly and appropriately licensed. Secure Operating Procedures had not been developed affecting access rights, inconsistent access, approval/authorisation issues,

		existence of generic user names, removal/disabling processes, housekeeping issues e.g. group membership, protocols etc had not been developed. These issues were acknowledged and a commitment was received to address all of these issues by the end of March 2015.
Follow Up Audit Monitoring	Director – Infrastructure Services	A follow up audit was recently undertaken in relation to Ferries and Ports & Harbours and whilst there are still issues to be resolved it is clear that progress is being made. It is however likely to be another 2 years before all issues are fully compliant. The Director – Infrastructure Services continues to take a proactive role in relation to these matters. In addition a follow up was undertaken in relation to stock control at ICT. It was identified that, while there had been some procedural changes in this area, there was still insufficient control surrounding the stock. Through consultation with Internal Audit, a reconciliation process has been developed to ensure integrity of stock while a long term solution to stock control is being investigated. A procedure and reconciliation spreadsheet has been developed which will reconcile the current stock quantity held to the previous months balance, adjusted for any issues and receipts. It is expected that the procedure and reconciliation spreadsheet will be tweaked once operational, making the process more user friendly. It is Internal Audit's opinion that following this process will provide for better integrity and control over the stock. It has been agreed that a further follow up will be arranged to ascertain

		the effectiveness of this process in 6 months time.
Community Care Banked Hours	Executive Manager – Community Care Resources Interim Executive Manager – Adult Services	Minor issues were identified. These were acknowledged and commitment to address given.
Key Fob Security at North Ness	Executive Manager – Capital Programme	Reported Nov 14.
Annual Leave / Public Holidays recorded on CHRIS 21	Executive Manager – Human Resources	Reported Nov 14.

SCOTTISH LOCAL AUTHORITIES
Chief Internal Auditors' Group

ANNUAL REPORT FROM THE CHAIR – 2014/2015

1. INTRODUCTION

1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.

1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of Local Authority Internal Audit, governance, and operations. In support of that vision the Group has four key objectives:

- to raise our profile with key stakeholders and to be recognised as the logical, respected, and essential source of opinion on governance, risk, and control within Scottish Local Government;
- to identify areas of Internal Audit work where a pan-Scotland or inter-Authority approach will bring benefits to our people, clients, and stakeholders;
- to consider the development and training needs of our people; and
- to seek statutory recognition for the role of Internal Audit in Scotland.

1.3 The purpose of this Annual Report is to provide an update on the Group's activities and achievements over the course of 2014/15.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2014/15

2.1 SLACIAG met four times during 2014/15:

- 20 June 2014 – hosted by Perth and Kinross Council;
- 12 September 2014 – hosted by Fife Council;
- 28 November 2014 – hosted by Glasgow City Council; and
- 20 March 2015 – hosted by East Ayrshire Council.

2.2 All of the meetings were very well attended, re-affirming the value of the Group to members. This is particularly pleasing at a time of such significant change across Local Government generally and for Internal Audit in particular.

2.3 This is perhaps best illustrated by the variety of topics considered by the Group over the course of the year, and the calibre of speakers who attended and presented.

2.4 For example, our year kicked off in March 2014 with a highly insightful and thought provoking presentation from Colin Mair, Chief Executive of the Improvement Service. Colin helped set the context for the year by talking about the need for considered transformational change across Local Government, and Internal Audit's role in helping to facilitate that change. This became a recurring theme over the course of the year, with the majority of Heads of Internal Audit and their internal audit teams having some role to play in their Council's change management and improvement programmes.

2.5 Examples of significant transformation came from George Black, then Chief Executive of Glasgow City Council, who spoke at our November 2014 meeting about his Authority's transformation journey.

2.6 Various speakers over the course of the year have helped the Group get to grips with the risks, challenges and opportunities associated with Health and Social Care Integration. For example, Claire Sweeney and Neil Cameron of Audit Scotland attended in November 2014 to talk about the evolving regulations and guidance, as well as some of the issues to be considered by Internal Audit both pre and post implementation. This was built on at our March 2015 meeting when Laura Friel, Corporate Director - Finance and Corporate Support of North Ayrshire Council, spoke very enthusiastically and positively about the integration work being undertaken, both at a local and a national level.

2.7 Another key theme considered by the Group during 2014/15 was corporate fraud and the extent to which Internal Audit (particularly where there is shared responsibility across Internal Audit and Corporate Fraud teams) can input into prevention and detection of fraud within their organisations.

2.8 In fact, our meeting in September 2014 was largely given over to this topic. Brian Taylor, Senior Risk Manager of the Scottish Government, provided an update on national developments, and in particular on the various working groups set up to develop strategic and practical approaches to identifying and dealing with fraud. Brian Livingston, Executive Director - Finance and Resources of Fife Council, then spoke about his expectations in relation to Internal Audit's role.

2.9 The practicalities of setting up and operating a corporate fraud team were then explained by Barry Moncur of East Dunbartonshire Council. Barry also spoke about his approach to identifying and investigating the areas of highest fraud risk, using case studies to illustrate some of the positive outcomes he and his team had achieved.

2.10 The counter fraud theme carried over into our March 2015 meeting, when Owen Smith of Audit Scotland gave his perspective on the 2014/15 National Fraud Initiative exercise.

2.11 2014/15 was also a pivotal year in relation to the development of the SLACIAG approach to External Quality Assessment. The 2013 Public Sector Internal Audit Standards require that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. While this service can be purchased from various private sector providers, SLACIAG took the view that a peer review approach would be beneficial to member Authorities, both from a financial and developmental perspective.

2.12 A sub-group of volunteer members lead by Vice Chair, Andrea McMahon of Renfrewshire Council, has undertaken significant work on the development of a peer review approach, and an initial pilot involving a sample of Councils is nearly completed. Over the course of 2015/16 and subsequent years this approach will be rolled out to all Councils willing to participate, and a timetable for this has been agreed.

2.13 Members of SLACIAG have also benefited over the course of the year from a programme of high quality training events, organised by Andi Priestman of Inverclyde Council, the Training Sub-Group. Topics included:

- IT for Non-IT Auditors;
- Value for Money Auditing;
- Fraud Investigation Skills; and
- Counter Fraud.

2.14 All of these were well attended, offered very good value and attracted positive feedback from delegates.

2.15 SLACIAG's commitment to providing training and development opportunities to its members will continue into 2015/16, with the bi-enniel conference, to be held in Dundee on 08 and 09 June 2015, a particular highlight. It is hoped that this will be an interactive event, and that it will drive the themes and topics to be explored further at future SLACIAG meetings, as well as identify any specific training needs or themes to inform the Group's training and development plan for this financial year.

2.16 As usual, the Group held its Annual General Meeting in March 2015. At that meeting the Treasurer, Kenneth Ribbons of West Lothian Council, provided an update on the Group's finances, which continue to show a healthy financial position. This will allow rates for attendance at the June 2015 Conference to be held at a level which offers very good value.

2.17 Probably the most significant development during 2014/15 was the achievement of the Group's objective to seek statutory recognition for internal audit in Scotland. The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. The regulations require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector. The standards require internal audit to have suitable operational independence from the authority.

3. COMPUTER AUDIT SUB-GROUP

3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, and new and current topics of interest.

3.2 During 2014/15 CASG met three times:

- 24 April 2014 at East Renfrewshire Council;
- 22 August 2014 at Dundee City Council; and
- 25 November 2014 at Fife Council.

3.3 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. The purpose of these presentations is to keep the group updated and informed on computer audit developments, resources, and techniques.

3.4 In the past year, presentation topics have included:

- ICT and Information Management Costs / Areas of Savings;
- The logic behind the Information Commissioner's Office taking regulatory action;
- Internet Policy for children in care homes;
- Public Sector Network workstreams;
- ICT licensing;
- ICT Asset Management;
- ICT Strategy and Governance;
- Disaster Recovery; and
- ICT and Information Management Audit Universe.

3.5 CASG meetings continue to attract increasing numbers and cater for computer audit knowledge from novice through to professional level. During 2014/15, CASG meetings were attended by auditors from 24 of the Local Authorities as well as auditors from SPT and Scottish Water. The group will consider in the upcoming year any areas where ICT related training would be beneficial.

4. SUMMARY

4.1 The role of Internal Audit continues to evolve with Health and Social Care Integration, continued pressure on budgets, and reducing resources across all Councils amongst the key drivers of change.

4.2 The membership of SLACIAG also continues to change, with new members joining and an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Heads of Internal Audit.

4.3 That said, the commitment of members both to SLACIAG, and the wider profession, remains unchanged, and this is reflected in the excellent attendance at and contribution to meetings of the Group over the course of 2014/15.

4.4 2015/16 will be another challenging year for Internal Audit in Local Government. I'm firmly of the belief, however, that, individually and collectively, SLACIAG will continue to be at the forefront of developments, and that our voice will continue to be heard as experts in matters of risk management, governance, and control.

4.5 Finally, I would like to take this opportunity to thank the Committee and all Group members for their support and contributions during 2014/15.

Jill Stacey (Chief Officer Audit and Risk, Scottish Borders Council)
Chair of SLACIAG
18 May 2015

SHETLAND ISLANDS COUNCIL
CORPORATE SERVICES
AUDIT, RISK & IMPROVEMENT

INTERNAL AUDIT CHARTER

Approved by Standing Committee : 28/03/2002 (Min Ref 11/02) &
Approved by Council 3/4/2002 (Min Ref 52/02)
Latest Review : Jan 2015
Next Review Date : April 2016

1. Introduction

1.1 Shetland Islands Council Internal Audit Service is required to observe the requirements of the Public Sector Internal Audit Standards (PSIAS) from 1st April 2013.

1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1.3 The Executive Manager – Audit, Risk & Improvement has managerial responsibility for the Council wide functions of Risk Management and Performance & Improvement. In order to ensure that Internal Audit independence and objectivity is maintained any work in these areas will be carried out by other Internal Audit staff with the Executive Manager as the client. The Executive Manager will have no involvement in the delivery or reporting of the audit review and the report will be published by the Principal Internal Auditor.

1.3 In accordance with PSIAS; Internal Audit staff will demonstrate integrity, objectivity, confidentiality and competency in all aspects of their work.

1.4 Internal Audit aims to support Members and Officers of the Shetland Islands Council in the effective discharge of their responsibilities. In terms of the applicable standards (PSIAS), the "Board" shall mean the Audit Committee and "Senior Management" shall mean The Corporate Management Team.

2. Values

2.1 In everything it does Internal Audit will be open, fair, courteous, consistent and accountable.

2.2 Internal Audit is committed to quality in the provision of all services and facilities. It will regularly check performance and seek opportunities for improvement and value for money and strive to deliver the best practicable standard of service.

2.3 Internal Audit values its staff and their professionalism, knowledge, skills and judgement and is committed to developing and motivating them.

3. Management and Internal Audit

3.1 It is the responsibility of Management to establish an operating environment which is controlled, efficient and effective. Internal Audit is one element of control within the operating environment.

3.2 The operating environment also depends upon the system of internal control, the objectives of which are to ensure that:

(a) operations are conducted in an efficient and well ordered manner to fulfil defined objectives;

(b) Council assets are safeguarded; and

(c) reliable information is available on which sound decisions can be made by those authorised to do so.

3.3 Internal Audit does not relieve management of its responsibility for maintaining effective control, corporate governance and Risk Management. It is, however, that element of the control environment specifically established to effectively appraise the effectiveness of control. It can then reassure management when control is adequate and identify and report inadequate control to enable the appropriate action to be taken to strengthen it before any serious breakdown occurs.

3.4 The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds. Internal Audit contributes to these requirements. The format of Internal Audit depends upon how councillors perceive the role and the resources they are prepared to invest in it.

4. Organisational status and relationships

4.1 Internal Audit is responsible to the Director – Corporate Services. This reporting line enables it to examine all functions objectively without being constrained by direct line management. Internal Audit reports are cleared with the accountable level of management, prior to formal issue, without reference to the Director, thus achieving reasonable independence.

4.2 The Executive Manager must establish and maintain good working relationships and channels of communication with Elected Members. This is maintained by providing, as a minimum, six-monthly reports to the Audit Committee and attendance at other Audit Committee meetings as a lead officer. In the intervening period, should communication be required between Members and Internal Audit, this will be mutually arranged.

4.3 Internal Audit's effectiveness is critically dependent on maintaining credibility with all employees. This in turn depends upon building and maintaining a reputation for contributing constructively and adopting an objective professional approach. Internal Audit and line management share a common aim to achieve an effective internal control, risk management and corporate governance environment. Internal Audit endeavours to establish a partnership with the auditee for a joint operation to improve conditions.

4.4 Whereas the aim of Internal Audit is to assist management, the external auditors fulfil a statutory duty for which they are responsible to the Accounts Commission.

4.5 The objectives differ, but in practice much of the evidence each collects, as the basis for audit judgements, may be common to both purposes. Effective liaison between Internal Audit and the external auditors is necessary to avoid duplication of work and clashing timetables. Internal Audit consults regularly with the external auditors in the process of planning audit assignments and coverage. Internal Audit plans are sent to the external auditors. Copies of all Internal Audit reports issued, and working papers, are made available to them for examination.

5. Staffing and Training

5.1 Internal Audit shall be staffed with persons of appropriate qualifications and experience. Audit staff should have considerable experience in a finance-related post. Staffing levels should be sufficient to enable delivery of the audit plan.

5.2 The Executive Manager, in conjunction with the Director Corporate Services, will ensure that formal and effective training takes place to enable all staff within Internal Audit to carry out their work in accordance with the required standards laid down in the Audit Manual.

5.3 Training requirements for Internal Audit personnel will be linked wherever possible to their particular function.

5.4 The Executive Manager will ensure that each employee is correctly qualified and trained.

5.5 Where a particular expertise is required by any member of staff, the Executive Manager will consider the use of: -

- in-house training course
- external training course
- arrange for the member of staff to work alongside someone with the required expertise.

5.6 The training needs of all staff will be reviewed annually and discussed with them but provision will be subject to resource availability.

5.7 All training undertaken by Internal Audit staff will be recorded on their personal training record.

5.8 It is the responsibility of the Executive Manager to identify the training needs of staff and to ensure that all training programmes are completed as directed.

6. Objectives

6.1 Internal Audit is required to reassure Council Members as follows:

1. That there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided.

2. That the Council's system of internal control, corporate governance and risk management are both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

6.2 Internal Audit meets these requirements through adopting the following procedures:

1. Establishing and maintaining standards for the practice of effective internal auditing throughout the Council.

2. Testing the Council's control systems for adequate effectiveness and compliance.

3. Liaison with the external auditors to avoid duplication or gaps in cover.

4. Facilitating dissemination throughout the Council of the lessons learned through Internal Audit findings.

5. Reporting to Senior Management on the adequacy of internal control, corporate governance and risk management throughout the Council.

6. Reporting an annual opinion to Committee on the adequacy of internal control, corporate governance and risk management throughout the Council and on the internal audit work planned for each ensuing year.

7. Responsibilities

7.1 Internal Audit is authorised to examine all activities throughout the Council for the purpose of evaluating internal control, with specific responsibilities:

1. Performing audit assignments at appropriate intervals to reassure management that controls are adequate, efficient and operating as designed.

2. To identify and report to management any weakness in control and any unsound procedures.

3. To offer feasible recommendations for improving performance and preventing future shortcomings.

4. Investigating fraud, conflict of interest and other irregularities.

7.2 Internal Audit is concerned to preserve their independence from the operations they examine. They are not empowered to make changes in systems, methods or staffing, and may not undertake to do so. Their role is to act as agents for change by making recommendations to management from an impartial viewpoint. The auditee is responsible for managing risks identified.

7.3 In accordance with the Council's Strategy for the Prevention and Detection of Fraud & Corruption all suspicions of impropriety must be reported to the Executive Manager - Finance and the Executive Manager – Audit, Risk & Improvement and will be investigated. The Executive Manager – Audit, Risk & Improvement will ensure that matters are reported to the Police if there are reasonable grounds for believing that a criminal offence has been committed. He / She will also advise the Council's Monitoring Officer where deemed appropriate.

7.4 Internal Audit Staff are all aware of the need to avoid conflicts of interest or even the perception of such. Where any doubt arises discussion will be held with the Executive Manager and / or the Director Corporate Services.

8. Services

Internal Audit is in two parts:

8.1 Internal Audit assignments

8.1.1 Internal Audit assignments are in-depth examinations of all the key control systems throughout the Council. All assignments are normally performed on a service, corporate or specific issue basis and are timed in accordance with an audit plan.

8.1.2 The audit evaluates whether the environment of control developed by management is adequate and whether the detailed control systems give reasonable assurance that control objectives will be attained. Any significant control weaknesses are reported and management must then respond with a plan of action to address issues identified.

8.2 Investigation work

8.2.1 An investigation is a complete review of a particular activity, practice or incident at the specific request of Human Resources or the Chief Executive in conjunction with the relevant service directors.

9. The Audit Plan

9.1 All internal audit assignments are performed in accordance with an annual audit plan. The plan is a prioritised schedule of assignments to be performed during the course of the financial year within the framework of a 6-year risk based Strategic Audit Plan. The plan is developed and maintained by the Executive Manager and requires the approval of the Corporate Management Team (CMT) and the Council.

10. Working practices

10.1 For operations where the management or the circumstances have changed significantly since the last Internal Audit visit and for all operations not previously visited, Internal Audit initially approaches accountable management to explain the concept of internal auditing, Internal Audit's approach to audit assignments and to talk over possible areas where it could assist the management task.

10.2 Accountable managers are to allow Internal Audit unrestricted access to Council premises to interview staff, observe operations and examine records to enable them to fulfil their responsibilities. In addition, Internal Audit shall receive such explanations as are necessary concerning any matter under examination and require any employee of the Council to produce cash, stores or any other Council property under their control.

10.3 Internal Audit has an obligation to respect the confidentiality of information to which they are privileged to have access in the course of their work.

10.4 Internal Audit will discuss their findings and the conclusions they draw from them with the accountable management during the course of the audit assignment. A course of action to achieve operational improvements or to rectify control weaknesses may then be resolved jointly, to form the basis of the Internal Audit recommendations. This practice helps to ensure that the recommended course of action is feasible.

10.5 In addition, each audit assignment will address best value issues. Improving value for money in local government, by achieving optimum service standards, can partially be achieved through the use of Internal Audit resources. Where considered necessary, such suggested improvements will be communicated by means of audit findings or reportable observations.

11. Reporting

11.1 All material findings made during the course of an assignment will be documented by Internal Audit in the form of an audit comment. These will be addressed to the individual responsible for the area being audited and, if not the same person, to the person who is capable of rectifying the problem. A written response agreeing to the factual content of the comment is required and is recorded on the Covalent system.

11.2 A formal draft report will be issued within 2 weeks from completion of each audit assignment. On completion of the assignment and before the final report is issued, every effort will be made to ensure that its factual content is accurate, presented in appropriate context, and with proper emphasis.

11.3 Internal Audit reports are acknowledged to be confidential documents and are addressed to the Team Leader or Executive Manager, where appropriate, of the operation examined or to the Service Director. Copies of the report will be made available to the manager's immediate line manager and / or Director, the Director Corporate Services, the Executive Manager Finance and the Chief Executive. In addition, copies will be sent to other officers who, by virtue of their position in the Council, have a need to know (e.g. Executive Manager – Governance & Law) and will be made available to the external auditors. An action plan incorporating agreed responses and timescales will form an appendix to the report.

11.4 Corporate Reviews presented to CMT will be discussed in draft form at CMT prior to including a CMT agreed course of action within the final report.

11.5 Reports are posted on to Internal Audit's website following review by the Team Leader - Administration for Freedom of Information and Data Protection issues.

11.6 A synopsis of all assignments performed will be provided, in summary form on, at least, a six-monthly basis to the Audit Committee.

Agenda Item

2

Shetland Islands Council

Audit Committee **29 June 2015**

Audit Scotland and other External Audit Reports	
Report No: IA-11-15-F	
Report from: Executive Manager – Audit, Risk and Improvement	**Corporate Services**

1.0 Summary

1.1 This regular report provides an opportunity for the Audit Committee to consider and monitor progress on any recommended actions resulting from Audit Scotland and External Audit body reports which have been or will be presented to the functional Committees.

2.0 Decision Required

2.1 That the Audit Committee considers the progress statements provided by Lead Officers in Appendix 1, and makes any relevant comment on planned actions.

3.0 Background

3.1 On 20 August 2014, the Council adopted a new policy and procedure to monitor actions resulting from external Auditor's/Advisers reports (Min ref 61/14).

3.2 The key points of the new policy are:

- All Audit Scotland and other External Adviser's reports should be presented to the relevant committee within 2 cycles of publication.
- It is expected that each report will require an action plan to be prepared.
- The Audit Committee will consider the agreed action plan once it has been agreed with the relevant Service committee.
- The Lead Officer would confirm when all agreed actions were implemented and completed
- Reports will be presented to the Audit Committee to monitor progress against action plans.

3.3 Appendix 1 contains a list of the reports produced since the adoption of the new procedure/policy in August 2014.

4.0 Implications

Strategic

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

4.2 Community /Stakeholder Issues – NONE

4.3 Policy And/Or Delegated Authority – As outlined in Section 2.6 of the Council's Scheme of Administration and Delegations, the remit includes *"...review reports from the Council's External Advisors and review action on External Audit recommendations*".

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

4.5 Equalities, Health And Human Rights – NONE

4.6 Environmental - NONE

Resources

4.7 Financial – No direct implications

4.8 Legal – No direct implications

4.9 Human Resources - No direct implications

4.10 Assets And Property – No direct implications

5.0 Conclusions

5.1 The reports produced by the Council's External Auditors and Advisers provide valuable information for Committees and officers throughout the Council.

5.2 It is for the Audit Committee to be satisfied that appropriate action is being taken in relation to Audit Scotland and other external audit reports.

For further information please contact:
Melissa Mullay, Performance & Improvement Officer – Audit, Risk and Improvement
01595 744598
June 2015

List of Appendices

Appendix 1 – List of External Auditors/Advisers Reports

END

Audit Committee - External Adviser's Reports - Progress

Shetland Islands Council

Generated on: 17 June 2015

Rows are sorted by Original Due Date

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0012 Care Inspectorate - Newcraigielea	Clare Scott	Social Services Committee	22-Dec-2014	23-Feb-2015	10-Jun-2015	Presented to Social Services Committee on 10th June 2015.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18051 Link to Report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=273002
EA0001 Accounts Commission - West Lothian Community Planning Partnership	Vaila Simpson	Policy & Resources Committee	23-Oct-2014	05-Mar-2015		Presented Shetland Partnership Board 05/03/15. Draft development action plan noted, approved plan to be amended to reflect the outcomes of the community planning self-assessment work,before being brought back to the Board for discussion and sign-off.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=17285 Link to report: www.audit-scotland.gov.uk/docs/central/2014/nr_141023_west_lothian_cpp.pdf
EA0004 Accounts Commission - Orkney Community Planning Partnership	Vaila Simpson	Policy & Resources Committee	06-Nov-2014	05-Mar-2015		Presented Shetland Partnership Board 05/03/15. Draft development action plan noted, approved plan to be amended to reflect the outcomes of the community planning self-assessment work,before being brought back to the Board for discussion and sign-off.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=17285 Link to report: www.audit-scotland.gov.uk/docs/central/2014/nr_141106_orkney_cpp.pdf
EA0008 Accounts Commission - Community planning: Turning ambition into action	Vaila Simpson	Policy & Resources Committee	27-Nov-2014	05-Mar-2015		Presented Shetland Partnership Board 05/03/15. Draft development action plan noted, approved plan to be amended to reflect the outcomes of the community planning self-assessment work,before being brought back to the Board for discussion and sign-off.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=17285 Link to report: http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0013 Accounts Commission - South Ayrshire Council - Best Value Audit	Crawford McIntyre	Policy & Resources Committee	18-Dec-2014	09-Mar-2015		No further information will be presented to Committee until South Ayrshire follow up report is provided by Audit Scotland.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=17262 Link to report: http://www.audit-scotland.gov.uk/docs/best_value/2014/bv2_141218_south_ayrshire_council.pdf
EA0006 Care Inspectorate - Viewforth House (Care Home)	Josephine Robinson	Social Services Committee	17-Nov-2014	27-Apr-2015	19-May-2015	No further action as Viewforth has now closed.	Link to Report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=272184
EA0014 Care Inspectorate - Bells Brae Primary School Nursery	Christine Horrix	Education & Families Committee	26-Jan-2015	27-Apr-2015		Report will be presented to Education & Famillies Committee on 16th June 2015.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18095 Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=273927
EA0015 Care Inspectorate - Brae high School Nursery	Christine Horrix	Education & Families Committee	20-Jan-2015	27-Apr-2015		Report will be presented to Education & Famillies Committee on 16th June 2015.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18095 Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=273671
EA0010 Care Inspectorate - Mental Health Community Support Service @ Annsbrae House	Stephen Morgan	Social Services Committee	09-Jan-2015	10-Jun-2015		An action plan has been drawn up and is being implemented to address the findings of the inspection. A report is under construction for presentation at Social Services Committee on 10th June 2015.	Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=273261
EA0018 Accounts Commission - Commonwealth Games 2014: third report	Neil Watt	Education & Families Committee	12-Mar-2015	10-Jun-2015		This report was withdrawn from the agenda of the Education and Families Committee on 16 June 2015 to make available additional time for the discussions on the New Anderson School Project at full Council. Will now go to E&F on 30-09-15.	Link to report: http://www.audit-scotland.gov.uk/docs/central/2015/nr_150312_commonwealth_games_third.pdf

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0019 Care Inspectorate - Housing Support Shetland	Anita Jamieson	Social Services Committee	26-Jan-2015	10-Jun-2015	10-Jun-2015	Report was received on 3rd March 2015 and all areas of the service were awarded a grade of 5 (Very Good). There were no recommendations for action. Reported to Social Services Committee on 10th June 2015.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18049 Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274354
EA0020 Care Inspectorate - North Haven (Support Services)	Denise Morgan	Social Services Committee	30-Jan-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274267
EA0021 Care Inspectorate - Isleshavn (Care Home)	Denise Morgan	Social Services Committee	11-Dec-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to Report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274236
EA0022 Care Inspectorate - North Haven (Care Home)	Denise Morgan	Social Services Committee	10-Dec-2014	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274210
EA0023 Care Inspectorate - Fernlea, The Wishart Anderson (Support Service)	Denise Morgan	Social Services Committee	11-Mar-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274520
EA0024 Care Inspectorate - Fernlea, The Wishart Anderson (Care Home)	Denise Morgan	Social Services Committee	11-Mar-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report: http://www.careinspectorate.com/berengCareservices/html/reports/getPdfBlob.php?id=274516

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0030 Care Inspectorate - Overtonlea (Care Home)	Denise Morgan	Social Services Committee	07-Apr-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ServiceD etails_action.php&action=displayService&CaseNumber=CS2005097968
EA0032 Care Inspectorate - Walter & Joan Grey (Support Service)	Denise Morgan	Social Services Committee	07-Apr-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNex tPageId=ServiceDetails_action.php&action=displayService&CaseNumber=CS2003054175
EA0033 Care Inspectorate - Nordalea (Support Service)	Denise Morgan	Social Services Committee	02-Apr-2015	10-Jun-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report. Due to be presented 10th June, will now be presented at the next Social Services Committee on 30th July 2015.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ReportDataDetails_action.php&action=displayReport&repId=CS2005097994
EA0016 Accounts Commission - Superfast broadband for Scotland: a progress report	Douglas Irvine	Development Services Directorate	26-Feb-2015	15-Jun-2015		Report under consideration to identify lessons for Shetland from this Accounts Commission report.	Link to committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18088 http://www.audit-scotland.gov.uk/docs/central/2015/nr_150226_broadband.pdf
EA0026 Audit Scotland - Scotland's Colleges 2015	Irene Peterson	Development Services Directorate	02-Apr-2015	15-Jun-2015		Report under consideration to identify lessons for Shetland from this Audit Scotland report.	Link for report http://www.audit-scotland.gov.uk/docs/central/2015/nr_150402_scotlands_colleges.pdf
EA0017 Accounts Commission - An overview of local government in Scotland 2015	Steve Whyte	Policy & Resources Committee	05-Mar-2015	22-Jun-2015		Report under consideration to identify lessons for Shetland from this Accounts Commission report.	Link to report: http://www.audit-scotland.gov.uk/docs/local/2015/nr_150305_local_government_overview.pdf

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0027 Audit Scotland - Borrowing and treasury management in councils	Steve Whyte	Policy & Resources Committee	19-Mar-2015	22-Jun-2015		Report under consideration to identify lessons for Shetland from this Audit Scotland report.	Link to report http://www.audit-scotland.gov.uk/docs/local/2015/nr_150319_borrowing_treasury_management.pdf http://www.audit-scotland.gov.uk/work/all_national.php?year=2014
EA0028 Audit Scotland - Update on developing financial reporting	Steve Whyte	Policy & Resources Committee	17-Mar-2015	22-Jun-2015		Report under consideration to identify lessons for Shetland from this Audit Scotland report.	Link to report http://www.audit-scotland.gov.uk/docs/central/2015/nr_150317_developing_financial_reporting.pdf http://www.audit-scotland.gov.uk/work/all_national.php?year=2014
EA0035 Care Inspectorate - Newcraigielea Support Service	Clare Scott	Social Services Committee	27-Apr-2015	21-Jul-2015		Presented to Social Services Committee on 10th June 2015.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId= ServiceDetails_action.php&action=displayService&CaseNumber=CS2006130515
EA0029 Care Inspectorate - Newcraigielea	Clare Scott	Social Services Committee	20-Apr-2015	30-Jul-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ServiceDetails_action.php&action=displayService&CaseNumber=CS2006130511
EA0034 Care Inspectorate - Montfield Support Services	Denise Morgan	Social Services Committee	27-Apr-2015	30-Jul-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report.	Link to report :- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ServiceDetails_action.php&action=displayService&CaseNumber=CS2008184266

Code & Title	Lead Officer	Committee	Published	Target Presentation Date	Presented to Committee on	Progress Statement	Notes
EA0036 Care Inspectorate - Newcraigielea Care Home Service	Denise Morgan	Social Services Committee	27-Apr-2015	30-Jul-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ServiceDetails_action.php&action=displayService&CaseNumber=CS20061305 11&action=displayService&CaseNumber=CS2006130515
EA0037 Care Inspectorate - Edward Thomason & Taing Support Services Care Home Service	Denise Morgan	Social Services Committee	12-May-2015	30-Jul-2015		Report under consideration to identify lessons for Shetland from this Care Inspectorate report.	Link to report:- http://www.careinspectorate.com/index.php?option=com_content&view=article&id=7644&Itemid=489&bereNextPageId=ServiceDetails_action.php&action=displayService&CaseNumber=CS2003009594
EA0038 Education Scotland - Skeld Primary School	Audrey Edwards	Education & Families Committee	28-Apr-2015	17-Aug-2015		Report will be presented to Education & Famillies Committee on 16th June 2015.	Link to Committee report: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18095 Link to report: http://www.educationscotland.gov.uk/inspectionandreview/reports/school/primsec/SkeldPrimarySchoolShetlandIslands.asp

Agenda Item
3

Shetland Islands Council

Audit Committee **29 June 2015**

Shetland Islands Council - Unaudited Accounts 2014/15	
F-032-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the 2014/15 unaudited accounts for Shetland Islands Council.

2.0 Decision Required

2.1 That the Audit Committee RESOLVE to:

a) CONSIDER the 2014/15 Unaudited Accounts for Shetland Islands Council (appendix 1); and
b) APPROVE the 2014/15 Annual Governance Statement which forms part of those accounts (appendix 2).

3.0 Detail

3.1 The Local Authority Accounts (Scotland) Regulations 2014 require elected Members to formally consider the unaudited accounts at a meeting of the Council, or a Committee of the Council charged with audit or governance, to be held no later than 31 August 2015. Best practice is for elected Members to have formally considered the unaudited accounts prior to submitting them to the appointed auditor, and making them available for public inspection.

3.2 The 2014 regulations also require elected Members to approve the Council's annual governance statement.

3.3 The unaudited accounts will be submitted to Audit Scotland on 30 June 2015 and be available for public inspection from 1 July 2015. The audited accounts will be formally presented to the Council on 22 September 2015 for approval.

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.

4.4 Risk Management – The unaudited accounts are being presented to the Committee in line with best practice. This is to mitigate any risk of the audited accounts not being approved for signature on 22 September 2015.

4.5 Equalities, Health And Human Rights – NONE.

4.6 Environmental – NONE.

Resources

4.7 Financial – There are no financial implications arising from this report,

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, including an annual governance statement, within a set timescale. The accounts are then subject to external audit by Audit Scotland.

5.2 The unaudited accounts will be submitted to Audit Scotland on 30 June 2015, and be available for public inspection from 1 July 2015. Following the audit, the audited accounts will be formally presented to the Council on 22 September 2015 for approval.

For further information please contact:
Steve Whyte
Executive Manager - Finance
Email: steve.whyte@shetland.gov.uk
Telephone: 01595 74 4607

18 June 2015

List of Appendices

Appendix 1: Shetland islands Council Unaudited Accounts 2014/15

Appendix 2: Shetland Islands Council Annual Governance Statement 2014/15

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Shetland Islands Council

Annual Accounts 2014/15 Unaudited

Securing the best for Shetland

Contents

Inside front cover and page 43 photograph by Andrew J Shearer

Introduction

Welcome to the Council's Annual Accounts for the 2014/15 financial year. It is my 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. It is necessary and correct that they adhere to the relevant statutory and regulatory requirements which, in places, can result in very technical terminology being used. I would encourage you to make use of the Management Commentary as a guide to the most significant matters that are being reported in the Annual Accounts and financial statements.

I am pleased to report that the overall performance of the Council for the year has been positive and would draw attention to the reduced reliance on reserves this year to fund ongoing revenue and capital expenditure, when compared to previous years. This is the result of focused attention over the last few years on the reduction of expenditure, identifying and delivering savings and securing additional income.

Reducing reliance on reserves for this year should not be seen as an end to the work that is required to improve financial management as many challenges lie ahead. There remains a significant task in identifying the options and opportunities for further cost reductions, efficiencies and income generation to address the reduction in core funding and the growth in the cost base that is projected over the medium term.

Under the financial leadership of my predecessor, James Gray, the Council has made good financial progress by, amongst other things, adopting a medium term approach to financial planning and achieving financial improvement year on year. The Council has approved a budget for 2015/16 that recognises those improvements and targets a continued reduction in the draw from reserves. I would like to acknowledge and thank Mr Gray for the significant contribution that he made to Shetland Islands Council during his time as the Executive Manager - Finance.

Finally, the production of the Annual Accounts is very much a team effort involving many staff from Finance and other services in the Council, as well as those in the wider Shetland Islands Council group. I would like to take this opportunity to personally acknowledge the considerable efforts of all staff in the production of the 2014/15 Annual Accounts.

Steven Whyte, CPFA
Executive Manager – Finance
Shetland Islands Council
June 2015

Management Commentary

The purpose of the Management Commentary is to inform all users of the accounts, and to help them assess how the Council has performed during 2014/15 and understand the year-end financial position as at 31 March 2015. In addition, it provides a narrative on the financial outlook for the Council during financial year 2015/16 and beyond.

Background

Shetland Islands Council is one of thirty two councils in Scotland. There are twenty two independent Elected Members serving approximately 23,000 people. The Council is organised to provide and deliver its services through five directorate groupings plus the Office of the Chief Executive. The Services are Children's Services; Community Health and Social Care; Corporate Services; Development Services; and Infrastructure Services.

Examples of the type of services that the Council is responsible for include Community Planning & Development, Building Standards, Economic Development, Education, Environmental Health, Housing, Licencing, Ports and Harbours, Roads, Social Work, Trading Standards, and Waste Collection and Disposal. More information can be obtained on the Council's website: www.shetland.gov.uk

Strategy and Performance Management

Single Outcome Agreement

The Single Outcome Agreement (SOA) sets out the priorities between the Scottish Government, the Council and other key partners at a local level. The Shetland SOA defines the following outcomes for the Shetland Partnership:

- Shetland is the best place for children and young people to grow up;
- We live longer healthier lives;
- People are supported to be active and independent throughout adulthood and in older age;
- Shetland stays a safe place to live, and we have strong, resilient and supportive communities;
- Shetland has sustainable economic growth with good employment opportunities and our people have the skills to match, good places to stay and the transport people and businesses need;
- 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;
- We deliver all our services in an environmentally sustainable manner to safeguard and enhance our outstanding environment which underpins all our actions and our economic and social well being;
- We have financial sustainability and balance within each sector; and a better balance between a dynamic private sector, a strong third sector and efficient and responsive public services.

Progress against the SOA Outcomes is reviewed on a regular basis and reported in the Community Planning annual report. More information can be found at:
http://www.shetland.gov.uk/communityplanning/community_planning.asp

Corporate Plan

In support of the Single Outcome Agreement the Council has prepared and adopted its Corporate Plan 2013-2017. This describes the objectives that the Council wants to achieve over the four year period running through to the end of the Council term. In May 2014, the Council reported substantial progress towards delivering the objectives set out in its Plan and during the financial year the Council continued to prioritise its decision-making based on these objectives. Further detail of Council activities is described later in this commentary. A further update was reported to the Council in May 2015, focusing on service achievements and highlighting the link between the strategic Corporate Plan and individual Service Plans.

Members and officers are currently working on refreshing the Corporate Plan for the remaining two years of this Council.

Service Performance

On a quarterly basis throughout the year the Council has received financial and service performance reporting from each of the directorates. It is important to recognise the purpose of the resources that are deployed by the Council to deliver on the objectives of the Corporate Plan and achieve the outcomes that have been agreed for the wider community. The following table provides brief information on some of the achievements of the directorates during the year.

Directorate	Achievements during 2014/15
Children's Services	• We completed the review of children's residential care and put a development plan in place. • The 'Getting it right for every child' (GIRFEC) processes continued to be embedded across all agencies. • We produced Shetland's Looked After Children Strategy 2014-19 and developed an action plan. • We completed a review of sport and leisure facilities and service in Shetland. • We progressed a number of programmes under the Shetland Learning Partnership, including the provision of more online learning opportunities.
Community Health and Social Care	• We established the Body Corporate for the model of Health and Social Care Integration. • We agreed the Health and Social Care Integration Scheme and submitted this to the Scottish Government. • We completed the re-provision of Viewforth, accommodating residents in more modern and suitable surroundings. • We continued the developed the range of 'technology enabled care' that we can offer to maintain people safely in their own homes. • We developed and implemented the Self Directed Support policy. • We developed action plans to implement the recommendations of Dementia Deep Dive and Mental Health Review.
Development	• The Housing Support Service was redesigned to support service users more effectively. • We conducted a Bus Network Redesign. • We transferred Shetland Development Trust assets to the Council. • We agreed the Local Development Plan and submitted this to the Scottish Government. • We supported a number of projects/clients under the Economic Development Grant Scheme, Business Start Up Grant Scheme and Business Gateway.

Infrastructure	• We carried out assessments of the Ferry Review to understand the impacts of change for individuals, communities and businesses. • We targeted our resources more effectively to improve our performance against the national measure: 'percentage of A class roads that should be considered for maintenance treatment'. • We delivered a number of energy efficiency measures for fuel poverty and/or vulnerable households to reduce their household bills and improve health outcomes. • We managed the reduced Private Sector Housing Grant funding to most effectively provide adaptations to help people remain in their own homes. • We produced our Carbon Management Plan to work with Councillors, 18 services and our partners to reduce costs and share best practice in carbon and climate change management.
Corporate	• We carried out a mid-term review of Senior Councillor appointments. • The Building Budgets exercise was carried out in July 2014. • We developed the 2015/16 budget with Services, in line with the Medium Term Financial Plan. • We carried out an Equal Pay audit to identify any risks of equal pay claims. • We carried out an employee survey across all services. • We implemented a new complaints recording/reporting system.

More information can be found at:
http://www.shetland.gov.uk/about_performance/PerformanceReports.asp

Primary Financial Statements

The Annual Accounts summarises the Council's transactions for the year, its year-end position at 31 March 2015 and its cash flows. The Annual 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 37, immediately prior to the four single entity 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 group accounts show the financial position of the Council and its interests in its associates. No subsidiaries or jointly controlled entities have been identified for inclusion in the group accounts. The accounting policies of the group are generally the same as those reported for the Council's single entity accounts. More detail on group accounts can be found on pages 118 - 130.

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

Financial Performance in 2014/15

The Comprehensive Income and Expenditure Statement (CI&ES) presents the full economic cost of providing Council services in 2014/15. This differs from the budgeted outturn position which was reported to the Policy & Resources Committee of the Council on 25 May 2015, the Council on 27 May 2015, and which is available on the Council's website.

For financial year 2014/15 the reasons for this are two-fold, (i) the application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts. These costs require to be met from local taxation; and (ii) 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 final 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 as a result of necessary accounting adjustments to the former. The Cost of Services of £122.4m, which is disclosed on the CI&ES, has been reconciled to the outturn used for management decision making of £101.3m at Note 24 – Amounts Reported for Resource Allocation Decisions.

The Council's day to day operations and the recording of its financial transactions (revenue income and expenditure) are charged to two primary Reserves, which have been established by legislation: The General Fund and the Reserve Fund. Within the General Fund there is also a legal requirement to separately identify expenditure and income that relates to the operation of the Council housing stock, this is referred to as the Housing Revenue Account.

Capital investment expenditure is supported by a range of means including funding from revenue resources, external borrowing and use of retained reserves. Legislation enables the Council to retain capital reserves in order to support its long-term asset investment plans, an example being the Capital Fund.

The CI&ES is the consolidation of all of these accounts to reflect the Council's overall financial results for the year.

The table below shows that the draw on reserves, excluding accounting practice adjustments, is £2.0m for 2014/15 against a budget of £14.1m, giving a reduced draw on reserves against the revised budget of £12.1m.

Also shown in the table is the 2014/15 carry-forward requests which will result in an additional £5.4m draw on reserves in 2015/16. The total draw, including carry-forwards, is therefore £7.4m, a reduction of £6.8m against the revised budget.

2014/15 Budget v Expenditure	Revised Budgeted Draw from Reserves £m	Actual Draw from Reserves £m	Budget v Actual Variance Under/(Over) £m	2014/15 Carry Forwards £m	Revised Budget v Actual Variance Under/(Over) £m
General Fund	14.847	7.619	7.228	2.166	5.062
Revenue Spend to Save	0.495	0.487	0.008	0.000	0.008
Housing Revenue Account	(0.192)	(0.363)	0.171	0.000	0.171
Harbour Account	(2.224)	(4.617)	2.393	0.000	2.393
Total Revenue Draw	**12.926**	**3.126**	**9.800**	**2.166**	**7.634**
Capital Fund	(0.407)	(1.102)	0.695	2.537	(1.842)
Capital Spend to Save	1.630	0.000	1.630	0.655	0.975
Total	**14.149**	**2.024**	**12.125**	**5.358**	**6.767**

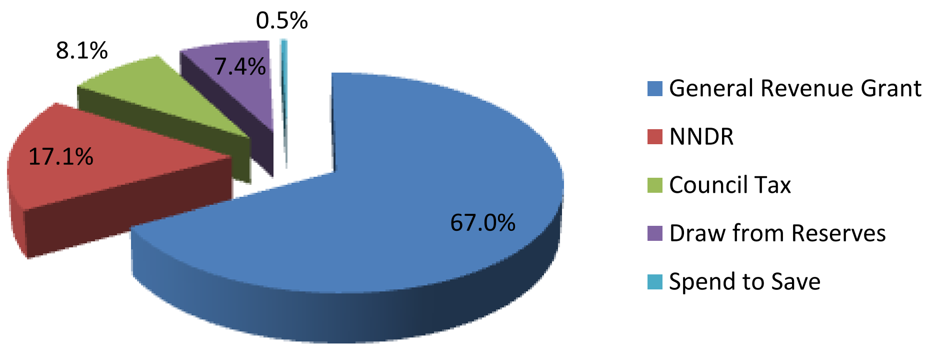
General Fund

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund. The 2014/15 General Fund budget included a requirement for the Council to achieve savings of £6.6m. The implementation of service reviews, efficiency initiatives and one-off savings resulted in that being delivered.

The net General Fund expenditure for 2014/15 was £103.1m, which represented 93.4% of the Council's annual budget, resulting in a net underspend of £7.2m. This underspend can be attributed to a drive across services to reduce expenditure and increase income. When coupled with the delivery of the £6.6m of budgeted savings, the Council achieved a total savings figure of £13.8m.

In 2014/15 the Council's General Fund received the majority of its funding from the Scottish Government, which is made up of General Revenue Grant and National Non-Domestic Rates. The funding breakdown is shown below:

General Fund - Sources of Funding 2014/15



The collection of Council Tax represents 8.1% of the Council's overall funding and the Council has achieved an in-year collection rate of 97% during 20141/5. The value of Council Tax has been frozen at an annual charge of £1,053 for a Band D property for a number of years and continues at this level into 2015/16.

The remainder of the funding comes from Council's own reserves. Despite the progress already made, the Council's reliance on reserves to balance its budget in the medium term, is forecast to remain at an unsustainable level and further work will be required, for example to identify savings, efficiencies and income generation, to ensure the Council can demonstrate its ability to live within its means year on year over the medium to long term.

The resources deployed by the Council though its General Fund were used in the commissioning and delivery of services to the population of the Shetland Islands. Earlier in the commentary reference was made to the performance of the Council's services, which reflects some of the high-level achievements that has enabled the development and improvement in those services during the year.

Given the economic climate and the UK government's financial objectives over the coming years it is anticipated that there will be further reductions in the core revenue grant from the Scottish Government during that period. Simultaneously the Council will have to manage demographic and service delivery changes resulting in an increasing demand for Council services, such as in Community Care, and having to manage the range of inflationary cost pressures.

Reserve Fund (Harbour Account)

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Reserve Fund. The Harbour Account budgeted for a £2.2m contribution to the Reserve Fund in 2014/15. The budgeted contribution was exceeded by £2.4m, giving a total contribution of £4.6m. This increased surplus mainly relates to the reduction in marine fuel expenditure for tug and pilot vessels used at the port of Sullom Voe due to lower global fuel price; delayed maintenance works on ferry terminal and navigational aids assets; and increased income at Scalloway harbour from longer term berthing of an accommodation vessel and barge for staff working at the Sullom Voe Oil Terminal and the Shetland Gas Plant, than originally anticipated.

During the year 80 tankers were assisted in arriving and departing Sullom Voe Oil Terminal by Sellaness Port Operations staff. There were 100,770 boxes of fish landed at Scalloway harbour and other small piers throughout Shetland. The accommodation vessel and barge were berthed at Scalloway harbour for 25 and 52 weeks of the year respectively.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate account within the General Fund of the Council. It is Council policy to balance the HRA to zero each year by transfers to or from the Housing Repairs and Renewals Fund. The HRA budgeted for a £0.2m contribution to the Housing Repairs and Renewals Fund in 2014/15 which was exceeded by £0.2m, giving a total contribution of £0.4m in the year. The increase is mainly due to increased capital receipts which reduced the requirement to fund capital from current revenue.

Despite the additional contribution, the financial position of the 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.

As at 31 March 2015, the HRA is responsible for 1,748 properties. This includes the completion of 10 new houses in Brae during the year, although the overall housing stock has reduced in 2014/15, by 14 properties. This reduction is due to high level of housing sales generated by increased uptake of tenants' 'Right to Buy', which is due to end in August 2015. There is currently no new housing under construction, and there are no plans for new schemes to be built within the longer-term financial planning of the Council. The Council continues to support Hjaltland Housing Association in their building programme, to ensure provision of affordable housing within Shetland.

Capital Fund

In 2014/15 Shetland Islands Council incurred capital expenditure of £12.5m against a budget of £16.7m representing an underspend of £4.2m in the year. Of this total, £0.4m was budgeted to be drawn from the Capital Fund, but, as a result of the underspend, there was a contribution to reserves of £1.1m. The main reason for the underspend on the capital budget arose as a result of slippage on the programme with projects not commencing or progressing as originally anticipated in 2014/15.

The most significant capital expenditure during the year was –

- **£1.9m on the new Anderson High School** – This project has progressed to Stage 2 design and work is ongoing to finalise the project cost and works programme ahead of financial close in early 2015/16.
- **£1.3m on the NHS Scalloway Health Centre/Primary School** – This project is to accommodate a new Scalloway health centre within part of the existing Scalloway School building. The Council is managing the contract and works commenced in August 2014, and the project is due for completion in August 2015. The primary school is now occupied and the remaining work is being carried out on the Health Centre. This is a NHS funded project.
- **£1.3m on the Vehicle and Plant Replacement Programme** – This is an annual rolling programme of vehicles and plant replacement within the Council.
- **£0.8m on the Bigga Life Extension** - This project is a major refurbishment of the MV Bigga ferry vessel including new propellers, new engines, gearbox overhauls and shot blasting which were completed in 2014/15.
- **£1.5m on Housing Quality Standards** – This is a rolling programme of works to ensure that Council dwellings are brought up to the standard required by the Scottish Housing Quality Standards. Work is ongoing and numerous contractual commitments are in place for kitchens, windows, insulation, roofing, etc.

The Balance Sheet as at 31 March 2015

The Balance Sheet sets out the total net worth of Shetland Islands Council, and is a snapshot of the position as at 31 March 2015. When comparing the net worth of the Council at 31 March 2015 to that of the last Balance Sheet on 31 March 2014 there has been an overall increase in the net worth of the Council of £13.5m. This figure matches the total figure in the Comprehensive Income and Expenditure Statement, 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 Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2014 £m	Closing Balance 31 March 2015 £m
Capital Fund	(62.236)	(63.512)
Capital Efficiency/Spend to Save Reserve	(8.537)	(8.202)
Usable Capital Receipts	0.000	(1.102)
Reserve Fund	(24.879)	(25.408)
Reserve Fund (Harbour contingency)	(41.557)	(42.241)
Repairs & Renewals Fund	(45.678)	(44.320)
General Fund Balance	(12.813)	(11.809)
Revenue Efficiency/Spend to Save Reserve	(0.064)	(0.065)
Potential Contingent Liabilities	(1.208)	(1.246)
Discretionary Reserves	**(196.972)**	**(197.905)**
Capital Grants Unapplied	(1.920)	(0.643)
Marine Superannuation Fund	(2.046)	(1.932)
Pilot Boat Renewal Fund	(1.010)	(1.024)
Housing Repairs & Renewals Fund	(10.864)	(11.433)
Quarry Repairs & Renewals Fund	(0.161)	(0.163)
Insurance Fund	(0.228)	(0.231)
Council Tax Second Homes Receipts	(0.704)	(0.844)
Equalisation Fund	(15.000)	(15.214)
Local Investment Fund	(11.422)	(11.019)
Welfare Reform Fund	(0.202)	(0.202)
Hansel Funds	(0.120)	(0.131)
School Funds	(0.164)	(0.185)
Central Energy Efficiency Fund	(0.059)	(0.029)
Earmarked Reserves	**(43.900)**	**(43.050)**
TOTAL	**(240.872)**	**(240.955)**

The overall level of usable reserves was £240.9m at 31 March 2015, an increase of £0.1m from the previous year. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions, and capital grants, which are not reflected in the reports to management during the year. See the reconciliation below:

Reserves	General Fund £m	Housing Revenue Account £m	Harbour Account £m	Capital Fund £m	Capital Grants Unapplied £m	Spend to Save £m	Total £m
Draw on reserves as per Outturn Report	**7.619**	**(0.363)**	**(4.617)**	**(1.102)**	**0.000**	**0.487**	**2.024**
Items not reported to Management:							
Financing and Investment Income	(3.159)	(0.206)	(0.528)	(1.290)	0.000	(0.153)	**(5.336)**
Hansel, School Fund and CEEF movement	(0.002)	0.000	0.000	0.000	0.000	0.000	**(0.002)**
Movements in net assets due to SDT transfer and accounting adjustments	1.141	0.000	0.000	0.000	0.000	0.000	**1.141**
Capital grants applied, not reported as a draw on reserves	0.000	0.000	0.000	0.000	1.277	0.000	**1.277**
Recharge adjustments	0.813	0.000	0.000	0.000	0.000	0.000	**0.813**
Transfers between reserves	(4.617)	0.000	4.617	0.000	0.000	0.000	**0.000**
Movement on Reserves as per Accounts	**1.795**	**(0.569)**	**(0.528)**	**(2.392)**	**1.277**	**0.334**	**(0.083)**

The reserves of the Council are reflective of the historic financial performance of the Council, and decisions that have been taken in order to provide a financial foundation upon which to base planning for the future delivery and provision of Council services.

Reserves are split between discretionary and earmarked reserves to recognise those decisions taken and the nature of the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of the various reserve movements and earmarking of funds means that the uncommitted General Fund reserve has reduced by £1.0m (7.8%) to £11.8m as at 31 March 2015 from the previous year. The uncommitted balance represents 11.5% of the Council's annual budgeted net expenditure is considered adequate to manage any financial risks in the short term.

Following a long period when reserves were used to balance the budget and fund all capital investment, it is important to use them in a considered and sustainable way. The Council's approach has been to reduce the value of funds drawn from reserves and, as part of this, it set a revenue budget on 3 December 2014 for 2015/16 which seeks to reduce expenditure as part of the Medium Term Financial Plan.

The value of the Council's long-term investments, which are quite separate from the usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is measured in terms of income generated by those investments and a change in their value reflected by an unrealised gain, plus the injection of new money by the Council during the year. The usable reserves on the other hand are a statement of resources that the Council has available to it to carry out its future business; these reserves can be applied to the provision of services. More information on long term investments is shown below.

Material Transactions during 2014/15

Shetland Development Trust

Following a Council decision in March 2008 to wind up the Shetland Development Trust (SDT), the majority of its assets and undertakings have now transferred to the Council. These assets form part of the Council's Balance Sheet on page 41 and are summarised below for information:

Asset / Liability	Fair Value as at 31 March 2015 £m
Fishing Quota	19.116
Fishing Licences	0.354
Equity Investments	0.016
Loans to Local Industry	0.962
Cash	4.000
Financial Guarantees	(0.141)
Balance Sheet as at 31 March 2015	**24.307**

The Shetland Development Trust was wound up on 28 February 2015, and the assets were valued as at the Balance Sheet date.

As a result of the Trust being wound up, it was identified that it was not cost effective to transfer a number of the assets to the Council as part of the exercise; these mainly consisted of loans and equity investments. These assets therefore remain within a Bare Trust serviced under the auspices of the Shetland Islands Council acting as sole Trustee. All assets and income arising from the Trust will be paid or delivered to the Council. More detail can be found in the Trust Funds note on page 117.

It is notable that the significant proportion of the Shetland Development Trust assets are related to the fishing industry and that the portfolio consists also of loans to this industry. This is very much in keeping with the current and historic activities of the Economic Development Service, where loans with local businesses amount to £3.4m. The majority of these too relate to the fishing industry. In total the Council now has £23.5m of assets supporting the fishing industry.

Long Term Investments

Long term investments have increased by £74.5m during 2014/15. This increase in value is attributable to investment income of £4.2m, revaluations of £24.0m and additional cash injections of £46.0m. The additional cash is the result of a temporary increase in funds invested from the Public Works Loan Board borrowing, funding provided by Westminster to write-off internal HRA debt, the sum transferred from the SDT on winding-up and a reduction in the Council's short term bank balance.

Financial investments are covered by the Council's Investment Strategy 2013-18 which seeks to provide financial support to the Council's Medium Term Financial Plan, reduce fund manager fees as a proportion of the fund, and lower the risk of large negative returns whilst maintaining similar levels of return to that achieved in recent years.

External Borrowing

Until 2014/15, the Council borrowed internally from its reserves to fund the Harbour and HRA capital programmes. With the introduction of the Borrowing Policy & Strategy in December 2013, the Council has now taken on some external borrowing to eliminate historic housing debt and to fund new capital projects. The Council's Capital Financing Requirement (CFR) is £35.1m which represents the capital expenditure to be funded from internal and external borrowing. As at 31 March 2015, external borrowing was £31.0m and this forms part of the Council's Balance Sheet on page 41.

External borrowing is covered by the Council's Borrowing Policy and Strategy 2013–2018 which aims to secure Best Value in the financing of capital expenditure and maintain the level of reserves. Debt financing costs currently represent 4% of the Council's net revenue stream from general revenue grant (including NNDR), Council Tax, housing rents and harbour income. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels.

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 annual accounts 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 stating that, as at 31 March 2015, the net pension liability was £183.4m (£148.6m in 2013/14). This figure represents the amount that the actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff up and until 31 March 2015, which is currently unfunded.

The Council continues 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. During 2014/15 the Council received information from the Pension Fund in relation to the triennial valuation of the Pension Fund assets and liabilities, the results of which will be effective for three years from 1 April 2015.

Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires the Council to prepare group accounts where the Council has interests in subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality. The group accounts include the consolidation of the investments in Orkney & Shetland Valuation Joint Board (OS&VJB), Zetland Transport Partnership (ZetTrans) and the Shetland Charitable Trust (SCT) as associates.

The inclusion of these three associates changes the net worth from £493.5m in the Council's own Balance Sheet shown on page 41 to £599.5m in the group Balance Sheet which is shown on page 124. This represents an increase of £106.0m and this is mainly due to the inclusion of the Shetland Charitable Trust which added £107.6m to the group Balance Sheet. The Shetland Charitable Trust has long term assets in the form of investments, these being managed by a number of fund managers with different mandates and some direct investments in specific subsidiary companies.

Workforce Management

The Council has a wide range of HR policies and procedures in place to ensure workforce management across the Council is fair, consistent and provides the appropriate level of support and guidance. These include Equality & Diversity, Employment of Disabled People, Employee Review and Development, Capability and Maximising Attendance. A significant piece of work currently under development focuses on Workforce Planning which has been informed by an event that took place in September 2014, bringing together senior managers across the Council. Information is now being reviewed and will form the basis of a Workforce Strategy.

Performance reporting on people management indicators is being developed as part of a refresh of the performance monitoring arrangements by the Corporate Management Team. These will include workforce profile data on recruitment activity, staff numbers and compliance with a number of HR policies including Maximising Attendance. The Council's recent focus has been on its revised Maximising Attendance policy. The average number of working days per employee lost through sickness absence for teachers was 7.5 days (5.7 days in 2013/14). For all other local government employees the average was 12.1 days (10.3 days in 2013/14).

The Council has published its Equality Outcomes and Mainstreaming Report as a partner in the Shetland Partnership that consists of the public agencies with a statutory duty under the Equality Act 2010. Other partners include NHS Shetland, Shetland College, Schools Service, ZetTrans and Shetland Licensing Board. The Report 2013-2017 presents a detailed overview of Shetland's work on equality; focusing on compliance, accountability and reducing significant inequalities.

The Council has also published its Equal Pay Statement and has completed an Equal Pay Audit, required under the Public Sector Equality Duty which was approved by the Council's Policy & Resources Committee in January 2015. An Action Plan is now in place to address issues highlighted in that report.

The Council has a number of formal and informal consultation and communication mechanisms in place. Employees are represented at a national level through the Scottish Joint Council, and at a local level employees are supported by trade unions through a number of Joint Consultative Committees (JCCs). The Employees Joint Consultative Committee (EJCC) meets quarterly and provides a formal mechanism for consultation to take place between the Council and its single status employees. Meetings comprise of Elected Members and an equal number of employee representatives from the relevant trade unions. Recommendations from this Committee are reported to the Council's Policy & Resources Committee for a decision. There is a separate JCC representing College Lecturers employed at Shetland College of Further Education and a Local Negotiating Committee for Teachers to discuss locally devolved matters for Teachers.

A staff survey was completed in February 2015 to engage with employees across the Council and determine their view on a number of areas. Team action plans are now being developed to inform service and directorate plans and a steering group will determine the next steps.

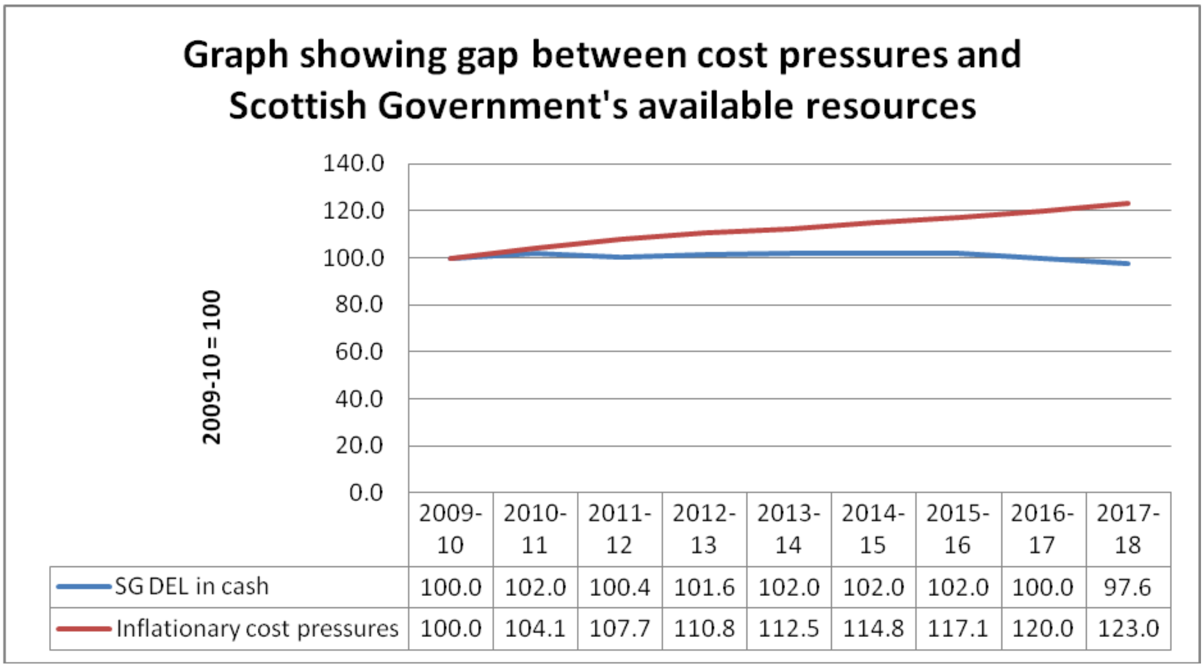
Carbon Management

Carbon Management Plans are required under the Climate Change (Scotland) Act 2009 as a key tool in tackling climate change by reducing carbon emissions. The Council has delivered an annual carbon reduction of 2.68% per year from 2007. A Carbon Management Plan (2015–2020) has been developed to help the Council achieve the Scottish national targets by 2020. By adopting this plan the Council will:

- reduce energy consumption and support efficient resource management in all service areas;
- reduce carbon emissions and associated costs in all service areas;
- contribute towards climate change mitigation;
- ensure that it conforms to its Public Body Duties under the 2009 Climate Change (Scotland) Act; and
- aim to operate on a more sustainable basis in line with the Council's Medium Term Financial Plan.

2015/16 Budget and Medium Term Financial Outlook

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 (the blue line). 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 planning and decision making in relation to savings, efficiencies and income generation will be required for the foreseeable future 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

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 quantifying further savings requirements over the next five years to ensure that the Council's draw on reserves is reduced to sustainable levels.

The Plan shows that the budget in 2015/16 will draw a reduced value from reserves in order to support the Council's operations. Beyond this, assumptions have been made about the level of investment return that the Council can expect to achieve, which will need to be evidenced. In addition, the means by which savings are delivered still requires to be worked out and agreed in order to continue the progress towards improved financial management and resilience.

Specific challenges that lie ahead for Shetland Islands Council over the next 5 years include:

- **Borrowing to maintain the asset base** – The Council has approximately £1.4bn of fixed assets (including roads) and the limitations on the affordability of increased capital expenditure over the medium to long term mean that significant decisions will be required to address the imbalance and protect the Council's fixed assets.

- **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.

These are two of the most significant challenges that lie ahead, and it is acknowledged that there are many more like them. It is however important to underline the contribution that the Council makes to the people and communities of Shetland, providing a multitude of services in a range of settings and environments. This work continues on a day-to-day basis and finding ways of improving those services for the future is a clear objective of the Council.

....	....	....
Steven Whyte, CPFA Executive Manager – Finance	Mark Boden Chief Executive	Gary Robinson Leader of the Council
......17/6/15......	....	....
Date	Date	Date

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. They cannot eliminate all risk of failure of policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework

The role of committees in decision-making is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The 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 Council advised by the Policy and Resources Committee. There are four functional committees: Development, Education and Families, Environment and Transport and Social Services. These committees take decisions within their respective scope of responsibility. A refreshed Planning and Performance Management Framework underpins the governance arrangements, including a focus on service prioritisation, management of risk, 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 Committee, with a remit to oversee audit and scrutiny arrangements, and standards within the Council.

The Chief Executive and Directors, along with the Monitoring Officer, Chief Financial Officer and Chief Social Work 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.

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

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

- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- how the Council performs in delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

The overall objective of the Council, through the Community Plan, Single Outcome Agreement and the 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 that reserves are stabilised at current levels.
- 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 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 12 March 2015. 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. 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 July 2014, which sets out the spending limits for each of the next five financial years. The 2015/16 Budget was set in December 2014 and was prepared from within the 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. During the year the Council has also introduced a new electronic system for monitoring complaints.

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. The Council has taken a corporate approach to the organising of training and the Human Resources Service co-ordinate this. A corporate focus on 'Building Better Business Cases' and 'Risk Management' has been a feature of corporate training during the year.

As part of the Annual Accounts work, provisions and 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 aims to focus its attention on strategic issues and the pertinent high level management matters, to reinforce the Scheme of Delegation that is in place across the Council. The Corporate Management Team receives regular progress and performance reports on all services of the Council, to lead and direct the delivery of the Council objectives.

Review of Effectiveness

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The Council approaches this with reference to different layers of assurance, namely management assurance, both internally through the Council, and externally through the group entities; the assurance and recommendations are provided by internal audit; and external audit and other external scrutiny reports.

Management Assurance

Each director has reviewed the arrangements in his/her portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2014/15 no areas of weakness or concern were raised.

With regards to the effectiveness of the Council's arrangements in relation to its statutory officers, the Executive Manager – Finance (Chief Financial Officer), Executive Manager – Governance & Law (Monitoring Officer) and Executive Manager - Children and Families (Chief Social Work Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit 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 – Audit, Risk and Improvement reports directly to the Audit Committee.

Assurance from Internal Audit

The Internal Audit work programme has been completed, with some minor carry-forward of work into the 2015/16 financial year. During the 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.

During the year the Audit Committee has received a range of reports produced by Internal Audit which enabled scrutiny and questioning of officers to take place, such that the Committee has gained assurance about the identified weaknesses and actions being taken to address them.

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

- Continued concern following last year in relation to compliance with Council Standing Orders and the Small Contracts Procedures, notably in Ferries and Ports & Harbours. Follow-up work was carried out which noted progress being made, and this also identified that it would take a period of two years before being fully compliant. The Director of Infrastructure continues to proactively manage this within the availability of resources.

- An independent review of risk management was commissioned and reported 26 action points. These actions are being progressed through a revised Risk Strategy and Policy, with approval sought in the first quarter of 2015/16. The Corporate

Management Team has taken on the role of Risk Board and, as referred to above, risk management training is being rolled out.

- Contractual issues within the Energy Unit; VAT issues and a spend to save issue within Waste; lack of appropriate Service Level Agreements at Environmental Health and Sports & Leisure; relief workers not being appropriately used in the Council; financial management and asset security issues within the College; initial issues with the revised Travel Policy; incomplete register of interests records; disclosure issues; non-observance of purchasing/invoice procedures; lack of a post-implementation review and a continuing stock control issue at ICT. As previously stated, managerial commitment has been given to address other matters.

The Public Bodies (Joint Working) (Scotland) Bill, passed by the Scottish Parliament on 25 February 2014, establishes the framework for the integration of health and social care in Scotland. On the 2nd July 2014, the Council and NHS (Shetland) took the decision that the model for integration of health and social care services in Shetland would be the body corporate. Work to establish the body corporate integration model for Shetland was substantially completed during the year, and approval by the Scottish Government of the Integration Scheme meant that it was laid before Parliament in May 2015. The Integrated Joint Board will be formally constituted on 27 June 2015.

The internal auditors of NHS Shetland, Scott Moncrieff, have reported to NHS Shetland Audit Committee on the appropriateness of the pre-integration arrangements regarding the Shetland Islands Health and Social Care Partnership, and found them to be adequate and that effective controls were operating satisfactorily. Due to the close working relationship between the Council and NHS Shetland, this provides an assurance that the Council is also prepared for the commencement of the Integrated Joint Board, and these arrangements will be reviewed by Internal Audit during 2015/16.

External Audit and Other External Scrutiny

The Council's external auditor, Audit Scotland, regularly reports to the Audit Committee and their reports cover a wide range of year-end financial audits that are required at a local and national level.

In June 2014 the Audit Committee received the updated Assurance and Improvement Plan (AIP) for the period 2014-17 which makes reference to the Council continuing to develop its performance management arrangements, to note the revision to standing orders in 2013, and the continued focus on risk management. As such it was concluded that no specific scrutiny was required in relation to performance management and governance and accountability, but additional information was sought in terms of the corporate risk register.

The plan also noted the positive progress being undertaken towards the Council objective of achieving a sustainable financial position and living within its means. No specific scrutiny was required. The regular audit work of Audit Scotland will continue to monitor and report on future progress.

Planned scrutiny by the Care Inspectorate was identified in the area of children’s or adult services in the final quarter of the financial year.

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 assumes 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 2015 and up to the date of approval of the Annual 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 Committee.

Overall, we consider the governance and internal control environment operating in 2014/15 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
………………………...	………………………...
Date	Date

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.

The Code of Practice on Local Authority Accounting in the UK (the Code) now 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 a 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. For 2014/15 the level of remuneration was £28k for the Leader (£27k in 2013/14), and £21k for the Convener (£20k in 2013/14).

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors a 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 a council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £168k in 2014/15 (£166k in 2013/14). 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 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 total remuneration paid to these Councillors in 2014/15 was £167k (£163k in 2013/14).

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 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:
http://www.shetland.gov.uk/

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 in their role of the Convener of the Joint Board.

Remuneration of Senior Employees

Remuneration is the term used to describe the total payments made to employees 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 Directors are based on a fixed percentage of the Chief Executive's salary, namely 80% of the value 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 (Executive Manager - Children and Families). These arrangements were agreed through approval of Report CE-30-F "Management Restructuring" at a meeting of the 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 Health and Social 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. 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 £50k or more, disclosed in bands of £5k. This table includes payments made in the year for salary, pension contributions, redundancy and compensatory added years.

Remuneration Bands	Number of Employees							
	2013/14	2014/15						
		Exit Packages and One-Off Payments	Children's Services	Infra-structure Services	Community Health and Social Care	Develop-ment Services	Corporate Services & Executive Services	Total
£50,000 - £54,999	48	0	18	17	1	2	3	41
£55,000 - £59,999	25	1	9	14	2	4	3	32
£60,000 - £64,999	16	1	5	3	0	1	1	10
£65,000 - £69,999	5	3	1	7	1	1	1	11
£70,000 - £74,999	5	0	1	5	0	0	1	7
£75,000 - £79,999	7	0	1	0	0	0	0	1
£80,000 - £84,999	3	0	1	2	0	1	1	5
£85,000 - £89,999	0	1	1	0	0	0	0	1
£90,000 - £94,999	0	0	0	1	0	0	0	1
£95,000 - £99,999	0	0	0	3	0	0	0	3
£100,000 - £104,999	1	0	0	0	0	0	1	1
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	0	0	0	0	0	0
Total	**110**	**6**	**37**	**52**	**4**	**9**	**11**	**113**

The table above includes employees who terminated employment during 2013/14 and 2014/15. Some of the employees that left received remuneration packages which included compensation for loss of office (eg redundancy payment and/or enhanced pension payments), and because of these payments a number of employees' remuneration has increased temporarily in both 2013/14 and 2014/15.

Of the 37 staff (31 in 2013/14) in Children’s Services receiving remuneration over £50k, 23 (21 in 2013/14) were head teachers or senior teaching staff.

Of the 52 staff (45 in 2013/14) in Infrastructure Services receiving remuneration over £50k, 47 (43 in 2013/14) worked in Ports and Harbours Operations or Ferry Operations.

Exit Packages

The Regulations require the Remuneration Report to provide information on the number of exit packages awarded in bandings of £20k up to £100k, and thereafter in bandings of £50k, 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 2014/15 of £1.0m (£3.0m in 2013/14) in the table includes £0.9m (£2.4m in 2013/14) 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 £0.1m (£0.6m in 2013/14) 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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £000	2014/15 £000
£0 - £19,999	2	6	119	9	121	15	**613**	**96**
£20,000 - £39,999	0	1	19	7	19	8	**554**	**221**
£40,000 - £59,999	0	0	19	7	19	7	**902**	**352**
£60,000 - £79,999	0	0	5	4	5	4	**356**	**277**
£80,000 - £99,999	0	0	3	1	3	1	**264**	**87**
£100,000 - £149,999	0	0	3	1	3	1	**330**	**0**
£150,000 - £199,999	0	0	0	0	0	0	**0**	**0**
£200,000 - £249,999	0	0	0	0	0	0	**0**	**0**
Total	**2**	**7**	**168**	**29**	**170**	**36**	**3,019**	**1,033**

The table above details the number and cost of exit packages awarded in 2013/14 and 2014/15. 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):

	2013/14 £000	2014/15 £000
Salaries	358	364
Allowances	36	34
Expenses	94	95
Total	**488**	**493**

The annual return of Councillors' salaries and expenses for 2014/15 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	2013/14	2014/15				Notes
		Total Remuneration £	Salary, Fees and Allowances £	Taxable Expenses (b) £	Benefits other than Cash £	Total Remuneration £	
M Bell	Convener	**20,317.28**	20,702.04	0.00	0.00	**20,702.04**	
G Robinson	Leader of the Council	**27,388.12**	27,602.04	331.09	0.00	**27,933.13**	
C Smith	Chair - Social Services Committee	**18,825.62**	19,182.00	0.00	0.00	**19,182.00**	
D Ratter (a)	Chair - Shetland College Board	**20,859.33**	20,702.04	660.13	0.00	**21,362.17**	Chair to 14/5/14 also Chair of O & S VJB.
P Campbell	Chair - Shetland College Board	**16,252.60**	17,997.09	0.00	0.00	**17,997.09**	Chair from 15/5/2014
A Cooper	Chair - Development Committee	**18,825.62**	19,182.00	0.00	0.00	**19,182.00**	
A Duncan	Chair - Audit & Standards Committee	**17,852.36**	18,189.00	0.00	0.00	**18,189.00**	
F Robertson	Chair - Planning Committee	**18,302.08**	18,189.00	338.65	0.00	**18,527.65**	
M Stout	Chair - Environment & Transport Committee	**16,252.60**	18,873.11	0.00	0.00	**18,873.11**	Chair from 15/5/2014
A Wishart	Chair - Environment & Transport Committee	**18,825.62**	16,868.89	0.00	0.00	**16,868.89**	Chair to 14/5/2014
G Smith	Chair - Licensing Committee	**17,852.36**	18,189.00	0.00	0.00	**18,189.00**	
V Wishart	Chair - Education and Families Committee	**18,825.62**	19,182.00	0.00	0.00	**19,182.00**	
A Manson	Chair - Harbour Board	**17,852.36**	18,189.00	0.00	0.00	**18,189.00**	

Notes:

a) D Ratter - only receives one Senior Councillor payment even though he held two positions to 14/5/14. The position of Convener of the Orkney & Shetland Valuation Joint Board attracted a payment of £4k in 2014/15 (£4k 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	2013/14 Total Remuneration £	2014/15 Salary, Fees and Allowances £	2014/15 Taxable Expenses (a) £	2014/15 Compensation for Loss of Employment £	2014/15 Benefits other than in Cash £	2014/15 Total Remuneration £	Notes
M Boden	Chief Executive	**101,069.25**	100,984.54	0.00	0.00	0.00	**100,984.54**	
H Budge	Director - Children's Services	**80,849.10**	83,413.39	0.00	0.00	0.00	**83,413.39**	
M Sandison	Director - Infrastructure Services	**39,817.24**	81,536.12	0.00	0.00	0.00	**81,536.12**	Commenced 1/10/2013. Full year equivalent in 2013/14 £79,865
P Crossland	Director - Infrastructure Services	**41,370.54**	0.00	0.00	0.00	0.00	**0.00**	Left 30/09/2013. Full year equivalent in 2013/14 £83,322
N Grant	Director - Development Services	**80,849.10**	83,413.39	0.00	0.00	0.00	**83,413.39**	
C Ferguson	Director - Corporate Services	**80,950.35**	83,413.39	22.50	0.00	0.00	**83,435.89**	
S Shaw	Director - Community Care Services (b)	**33,211.10**	0.00	0.00	0.00	0.00	**0.00**	Left 4/08/2013. Full year equivalent £79,748
J Riise	Executive Manager - Governance & Law (Monitoring Officer)	**72,648.17**	73,657.54	0.00	0.00	0.00	**73,657.54**	
J Gray	Executive Manager - Finance (Section 95 Officer) (c)	**70,401.54**	51,227.37	0.00	0.00	0.00	**51,227.37**	Left 14/12/2014. Full year equivalent in 2013/14 £73,649
H Leslie	Executive Manager - Children and Families (Chief Social Work Officer)	**67,215.48**	70,205.23	0.00	0.00	0.00	**70,205.23**	Left 31/03/2015

Notes:

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

b) From 2 February 2014 the role of Director of Community Care was superseded by a new post of Director of Community Health and Social Care. This position is held by S Boker-Ingram who is employed by NHS Shetland and 50% of the cost of this post is funded by the Council. In 2014/15 the Council paid £55k (£9k for part year in 2013/14) to NHS Shetland in respect of this post.

c) S Whyte, Executive Manager, Finance (Section 95 Officer) from 8 December 2014, is employed by Aberdeen City Council. In 2014/15 the Council paid £17k to Aberdeen City Council 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 Year ending 31 March 2014 £'000	 Year ending 31 March 2015 £'000		Accrued Pension Benefits As at 31 March 2014 £'000	 As at 31 March 2015 £'000	 Increase / (Decrease) £'000	Notes
M Bell	Convener	4	4	Pension	1	1	0	
				Lump Sum	0	0	0	
G Robinson	Leader of the Council	5	5	Pension	4	5	1	
				Lump Sum	1	2	1	
C Smith	Chair - Social Services Committee	4	4	Pension	2	2	0	
				Lump Sum	1	1	0	
D Ratter	Chair - Shetland College Board	4	4	Pension	5	5	0	Chair to 14/05/2014
				Lump Sum	0	0	0	
P Campbell	Chair - Shetland College Board	3	3	Pension	0	1	1	Chair from 15/05/2014
				Lump Sum	0	0	0	
A Cooper	Chair - Development Committee	4	4	Pension	2	3	1	
				Lump Sum	1	1	0	
A Duncan	Chair - Audit & Standards Committee	3	3	Pension	2	3	1	
				Lump Sum	1	1	0	
A Wishart	Chair - Environment & Transport Committee	4	3	Pension	2	3	1	Chair to 14/05/2014
				Lump Sum	1	1	0	
M Stout	Chair - Environment & Transport Committee	3	4	Pension	0	1	1	Chair from 15/05/2014
				Lump Sum	0	0	0	
M G Smith	Chair - Licensing Committees	3	3	Pension	1	1	0	
				Lump Sum	0	0	0	
V Wishart	Chair - Education & Families Committee	0	0	Pension	0	0	0	
				Lump Sum	0	0	0	
A Manson	Chair - Harbour Board	3	3	Pension	1	1	0	
				Lump Sum	0	0	0	

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions Year ending 31 March 2014 £'000	Year ending 31 March 2015 £'000		Accrued Pension Benefits As at 31 March 2014 £'000	As at 31 March 2015 £'000	Increase (Decrease) £'000	Notes
M Boden	Chief Executive	ER	19	19	Pension	3	4	1	
		Strain	0	0	Lump Sum	0	0	0	
H Budge	Director - Children's Services	ER	12	12	Pension	22	24	2	
		Strain	0	0	Lump Sum	65	71	6	
M Sandison	Director - Infrastructure	ER	7	15	Pension	17	22	5	Commenced as Director 01/10/2013
	Services	Strain	0	0	Lump Sum	34	42	8	
P Crossland	Director - Infrastructure	ER	8	0	Pension	3	0	-3	Terminated Employment 30/03/2013
	Services	Strain	0	0	Lump Sum	0	0	0	
N Grant	Director - Development	ER	15	16	Pension	13	15	2	
	Services	Strain	0	0	Lump Sum	19	20	1	
C Ferguson	Director - Corporate Services	ER	15	16	Pension	37	39	2	
		Strain	0	0	Lump Sum	89	92	3	
S Shaw	Director - Community Care	ER	5	0	Pension	3	0	-3	Terminated Employment 04/08/2013
	Services	Strain	0	0	Lump Sum	0	0	0	
J Riise	Executive Manager -	ER	14	14	Pension	27	29	2	
	Goverance & Law	Strain	0	0	Lump Sum	62	63	1	
J Gray	Executive Manager -	ER	13	10	Pension	2	3	1	Terminated Employment 14/12/2014
	Finance	Strain	0	0	Lump Sum	0	0	0	
H Leslie	Executive Manager -	ER	13	13	Pension	25	26	1	Terminated Employment 31/03/2015
	Children & Families	Strain	0	0	Lump Sum	58	56	-2	

Notes:

a) Strain costs are the cost to the Pension Fund (which requires to be met up-front by the General Fund) for allowing staff to retire early with an unreduced LGPS pension & lump sum. No Strain costs occurred in 2014/15.

b) The Executive Manager - Governance & Law also has pension benefits arising from his Returning Officer duties in respect of Local Government, Scottish and European Parliamentary elections. A single disclosure of the pension benefits is detailed above and includes Returning Officer accrued pension benefits of £0.5k and £0.7k lump sum as at 31 March 2015. At 31 March 2014 the comparative figures were £1k pension benefits and £2k 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.

d) S Whyte, Executive Manager, Finance (Section 95 Officer) from 8 December 2014, is employed by Aberdeen City Council and whilst there are costs funded by the Council, his pension benefits are administered by Aberdeen City Council.

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). The Scheme is a funded pension scheme that receives contribution payments from both Scheme members and employers who participate in the LGPS.

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 the LGPS 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 contribution rates were set at 6% for all non-manual employees.

The Tiered Contribution Pay Rates for 2014/15 are as follows:	Contribution Rate 2014/15 %
Whole time pay:	
On earnings up to and including £20,335	5.50
On earnings above £20,335 and up to £24,853	7.25
On earnings above £24,853 and up to £34,096	8.50
On earnings above £34,096 and up to £45,393	9.50
On earnings above £45,393	12.00

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

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

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

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

……………………………………...	………………………..................
Mark Boden	Gary Robinson
Chief Executive	Leader of the Council
………………………...	………………………...
Date	Date

Statement of Responsibilities for the Annual 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 (section 95 of the Local Government (Scotland) Act 1973). 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 Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I can confirm that these Annual Accounts were approved for signature by the Council on 22 September 2015.

Signed on behalf of Shetland Islands Council

…………………………………………..	…………………………
Gary Robinson	Date
Leader of the Council	

The Executive Manager - Finance's Responsibilities

The Executive Manager - Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

It is the responsibility of the Executive Manager - Finance to sign, date and submit the un-audited Annual Accounts to the appointed auditor by 30 June 2015.

In preparing this Annual 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 legislation; and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Manager - Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2015.

.... 17/6/15

Steven Whyte, CPFA
Executive Manager – Finance

Date

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 Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and those that the Council 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 Council'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. Councils 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 Council 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 Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Council 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 Council 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 Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council.

Movement in Reserves Statement

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves (note 22) £000	Unusable Reserves (note 23) £000	Total Authority Reserves £000
Balance as at 31 March 2014	**(13,860)**	**0**	**(71,783)**	**(1,920)**	**(153,309)**	**(240,872)**	**(239,118)**	**(479,990)**
Movement in reserves during 2014/15:								
(Surplus) or deficit on the provision of services	(1,892)	869	0	0	0	**(1,023)**	0	(1,023)
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	(12,526)	(12,526)
Total Comprehensive Income and Expenditure	**(1,892)**	**869**	**0**	**0**	**0**	**(1,023)**	**(12,526)**	**(13,549)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,997	(1,232)	(1,102)	1,277	0	940	(940)	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**105**	**(363)**	**(1,102)**	**1,277**	**0**	**(83)**	**(13,466)**	**(13,549)**
Net Transfers to/(from) Other Statutory Reserves	757	363	(955)	0	(165)	0	0	0
(Increase)/Decrease in 2014/15	**862**	**0**	**(2,057)**	**1,277**	**(165)**	**(83)**	**(13,466)**	**(13,549)**
Balance as at 31 March 2015	**(12,998)**	**0**	**(73,840)**	**(643)**	**(153,474)**	**(240,955)**	**(252,584)**	**(493,539)**

	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 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 2015

2013/14 Net Expenditure £000		Notes	2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
40,639	Education Services		51,660	(4,854)	46,806
1,798	Housing Services		4,813	(3,507)	1,306
(2,683)	Housing Revenue Account		6,822	(6,720)	102
4,820	Cultural and Related Services		5,902	(1,017)	4,885
5,506	Environmental Services		8,380	(2,772)	5,608
3	Fire Services		0	0	0
10,539	Roads and Transport Services		20,254	(3,842)	16,412
10,834	Trading Services		35,575	(24,089)	11,486
32	Police Services		0	0	0
5,594	Planning and Development Services		5,716	(2,546)	3,170
28,383	Social Work		35,592	(7,405)	28,187
2,712	Central Services to the Public		1,652	(94)	1,558
5,617	Corporate and Democratic Core		2,198	0	2,198
1,615	Non Distributed Costs		678	0	678
115,409	**Cost of Services**		**179,242**	**(56,846)**	**122,396**
(485)	Other operating income and expenditure	9			146
(32,698)	Financing and investment income and expenditure	10			3,051
(114,185)	Taxation and non-specific grant income	11			(126,616)
(31,959)	**(Surplus) or Deficit on Provision of Services**				**(1,023)**
	Items that will not be reclassified to the (surplus) or deficit on the provision of services				
(28,289)	(Surplus) on revaluation of property, plant and equipment assets	23			(14,983)
(7,153)	(Surplus) on revaluation of available for sale financial assets	23			(25,000)
12,690	Remeasurement of the net defined benefit liability	23			26,437
(22,752)					(13,546)
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
31,440	Amounts recycled from the AFSFI reserve upon derecognition	23			1,020
31,440					1,020
8,688	**Other Comprehensive Income and Expenditure**				**(12,526)**
(23,271)	**Total Comprehensive Income and Expenditure**				**(13,549)**

Balance Sheet as at 31 March 2015

31 March 2014 £000		Notes	31 March 2015 £000
401,012	Property, Plant and Equipment	12	403,080
4,743	Heritage Assets	13	4,730
575	Intangible Assets	14	20,173
203,483	Long Term Investments	15	277,997
2,126	Long Term Loans	15	3,438
5,054	Other Long Term Debtors	18	30
616,993	**Long Term Assets**		**709,448**
875	Assets held for Sale	16	934
5,372	Inventories	17	5,004
20,169	Short Term Debtors	18	20,212
7,936	Cash and Cash equivalents	19	2,823
34,352	**Current Assets**		**28,973**
(15,670)	Short Term Creditors	20	(18,157)
(192)	Provisions	21	(5,537)
(15,862)	**Current Liabilities**		**(23,694)**
(6,089)	Finance Lease Liability	31	(6,000)
0	Long Term Borrowing	15	(31,000)
(148,562)	Pension Liability	34	(183,396)
(810)	Provisions	21	(728)
(32)	Other Long Term Liabilities		(64)
(155,493)	**Long Term Liabilities**		**(221,188)**
479,990	**Net Assets**		**493,539**
(240,872)	Usable Reserves	22	(240,955)
(239,118)	Unusable Reserves	23	(252,584)
(479,990)	**Total Reserves**		**(493,539)**

The unaudited Annual Accounts were issued on 17 June 2015.

....

Steven Whyte, CPFA
Executive Manager – Finance

.....17/6/15.......
Date

Cash Flow Statement for year ended 31 March 2015

2013/14 £000		2014/15 £000	2014/15 £000
	OPERATING ACTIVITIES		
(31,959)	Net (surplus) or deficit on the provison of services	(1,023)	
(8,158)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 37)	(23,818)	
46,777	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 37)	13,566	
6,660	**Net cash flows from Operating Activities**	**(11,275)**	
(11,521)	Investing activities (Note 38)	47,380	
1,043	Financing activities (Note 39)	(30,992)	
(3,818)	**Net (increase) or decrease in cash and cash equivalents**		**5,113**
4,118	Cash and Cash Equivalents at 1 April		7,936
3,818	Net movement of Cash and Cash Equivalents during the year		(5,113)
7,936	**Cash & Cash Equivalents at 31 March**		**2,823**

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

Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Code specifies the applicable accounting policies for:

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

A valid estimation technique can be used to derive the monetary amount (ie the one that best reflects the economic reality of a transaction or event) to be recognised in the Accounts in the 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 Council's financial position or financial performance. A change in accounting policy requires a prior period adjustment.

Changes in accounting estimates are accounted for prospectively, ie 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 Council 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 Council'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 Council 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 Council;

- revenue from the provision of services is recognised when the Council 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 Council;

- 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; and

- 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 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 Council 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 Council 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 Council, 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 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 Council 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 Council; 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, eg 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 (ie 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 (eg cars) for current employees are recognised as an expense for services in the year in which employees render service to the Council.

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 Council to terminate an employee's employment before the normal retirement date, or an employee'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 Council can no longer withdraw the offer of those benefits or when the Council 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 Council 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 Council may be members of one of two separate pension schemes:

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

Both Schemes provide defined benefits to members (retirement lump sums and pensions) which are earned as employees work for the Council. The arrangements for the teachers' Scheme, however, mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. 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 Council are included in the Balance Sheet on an actuarial basis using the projected unit method, ie 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 Council 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 which is 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, which is 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 which are charged to the 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, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement; and

- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities which are 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 Council 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 Council 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 Annual 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 Annual Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period whereby the Annual Accounts is not adjusted to reflect such events, but where a category of events would have a material effect and 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 Annual Accounts.

1.11 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council 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 guarantees are measured at fair value and are estimated by considering the probability of the guarantee being called.

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 Council 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 Council 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 Council 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.

On 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 fund managers all invest on behalf of the Council into unitised products. Each fund manager records income and fees relating to these units differently, and the following paragraphs set out how each fund 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 Loans Fund

The Council operates a loans fund which covers the following areas:

- interest – includes all interest paid on external loans;
- expenses – includes all expenses incurred in the running of the Loans Fund, including a central support charge for staff costs and use of Council systems;
- principal – includes all capital advances to services; and
- borrowing – loans raised from external bodies, currently the Public Works Loan Board.

Each year the loans fund will identify the amount of capital interest it has to distribute and calculate the loans pool rate. This is then used to calculate the annual loan charges to Council services. The capital interest rate charged by the Council's loans fund in 2014/15 was 3.25%.

1.13 Financing Costs

Financing costs comprise principal and interest. Repayment of debt to the loans fund is based on an equal instalment basis. Interest is allocated on the basis of the debt outstanding at the start of the financial year, with a proportionate adjustment in respect of borrowings or repayments during the financial year.

Interest is debited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement, while the principal is debited to the General Fund through the Movement in Reserves Statement.

1.14 Foreign Currency Translation

Where the Council 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.

1.15 Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Council and credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that the Council 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.

1.16 Intangible Assets

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

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 Council 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 Council’s goods or services.

Intangible assets are measured initially at cost. Amounts are revalued annually where the fair value of the assets held by the Council can be determined by reference to an active market. Fishing quota and fishing licenses meets this criterion. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines 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 lines 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.

1.17 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.

1.18 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 allowances 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.

1.19 Leases

Operating Leases

a) The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to 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 (eg there is a rent-free period at the commencement of the lease).

b) The Council as Lessor

Where the Council 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 (eg 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 Council. 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 Council 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 Council 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 an expense 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 which is 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 Council at the end of the lease period).

The Council 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 Council as Lessor

Where the Council 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 Council'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 (ie 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 which is 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.

1.20 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 2014/15 (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 Council'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.

1.21 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 Council 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 (ie 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 lines 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 lines in the Comprehensive Income and Expenditure Statement; and

- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines 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 (ie freehold land and certain community and heritage assets) and assets that are not yet available for use (ie 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 (ie 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.

1.22 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 Council 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, eg 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 Council'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 Council'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 Council'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.

1.23 Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This Scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them 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 Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

1.24 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.

Provisions are charged as an expense to the appropriate service lines in the Comprehensive Income and Expenditure Statement in the year that the Council 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 (eg 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 Council settles the obligation.

1.25 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 Council; these reserves are explained in the relevant policies.

1.26 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but 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 Council 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.

1.27 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 2015/16 Code:

- IFRS 13 Fair Value Measurement (May 2011)
- Annual Improvements to IFRSs (2011 – 2013 Cycle)
- IFRIC 21 Levies.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 financial statements.

The issues included in the Annual Improvements to IFRSs 2011 – 2013 cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception);
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations; and
- IAS 40 Investment Property when classifying property as investment property or owner-occupied property.

3. Critical Judgments in Applying Accounting Policies

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

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

The Annual 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 Council's

Balance Sheet at 31 March 2015 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 Council 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 £56.1m, however, the assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pensions liability had increased by £34.8m as a result of updated assumptions.

b) Arrears

At 31 March 2015, the Council had a balance on sundry debtors of £4.8m in short term debtors. A review of significant balances suggested that an impairment of doubtful debts of £0.2m is appropriate in the current economic climate.

Council Tax collection does not impose a significant impairment risk as, historically, less than 0.5% of charges levied is ever written off. It is estimated that no more than £0.05m will eventually be written off from Council Tax charges of £8.4m levied during 2014/15.

c) Reserves

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 significant levels of excessive expenditure in the long term. The Council is currently implementing a plan to reduce spending to sustainable levels.

5. Material Items of Income and Expenditure

The majority of the Shetland Development Trust's assets and undertakings transferred to the Council prior to the Trust winding up on 28 February 2015. These have been recognised as income in 2014/15, and as assets/liabilities in the Balance Sheet.

6. Events after the Balance Sheet Date

The Annual Accounts was authorised for issue by the Executive Manager - Finance on 17 June 2015. 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 2015, 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 Comprehensive Income and Expenditure Statement, recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council 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 the Council are required to be paid, and out of which all liabilities of the Council 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. 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.

2014/15	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	(13,196)	(2,179)	0	0	15,375
Revaluation losses on property, plant and equipment	(6,043)	(1,189)	0	0	7,232
Amortisation of intangible assets	(68)	0	0	0	68
Capital grants and contributions applied	8,096	0	0	0	(8,096)
Income in relation to donated assets	19,495	0	0	0	(19,495)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(1,501)	(1,049)	0	0	2,550
Capital repayment in respect of finance leases	84	0	0	0	(84)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	841	1,101	0	0	(1,942)
Capital expenditure charged against the General Fund and HRA balances	0	985	0	0	(985)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	1,277	(1,277)
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	1,102	1,302	(2,404)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,302	0	(1,302)
Adjustments primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	1,519	0	0	0	(1,519)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(21,005)	(378)	0	0	21,383
Employer's pensions contributions and direct payments to pensioners payable in the year	12,772	214	0	0	(12,986)
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	(99)	(39)	0	0	138
Total Adjustments	**1,997**	**(1,232)**	**(1,102)**	**1,277**	**(940)**

2013/14 Comparative Figures	Usable Reserves General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(12,527)	(1,468)	0	0	13,995
Revaluation losses on property, plant and equipment	(473)	(175)	0	0	648
Amortisation of intangible assets	(64)	0	0	0	64
Capital grants and contributions applied	6,384	460	0	0	(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)	0	0	1,000
Capital repayment in respect of finance leases	68	0	0	0	(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	0	0	(13,292)
Capital expenditure charged against the General Fund and HRA balances	1,214	1,249	0	0	(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	0	0	(1,920)	0
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	579	906	(1,485)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,485	0	(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)	0	0	20,513
Employer's pensions contributions and direct payments to pensioners payable in the year	13,760	131	0	0	(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	0	0	0	(24)
Total Adjustments	**789**	**2,978**	**0**	**(1,920)**	**(1,847)**

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 2014/15.

	Balance at 1 April 31 Mar 2013 £000	Transfers out 2013/14 £000	Transfers in 2013/14 £000	Balance at 31 Mar 2014 £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balance at 31 Mar 2015 £000
General Fund:							
General Fund Balance	**(3,000)**	39,317	(49,130)	**(12,813)**	15,036	(14,032)	**(11,809)**
Council Tax Second Homes Receipts	**(403)**	0	(301)	**(704)**	0	(140)	**(844)**
Hansel	**(111)**	0	(9)	**(120)**	0	(11)	**(131)**
School Funds	**(87)**	0	(77)	**(164)**	0	(21)	**(185)**
Central Efficiency	**(3)**	0	(56)	**(59)**	31	(1)	**(29)**
Total	**(3,604)**	**39,317**	**(49,573)**	**(13,860)**	**15,067**	**(14,205)**	**(12,998)**
Capital:							
Capital Fund	**(83,808)**	37,568	(15,996)	**(62,236)**	0	(1,276)	**(63,512)**
Capital Efficiency/Spend to Save Reserve	**(8,677)**	1,058	(918)	**(8,537)**	487	(152)	**(8,202)**
Pilot Boat Renewal Fund	**(978)**	0	(32)	**(1,010)**	0	(14)	**(1,024)**
Usable Capital Receipts	**0**	0	0	**0**	1,302	(2,404)	**(1,102)**
Capital Fund (HRA Debt Contingency)	**(10,000)**	10,000	0	**0**	0	0	**0**
Total	**(103,463)**	**48,626**	**(16,946)**	**(71,783)**	**1,789**	**(3,846)**	**(73,840)**
Other Revenue/Statutory Funds:							
Revenue Efficiency/Spend to Save Reserve	**(365)**	313	(12)	**(64)**	487	(488)	**(65)**
Marine Fund	**(1,805)**	133	(374)	**(2,046)**	153	(39)	**(1,932)**
Reserve Fund	**(18,219)**	235	(6,895)	**(24,879)**	4,770	(5,298)	**(25,407)**
Repairs & Renewals Fund	**(44,644)**	8,000	(9,034)	**(45,678)**	2,234	(876)	**(44,320)**
Quarry Repairs & Renewals Fund	**(156)**	0	(5)	**(161)**	0	(2)	**(163)**
Housing Repairs & Renewals Account	**(10,422)**	1,477	(1,919)	**(10,864)**	0	(569)	**(11,433)**
Insurance Fund	**(221)**	0	(7)	**(228)**	0	(3)	**(231)**
Potential Contingent Liabilities	**(865)**	0	(343)	**(1,208)**	0	(38)	**(1,246)**
Equalisation Fund	**0**	0	(15,000)	**(15,000)**	0	(214)	**(15,214)**
Local Investment Fund	**0**	0	(11,422)	**(11,422)**	4,403	(4,000)	**(11,019)**
Council Tax Reduction Scheme	**0**	0	(202)	**(202)**	0	0	**(202)**
Reserve Fund (Harbour Contingency)	**(39,000)**	0	(2,557)	**(41,557)**	0	(685)	**(42,242)**
Total	**(115,697)**	**10,158**	**(47,770)**	**(153,309)**	**12,047**	**(12,212)**	**(153,474)**
Housing Revenue Account	**0**	3420	(3,420)	**0**	1232	(1,232)	**0**
Capital Grants Unapplied	**0**	0	(1,920)	**(1,920)**	1,277	0	**(643)**
Total Usable Reserves	**(222,764)**	**101,521**	**(119,629)**	**(240,872)**	**31,412**	**(31,495)**	**(240,955)**

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 to defray General Fund expenditure.

The Revenue Efficiency/Spend to Save Reserve is an earmarked General Fund reserve 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 to set aside funds to meet the financial obligations that may arise if known contingent liabilities materialise. A new Contingency Fund was also established 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 was 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 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 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 was created 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 to facilitate the capital costs associated with implementing future savings plans.

The Pilot Boat Renewal Fund was established by the Council, as Pilotage Authority, to defray expenditure on the building of vessels for boarding and landing duties. It has been funded by contributions from the Harbour Account.

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

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

9. Other Operating Income and Expenditure

31 March 2014 £000		31 March 2015 £000
(485)	(Gains)/losses on the disposal of non-current assets	146
(485)	**Total**	**146**

10. Financing and Investment Income and Expenditure

31 March 2014 £000		31 March 2015 £000
0	Interest payable and similar charges	2,273
5,830	Pensions interest cost and expected return on pensions assets	6,426
(68)	Interest receivable and similar income	(616)
(1,884)	Other investment income	(2,286)
(36,576)	Realised gains in relation to available for sale financial assets	(1,368)
0	Transfer of SDT financial instruments	(1,378)
(32,698)	**Total**	**3,051**

11. Taxation and Non-Specific Grant Income

31 March 2014 £000		31 March 2015 £000
(8,284)	Council Tax income	(8,351)
(16,177)	Non domestic rates	(17,602)
(70,961)	Non ring fenced government grants	(69,072)
(8,763)	Capital grants and contributions	(8,096)
(10,000)	UK government housing debt funding	0
0	Donated assets	(23,495)
(114,185)	**Total**	**(126,616)**

12. Property, Plant and Equipment

Movement in 2014/15	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 2014	75,513	151,883	67,463	156,927	6,920	1,060	14,646	474,412
Additions	1,838	283	3,252	1,700	1	0	5,358	12,432
Donated assets	0	0	25	0	0	0	0	25
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(4,473)	4,875	(1,729)	0	0	(537)	0	(1,864)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,206)	(6,193)	(5,687)	0	0	(33)	0	(13,119)
Derecognition – disposals	(1,245)	(28)	(951)	0	0	(309)	0	(2,533)
Derecognition – other	0	0	0	0	0	-	(16)	(16)
Assets reclassified (to)/ from Assets held for sale	(791)	(38)	(100)	0	0	(5)	0	(934)
Other movements in cost or valuation	1,994	4,314	177	3,092		1,513	(11,392)	(302)
At 31 March 2015	71,630	155,096	62,450	161,719	6,921	1,689	8,596	468,101
Accumulated Depreciation and Impairment								
At 1 April 2014	0	(10,728)	(23,532)	(38,830)	(8)	(302)	0	(73,400)
Depreciation charge	(2,202)	(5,291)	(4,006)	(3,817)	0	(31)	0	(15,347)
Depreciation written out to the Revaluation Reserve	2,133	12,881	1,689	0	0	337	0	17,040
Depreciation written out to the Surplus/Deficit on the Provision of Services	5	187	5,501	0	0	0	0	5,693
Derecognition – disposals	35	1	946	0	0	11	0	993
Derecognition – other	0	0	0	0	0	0	0	0
Assets reclassified (to)/ from Assets held for sale	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	47	0	0	0	(47)	0	0
At 31 March 2015	(29)	(2,903)	(19,402)	(42,647)	(8)	(32)	0	(65,021)
Net Book Value								
At 31 March 2015	71,601	152,193	43,048	119,072	6,913	1,657	8,596	403,080
At 31 March 2014	75,513	141,155	43,931	118,097	6,912	758	14,646	401,012

Comparator 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)	0	0	73	0	19,947
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(185)	(460)	0	0	0	0	0	(645)
Derecognition - disposals								0
Derecognition - other	(305)	(187)	(1,016)	0	0	(72)	0	(1,580)
Assets reclassified (to)/ from Assets held for sale	(111)	(549)	0	0	0	0	0	(660)
Other movements in cost or valuation	3,944	3,084	574	1,399	0	511	(9,512)	0
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	0	(10,324)	(22,819)	(35,477)	(8)	(239)	0	(68,867)
Depreciation charge	(1,501)	(4,931)	(3,819)	(3,669)	0	(62)	0	(13,982)
Depreciation written out to the Revaluation Reserve	1,483	4,441	2,392	0	0	55	0	8,371
Depreciation written out to the Surplus/Deficit on the Provision of Services	10	25	62	0	0	0	0	97
Derecognition - disposals	7	6	968	0	0	0	0	981
Assets reclassified (to)/ from Assets held for sale	2	52	0	0	0	0	0	54
Other movements in depreciation and impairment at 31 March 2014	(1)	3	(316)	316	0	(56)	0	(54)
At 31 March 2014	0	(10,728)	(23,532)	(38,830)	(8)	(302)	0	(73,400)
Net Book Value	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

a) Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

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

b) Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2015/16 and future years budgeted to cost £3.0m. Similar commitments at 31 March 2014 were £4.1m. The major commitments are:

Clickimin Roundabout/Access Road	£0.9m
Scalloway School Conversion	£0.5m
Burra & Trondra Bridge Bearings	£0.4m
Clickimin Path	£0.3m
Wirligert External Refurbishments	£0.2m
Housing Quality Standards	£0.2m
Skelladale & Valladale External Refurbishments	£0.2m

c) Revaluations

The Council 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. The school estate was valued using a modern equivalent approach. 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; and
- that there are no outstanding statutory notices affecting any of the properties.

d) 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 Section. The basis for valuation is set out in the statement of accounting policies. It should be noted that council dwelling beacon valuations and vehicles, furniture, 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	0	0	0	161,719	6,920	0	8,596	177,235
Valued at fair value as at:								
2014 - 2015	71,629	75,092	62,451	0	0	965	0	210,137
2013 - 2014	0	25,050	0	0	0	524	0	25,574
2012 - 2013	0	14,486	0	0	0	70	0	14,556
2011 - 2012	0	24,502	0	0	0	59	0	24,561
2010 - 2011	0	15,966	0	0	0	72	0	16,038
Total Cost or Valuation	71,629	155,096	62,451	161,719	6,920	1,690	8,596	468,101

13. Heritage Assets

	Historic Buildings £000	Museum Collection £000	War Memorial £000	Total Assets £000
Net Value				
At 1 April 2013	1,428	3,269	59	**4,756**
Depreciation	(12)	0	(1)	**(13)**
Other movements				0
At 31 March 2014	**1,416**	**3,269**	**58**	**4,743**
Net Value				
At 1 April 2014	1,416	3,269	58	**4,743**
Depreciation	(12)	0	(1)	**(13)**
At 31 March 2015	**1,404**	**3,269**	**57**	**4,730**

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 crofthouse 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 crofthouse dwelling, including period furniture and other artefacts. 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 artefacts 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 Council'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 and Textiles – Includes 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, eg potsherds. Items are frequently consulted by researchers.

Art – This includes watercolours, oil paintings, textile artworks, drawings and sculptures. Growth is small but even, about a couple of items a month. Readily translatable to market value, but each piece is unique, so irreplaceable. The condition overall is very good. These are stored centrally in one room, except for display items. The vast majority are 20th century items, but most significant are the 19th century oil paintings.

Maps & Charts - This collection rarely added to as there are few gaps in the collection. The condition overall is good. There are a few items on display, but these are often used for reference. Many pieces rare and replacement is unlikely.

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

Social History – This is a large category with diverse items. Includes toys, games, music, sport, telecommunications, domestic service, cooking and cleaning. The range of materials and condition is multitudinous, and the collection is 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 are fairly infrequent.

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

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

Maritime – This is a 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 such as shelving, cabinets and signs. Greater bulk concerns equipment (scales, tills, barrels) and goods (bottles, packets, jars). There is a small proportion on display with limited financial value as such. Most items were mass–produced so not unique to Shetland. The condition of some larger items requires work.

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

Currency – Currently, notes, coins and medals. Small section on display with the vast majority in storage. All items have clearly recognisable commercial value to collections. The medals are individually inscribed and are therefore irreplaceable. The coins, although mass-produced, have 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 searchroom, 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.

c) War Memorial

The Council'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 no purchase of heritage assets during the last five years. There were no donations, disposals or impairments.

14. Intangible Assets

The intangible assets included on the Balance Sheet are in respect of fishing quota, fishing licences and software.

Fishing quota is the right to fish species over a defined period, usually one year. Quotas are held by Government and distributed to fishermen through Producer Organisations. Thefishing quota was orignally purchased by the Shetland Development Trust to enable long term access to a strategically important resource. The quota was transferred to the Council at an open market value of £19.1m on 31 December 2014 as part of the wind-up of the Shetland Development Trust. There was no material change to the value as at 31 March 2015. This is amortised on a straight line basis over a 20 year period.

Fishing licences provide authority for a registered fishing vessel to fish for sea fish, subject to limitations stated in the licence. The licences were transferred to the Council at an open market value of £0.3m on 31 December 2014 as part of the wind-up of the Shetland Development Trust. There was a part disposal on 26 March 2015 valued at £0.1m. The open market value as at 31 March 2015 is £0.2m. This is amortised on a straight-line basis over a 10 year period.

Software is accounted for to the extent that it is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. 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 Council.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.1m was charged directly to the following service headings in the Cost of Services for 2014/15: 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 Council are:

Years	Purchased Licences
3	Webroster GIS Innogistic System Encryption/ Web Filter Software
5	Payroll/ HR/ Pension Systems Libraries Systems Building/ DLO Stores System Council Tax/ Housing Benefits/ Rents
10	Financial Management Systems Risk Assessment Software
12	Capita Open Housing Management System
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 2014 £000		31 March 2015 £000
	Balance at start of year:	
2,438	Gross carrying amounts	2,454
(1,816)	Accumulated amortisation	(1,879)
622	**Net carrying amount at start of year**	**575**
24	Purchases	21
0	SDT asset transfers	19,470
0	Other disposals	(128)
(64)	Amortisation for the period	(68)
(7)	Other changes	303
575	**Net carrying amount at end of year**	**20,173**
	Comprising:	
2454	Gross carrying amounts	22,103
(1,879)	Accumulated amortisation	(1,930)
575		**20,173**

15. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term 31 March 2014 £000	Current 31 March 2014 £000		Long-Term 31 March 2015 £000	Current 31 March 2015 £000
		Financial Assets:		
		Investments:		
203,483	0	Available for sale financial assets	277,997	0
203,483	**0**	**Total Investments**	**277,997**	**0**
		Debtors:		
2,126	1,274	Loans and receivables	3,438	894
2,126	**1,274**	**Total Debtors**	**3,438**	**894**
		Borrowing:		
0	0	Financial liabilities at amortised cost	(31,000)	0
0	**0**	**Total Borrowing**	**(31,000)**	**0**
		Creditors:		
0	0	Financial liabilities at amortised cost	(64)	(12)
0	0	Accrued interest liability	0	(397)
0	**0**	**Total Borrowing**	**(64)**	**(409)**
		Provisions:		
0	0	Financial guarantees	0	(141)
0	**0**	**Total Borrowing**	**0**	**(141)**

Material Soft Loans

An interest free loan was 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. The loan was fully repaid during 2014/15.

31 March 2014 £000		31 March 2015 £000
0	**Balance at start of year:**	**634**
776	Nominal value of new loans granted in the year	0
(14)	Fair value adjustment on initial recognition	0
(132)	Loans repaid	(644)
4	Increase in discounted amount	10
634	**Total Investments**	**0**

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 2014						31 March 2015				
Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Asset: Unquoted Equity Investment at Cost £000	Financial Liabilities: Amortised Cost £000	Total £000		Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Asset: Unquoted Equity Investment at Cost £000	Financial Liabilities: Amortised Cost £000	Total £000
0	0	0	0	**0**	Interest expense	0	0	0	1,008	**1,008**
(2)	0	0	0	**(2)**	Impairment losses	0	0	0		**0**
0	1,023	0	0	**1,023**	Fee expenses	0	764	0	11	**775**
(2)	**1,023**	**0**	**0**	**1,021**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**0**	**764**	**0**	**1,019**	**1,783**
(120)	(1,884)	0	0	**(2,004)**	Interest & dividend income	(148)	(2,286)	0	0	**(2,434)**
0	(36,576)	0	0	**(36,576)**	Gains on de-recognition		(1,368)	0	0	**(1,368)**
(120)	**(38,460)**	**0**	**0**	**(38,580)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(148)**	**(3,654)**	**0**	**0**	**(3,802)**
0	(7,153)	0	0	**(7,153)**	Gains on revaluation	0	(25,000)	0	0	**(25,000)**
0	31,440	0	0	**31,440**	Amounts recycled	0	1,020	0	0	**1,020**
0	**24,287**	**0**	**0**	**24,287**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES**	**0**	**(23,980)**	**0**	**0**	**(23,980)**
(122)	**(13,150)**	**0**	**0**	**(13,272)**	**Net (Gain)/Loss for the Year**	**(148)**	**(26,870)**	**0**	**1,019**	**(25,999)**

There were gains for available for sale financial assets on revaluation of £25.0m as at 31 March 2015 (£7.2m at 31 March 2014) 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 2014			31 March 2015	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
3,400	3,400	Loans and receivables	4,403	4,403
0	0	Financial liabilities at amortised cost	(31,076)	(41,234)

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 2014 £000		31 March 2015 £000
736	**Balance outstanding at start of year**	**875**
	Assets newly classified as held for sale:	
660	Property, plant and equipment	933
(120)	**Revaluation losses**	0
0	**Revaluation gains**	0
	Assets declassified as held for sale:	
0	Property, plant and equipment	0
(401)	**Assets sold**	(881)
	Other movements	7
875	**Balance outstanding at year-end**	**934**

17. Inventories

	Ports & Harbours 2013/14 £000	Ports & Harbours 2014/15 £000	Infrastructure 2013/14 £000	Infrastructure 2014/15 £000	Total 2013/14 £000	Total 2014/15 £000
Balance outstanding at start of year	**3,441**	**3,614**	**1,700**	**1,758**	**5,141**	**5,372**
Purchases	572	387	3,751	2,687	4,323	3,074
Recognised as an expense in the year	(399)	(554)	(3,682)	(2,885)	(4,081)	(3,439)
written off balances	0	0	(11)	(3)	(11)	(3)
Reversals of write offs in previous years	0	0	0	0	0	0
Balance outstanding at year end	**3,614**	**3,447**	**1,758**	**1,557**	**5,372**	**5,004**

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

Prior to 2014/15 some stock was classified as Trading Operations. These items are now included as part of the Infrastructure stock balance.

18. Short-Term Debtors

31 March 2014 £000		31 March 2015 £000
6,940	Central Government Bodies	6,532
2,625	Other Local Authorities	3,309
175	NHS Bodies	218
1,241	Public Corporations and Trading Funds	830
9,188	Other Entities and Individuals	9,323
20,169	**Total**	**20,212**

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 2014 £000		31 March 2015 £000
(302)	Opening balance - General Fund	(209)
32	Miscellaneous Invoices written off	25
50	Council Tax written off	49
11	Change in General Fund Provision	(88)
(209)	**Closing Balance**	**(223)**
(93)	Opening balance - Housing Revenue Account	(54)
	Miscellaneous Invoices written off	
39	Rents written off	19
0	Change in HRA Provision	(14)
(54)	**Closing Balance**	**(49)**

b) Long Term Debtors

In 2014/15 £30k of debtors have been classified as long term debtors (£5.1m in 2013/14). £5.0m was included in the 2013/14 long term debtors for funding from UK Government due to be received in 2015/16. This is now 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 2014 £000		31 March 2015 £000
42	Cash held by the Council	31
7,894	Bank current accounts	2,792
7,936	**Total**	**2,823**

20. Short-Term Creditors

31 March 2014 £000		31 March 2015 £000
(3,273)	Central Government Bodies	(3,871)
(2,687)	Other Local Authorities	(3,457)
(135)	NHS Bodies	(312)
(574)	Public Corporations and Trading Funds	(665)
(9,001)	Other Entities and Individuals	(9,852)
(15,670)	**Total**	**(18,157)**

21. Provisions

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

A provision of £0.9m has been recognised for landfill decommissioning costs which are expected to be incurred between 2015 and 2026. The provision is split between long and short term provisions to recognise the estimated payment of £0.2m due in 2015/16. The provision is calculated at today's prices based on the estimated remaining useful life of the landfill site and the current usage. Total estimated costs will be adjusted in the year when events indicating a change become known.

A provision of £0.1m has been recognised in 2014/15 in relation to a grant payment for works at Symbister Peerie Dock. The grant will only be paid out if certain conditions are met. The deadline for the drawdown of the grant is March 2018.

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme where it is required to purchase and surrender allowances, currently retrospectively, on the basis of carbon emissions. As carbon dioxide is emitted (ie as energy is used), a liability is recognised and then discharged by surrendering allowances. A payment of £0.1m has been made in relation to 2013/14, and a further provision of £0.1m has been recognised in relation to 2014/15. This has been calculated based on the current market price of the number of allowances required to meet the liability at 31 March 2015.

Shetland Islands Council requires to respond to legal claims raised against it. The potential liabilities that arise from this consist of legal fees and the settlement of any actions. New provisions, totalling £5.0m, have been included to take account of current actions based on the information available at 31 March 2015.

A number of financial guarantees transferred to the Council as part of the wind-up of the Shetland Development Trust. The likelihood of these guarantees being called has been assessed and a provision of £0.1m has been recognised as at 31 March 2015.

A provision of £0.1m has been recognised in 2014/15 in respect of VAT penalty charges which are currently being disputed with HM Revenue and Customs (HMRC).

2013/14			Long Term Provisions	2014/15		
Landfill De-commissioning £000	Symbister Peerie Dock £000	Total £000		Landfill De-commissioning £000	Symbister Peerie Dock £000	Total £000
0	**0**	**0**	**Balance at 1 April**	**(810)**	**0**	**(810)**
(810)	0	(810)	Additional provisions made	0	(75)	(75)
0	0	0	Transfer to Short Term Provisions	199	0	199
0	0	0	Unwinding of discounting	(42)	0	(42)
(810)	**0**	**(810)**	**Balance at 31 March**	**(653)**	**(75)**	**(728)**

Short Term Provisions	2014/15					
	Carbon Reduction Commitment £000	Outstanding Legal Actions £000	Landfill De-commissioning £000	Financial Guarantees £000	VAT Penalties £000	Total £000
Balance at 1 April 2014	**(92)**	**(100)**	**0**	**0**	**0**	**(192)**
Additional provisions made in 2014/15	(92)	(5,000)	(199)	(141)	(65)	(5,497)
Amounts used in 2014/15	92	15	0	0	0	107
Unused amounts reversed in 2014/15	0	45	0	0	0	45
Unwinding of discounting in 2014/15	0	0	0	0	0	0
Balance at 31 March 2015	**(92)**	**(5,040)**	**(199)**	**(141)**	**(65)**	**(5,537)**

Short Term Provisions	2013/14					
	Carbon Reduction Commitment £000	Outstanding Legal Fees £000	Landfill De-commissioning £000	Financial Guarantees £000	VAT Penalties £000	Total £000
Balance at 1 April 2013	**(95)**	**0**	**0**	**0**	**0**	**(95)**
Additional provisions made in 2013/14	(92)	(100)	0	0	0	(192)
Amounts used in 2013/14	95	0	0	0	0	95
Balance at 31 March 2014	**(92)**	**(100)**	**0**	**0**	**0**	**(192)**

22. Usable Reserves

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

Reconciliation of Usable Funds to the Balance Sheet

31 March 2014 £000		31 March 2015 £000
(13,860)	General Fund Balance	(12,998)
(71,783)	Capital Receipts Reserve/Capital Funds	(73,840)
(1,920)	Capital Grants Unapplied	(643)
(153,309)	Other Revenue/Statutory Funds	(153,474)
(240,872)	**Total balance of usable reserves at 31 March**	**(240,955)**

23. Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

31 March 2014 £000		31 March 2015 £000
(89,201)	Revaluation Reserve	(100,641)
(21,449)	Available for Sale Financial Instruments Reserve	(45,429)
0	AFS Financial Instruments Adjustment Account	(1,519)
(279,669)	Capital Adjustment Account	(291,168)
148,562	Pensions Reserve	183,396
2,639	Employee Statutory Adjustment Account	2,777
(239,118)	**Total balance of unusable reserves at 31 March**	**(252,584)**

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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 2014 £000		31 March 2015 £000	31 March 2015 £000
(62,886)	**Balance at 1 April**		**(89,201)**
(24,858)	(Upward)/downward revaluation of assets	(31,129)	
(3,431)	(Upward)/downward revaluation of assets and impairment (gains)/ losses not charged to the Surplus or Deficit on the Provision of Services	16,146	
(28,289)	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(14,983)
1,661	Difference between fair value depreciation and historical cost depreciation	2,421	
313	Accumulated gains on assets sold or scrapped	1,122	
1,974	Amount written off to the Capital Adustment Account		3,543
(89,201)	**Balance at 31 March**		**(100,641)**

b) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council 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; or
- disposed of and the gains are realised.

31 March 2014 £000		31 March 2015 £000
(45,736)	**Balance at 1 April**	**(21,449)**
(7,153)	Upward revaluation of assets	(25,000)
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0
(7,153)		(25,000)
31,440	Removal of previously unrealised gains in relation to assets sold	1,020
(21,449)	**Balance at 31 March**	**(45,429)**

c) Available for Sale Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

31 March 2014 £000		31 March 2015 £000
0	**Balance at 1 April**	**0**
0	Amount by which finance costs charged to the CIES are different from the finance costs chargeable in the year in accordance with statutory requirements	(1,519)
0	**Balance at 31 March**	**(1,519)**

d) 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 Council 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 Council 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 Council 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 2014 £000		31 March 2015 £000
129,250	**Balance at 1 April**	**148,562**
12,690	Actuarial (gains) and losses on pensions assets and liabilities	26,437
20,513	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	21,383
(13,891)	Employer's pensions contributions and direct payments to pensioners payable in the year	(12,986)
148,562	**Balance at 31 March**	**183,396**

e) 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 Council 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 Council, 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 2014 £000		31 March 2015 £000	£000
(257,246)	**Balance at 1 April**		**(279,669)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
13,995	Charges for depreciation and impairment of non-current assets	15,376	
647	Revaluation losses on property, plant and equipment	7,232	
64	Amortisation of intangible assets	68	
(68)	Repayment of capital on finance leases	(84)	
687	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,428	
15,325			24,020
(1,661)	Adjustment amounts written out of the Revaluation Reserve		(2,422)
13,664	Net written out amount of the cost of Non-Current assets consumed in the year		21,598
	Capital financing applied in the year:		
(1,485)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,302)	
(6,844)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(8,096)	
0	Application of grants to capital financing from the Capital Grants Unapplied Account	(1,277)	
(23,292)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,942)	
(2,463)	Capital expenditure charged against the General Fund and HRA balances	(985)	
(34,084)			(13,602)
0	Donated Assets credited to the Comprehensive Income and Expenditure Statement		(19,495)
(1,057)	Capital Spend to Save Reserve		
(946)	Capital Fund Reserve		
(279,669)	**Balance at 31 March**		**(291,168)**

f) 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, eg 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 2014 £000		31 March 2015 £000
2,663	**Balance at 1 April**	**2,639**
(2,663)	Settlement or cancellation of accrual made at the end of the preceding year	(2,639)
2,639	Amounts accrued at the end of the current year	2,777
2,639	**Balance at 31 March**	**2,777**

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 Council's income and expenditure as recorded in the budget reports to service committees and boards for the year are as follows:

Income and Expenditure Analysis 2014/15	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Policy & Resources £000	Boards (Harbour & College) £000	Total £000
Employee expenses	32,934	23,892	2,779	14,597	7,336	9,801	91,339
Operating costs	8,058	11,560	9,925	21,994	6,195	10,898	68,630
Transfer payments	1,622	5,699	1,966	261	313	228	10,089
Total expenditure	**42,614**	**41,151**	**14,670**	**36,852**	**13,844**	**20,927**	**170,058**
Total income	(2,517)	(18,970)	(4,611)	(16,078)	(886)	(25,679)	(68,741)
Net expenditure	**40,097**	**22,181**	**10,059**	**20,774**	**12,958**	**(4,752)**	**101,317**

Income and Expenditure Analysis Comparative Figures 2013/14	Education & Families £000	Social Services £000	Develop-ment £000	Environ-ment & Transport £000	Policy & Resources £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**

31 March 2014 £000	Summary Reconciliation between Budget Reported and Comprehensive Income and Expenditure Statement	31 March 2015 £000
110,991	Net expenditure in the Income and Expenditure Analysis	101,317
12,834	Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis	27,335
(8,416)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(6,256)
115,409	**Cost of Services in Comprehensive Income and Expenditure Statement**	**122,396**

Detailed Reconciliation between Budget Reported and Comprehensive Income and Expenditure Statement

2014/15	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	91,339	2,109	0	93,448
Other service expenses	72,777	7,394	(1,709)	78,462
Support service recharges	1,324	(2,436)	(11)	(1,123)
Depreciation, amortisation and impairment	0	22,676	0	22,676
Interest payments	4,618	0	(4,536)	82
Total expenditure	**170,058**	**29,743**	**(6,256)**	**193,545**
Fees, charges & other service income	(67,408)	(36)	0	(67,444)
Interest and investment income	(148)	0	0	(148)
Government grants and contributions	(1,185)	(2,372)	0	(3,557)
Total Income	**(68,741)**	**(2,408)**	**0**	**(71,149)**
Cost of Services	**101,317**	**27,335**	**(6,256)**	**122,396**

Comparative Figures 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**

25. Trading Operations

The Council previously operated two Significant Trading Accounts, namely Building Maintenance and Roads Maintenance, in line with the CIPFA guidance, "A Best Value Approach to Trading Accounts" (issued in 2003). Following updated CIPFA/LASAAC guidance in June 2013, the Trading Accounts no longer met the definition of a Significant Trading Account and were therefore discontinued from 1 April 2014.

26. Agency Services

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

31 March 2014 £000		31 March 2015 £000
30	Expenditure incurred in collection service for Scottish Water	32
(68)	Commission payable by Scottish Water	(74)
0	Expenditure incurred in collection service for SHEAP	0
(4)	Income payable by SHEAP	(1)
5	Expenditure incurred in payroll services to other organisations	2
(5)	Income payable by other organisations for payroll services	(2)
(42)	**Net surplus arising on the agency arrangements**	**(43)**

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 Accounting Code:

31 March 2014 £000		31 March 2015 £000
204	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	218
204	**Total**	**218**

28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

31 March 2014 £000		31 March 2015 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,284)	Council Tax income	(8,351)
(16,177)	Non domestic rates	(17,602)
(70,961)	Non ring fenced government grants	(69,072)
(8,763)	Capital grants and contributions	(8,096)
(10,000)	UK Government housing debt funding	0
(114,185)	**Total**	**(103,121)**
	Credited to Services	
(362)	NHS grants	(499)
(2,991)	Housing Benefit Subsidy	(2,899)
(840)	Housing Support grant	0
(35)	ERDF & ESF	(31)
(263)	Training grants	(121)
(26)	Central Services grants	(5)
(239)	Cultural and Related Services grants	(259)
(2,395)	Education Services grants	(3,105)
(156)	Environmental Services grants	(143)
(895)	Planning & Development Services grants	(457)
(34)	Roads & Transport Services grants	(28)
(973)	Social Work Services grants	(601)
0	Trading Services grants	(14)
(9,209)	**Total**	**(8,162)**

29. Related Parties

The Council 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 Council.

a) Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (eg 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 which is 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 £7.3m in 2014/15 (£8.4m in 2013/14) to these bodies.

c) Officers

At the end of the financial year all senior managers 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 to the Annual Accounts.

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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

31 March 2014 £000		31 March 2015 £000
55,922	**Opening Capital Financing Requirement**	**36,360**
	Capital investment:	
16,547	Property, plant and equipment	12,433
24	Intangible assets	21
	Sources of finance:	
(1,485)	Capital receipts	(1,302)
(6,844)	Government grants and other contributions	(9,366)
(2,004)	Funding from reserves	0
	Sums set aside from revenue:	
(2,463)	Direct revenue contributions	(985)
(68)	Lease principal	(84)
(23,269)	Loans fund principal	(1,942)
36,360	**Closing Capital Financing Requirement**	**35,135**
	Explanation of movements in year:	
(23,017)	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,225)
810	Decommissioning obligations	0
2,645	Assets acquired under finance leases	0
(19,562)	**Increase/(Decrease) in Capital Financing Requirement**	**(1,225)**

31. Leases

a) The Council as a Lessee

Finance Leases

In addition to the Council headquarters office building acquired in 2012/13, the Council acquired a music, cinema and creative industries centre under a finance lease in 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 2014 £'000		31 March 2015 £'000
7,127	Property, plant and equipment	6,920
7,127		6,920

The Council 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 Council, and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2014 £'000		31 March 2015 £'000
	Finance lease liabilities (net present value of minimum lease payments)	
(84)	Current	(89)
(6,089)	Non Current	(6,000)
(9,052)	Finance costs payable in future years	(8,582)
(15,225)	**Minimum Lease Payments**	**(14,671)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	(554)	(554)	(84)	(89)
Later than one year and not later than five years	(2,218)	(2,218)	(387)	(411)
Later than five years	(12,453)	(11,899)	(5,702)	(5,589)
	(15,225)	**(14,671)**	**(6,173)**	**(6,089)**

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 £48k payable in 2014/15 (£28k in 2013/14).

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 £0.9m per year and sub-leases 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 2014 £000		31 March 2015 £000
2,078	Not later than one year	2,346
10,935	Later than one year and not later than five years	10,540
12,030	Later than five years	10,417
25,043	**Total**	**23,303**

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

31 March 2014 £000		31 March 2015 £000
2,390	Minimum lease payments	2,393
(1,163)	Sub-lease payments receivable	(1,159)
1,227	**Total**	**1,234**

b) The Council as a Lessor

Finance Leases

During 2013/14 and 2014/15 the Council did not have any finance leases as lessor.

Operating Leases

The Council 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 sub-lease payments expected to be received in future years are:

31 March 2014 £000		31 March 2015 £000
(1,090)	Not later than one year	(1,490)
(6,622)	Later than one year and not later than five years	(7,350)
(10,449)	Later than five years	(7,546)
(18,161)	**Total**	**(16,386)**

The total value of rental income, excluding sub-leases, recognised during the period was £0.6m (£0.6m in 2013/14).

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

31 March 2014 £000		31 March 2015 £000
(459)	Not later than one year	(340)
(831)	Later than one year and not later than five years	(843)
(2,416)	Later than five years	(2,721)
(3,706)	**Total**	**(3,904)**

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 2013/14 and 2014/15 no contingent rents were receivable by the Council.

32. Termination Benefits

The Council terminated 35 employee contracts in 2014/15 (170 in 2013/14), incurring liabilities of £0.9m (£2.5m in 2013/14).

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

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 Council 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 these Annual 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, the Council's own contributions equated to approximately 0.7% (0.7% for 2013/14).

In 2014/15, the Council paid £2.2m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£2.3m and 14.9% for 2013/14). There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2014/15, these amounted to £0.9m (£0.9m for 2013/14), representing 6.1% of teachers' pensionable pay (5.8% for 2013/14). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligations.

34. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

2013/14 £000	Local Government Pension Scheme	2014/15 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
13,068	Current service cost	14,279
1,615	Past service cost (including curtailments)	678
	Financing and Investment Income and Expenditure:	
5,830	Net interest expense	6,426
20,513	**Total Post-Employment Benefit charged to the Surplus or Deficit on the Provision of Services**	**21,383**
	Other Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement	
(6,296)	Return on plan assets (excluding the amount included in the net interest expense)	(19,042)
0	Actuarial (gains) and losses arising on changes in demographic assumptions	(5,608)
17,408	Actuarial (gains) and losses arising on changes in financial assumptions	54,192
1,578	Actuarial gains and losses arising from other experience	(3,105)
33,203	**Total Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**47,820**
	Movement in Reserves Statement	
33,203	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	21,383
	Actual amount charged against the General Fund balance for pensions in the year:	
(13,891)	**Employer's contributions and direct payments to pensioners payable in the year**	**(12,986)**

The amount included in the Balance Sheet arising from the Council's obligation in respect of the Pension Fund is as follows:

	2013/14 £000	2014/15 £000
Present value of the defined benefit obligation	(441,095)	(511,817)
Fair value of assets in the Local Government Pension Scheme	292,533	328,421
Net liability arising from Defined Benefit Obligation	**(148,562)**	**(183,396)**
Local Government Pension Scheme	(116,831)	(151,029)
Unfunded liabilities for Pension Fund	(14,818)	(17,297)
Unfunded liabilities for Teachers	(16,913)	(15,070)
Total	**(148,562)**	**(183,396)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2013/14 £000		2014/15 £000
267,413	**Opening balance at 1 April**	**292,533**
12,173	Interest income	12,659
	Re-measurement gains and (losses)	
6,296	Return on assets excluding amounts included in net interest	19,042
13,891	Employer contributions	12,986
3,122	Contributions by scheme participants	3,050
(10,362)	Benefits paid	(11,849)
292,533	**Closing balance at 31 March**	**328,421**

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

2013/14 £000		2014/15 £000
396,663	**Opening balance at 1 April**	**441,095**
13,068	Current service cost	14,279
18,003	Interest cost	19,085
3,122	Contributions by scheme participants	3,050
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	(5,608)
17,408	Actuarial (gains) and losses from changes in financial assumptions	54,192
1,578	Actuarial (gains) and losses from other experience	(3,105)
(10,362)	Benefits paid	(11,849)
1,615	Past service costs including curtailments	678
441,095	**Closing balance at 31 March**	**511,817**

Analysis of Pension Fund's Assets

Shetland Islands Council's share of the Pension Fund's assets at 31 March 2015 comprised:

2013/14 £000	Quoted Prices not in Active Markets	2014/15 £000
10,728	Cash and cash equivalents	53
	Property:	
16,959	UK property	31,832
2,749	Overseas property	2,158
19,708	**Sub-total Property**	**33,990**
	Investment Funds and Unit Trusts	
237,831	Equities	198,850
24,266	Bonds	31,734
	Other	63,795
262,097	**Sub-total Investment Funds and Unit Trusts**	**294,379**
292,533	**Total Assets**	**328,422**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method which is 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 2014.

The principal assumptions used by the actuary have been:

2013/14		2014/15
	Long-term expected rate of return on assets in the Scheme:	
4.3%	Investment Funds and Unit Trusts	3.2%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
23.0	Men	22.8
25.8	Women	23.8
	Longevity at 65 for future pensioners (in years):	
24.9	Men	24.9
27.7	Women	26.7
3.6%	Rate of inflation	3.3%
5.1%	Rate of increase in salaries	4.3%
2.8%	Rate of increase in pensions	2.4%
4.3%	Rate for discounting scheme liabilities	3.2%
70.0%	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, ie on an actuarial basis using the projected unit credit method.

Change in assumptions as at 31 March 2015	Approximate increase to employer liability %	Approximate monetary amount £000
0.5% decrease in real discount rate	11%	56,096
1 year increase in member life expectancy	3%	15,355
0.5% increase in the salary increase rate	4%	20,657
0.5% increase in the pension increase rate	7%	33,993

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

Impact on the Council'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 was set at 18.7% for 2014-2015. The next three years are based on the triennial valuation as at 31 March 2014 and are as follows:

2015/16	18.7%
2016/17	19.8%
2017/18	20.8%

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 £10.7m.

The weighted average duration of the defined benefit obligation for Scheme members is 19.6 years at 2014/15.

35. Contingent Liabilities

At 31 March 2015, there is an unquantified contingent liability relating to a project which may result in legal dispute. Any claims will be contested and are at present unresolved and not admitted. No material loss is anticipated.

Shetland Islands Council has one outstanding claim under the Equal Pay Act 1970 for past pay inequalities with male colleagues. There is also a dispute with a specific group of staff in relation to the current grading structure. The likelihood of success and financial impact can only be determined when sufficient detail is available. It is therefore not possible to provide any financial quantification at this stage, however, no material loss is anticipated.

During periods of annual leave, employees receive their basic contractual pay which is common practice across all Scottish Councils. This means that any non-contractual additional payments are not reflected in the rate of pay the employee receives while on holiday. A recent ruling from the Employment Appeal Tribunal states that holiday pay should include overtime.

The Council acknowledges a liability in respect of the Holiday Pay decision by the Employment Appeal Tribunal but is unable to fully quantify the financial liability until the Council's position has been fully reviewed.

36. Nature and Extent of Risks arising from Financial Instruments

The Council'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 Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments; and
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council'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 Section, under policies approved by the Council in the Annual Investment and Treasury Strategy Statement.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council'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: "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong."

The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution. This states that the Council cannot lend more than £3.0m 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 2014/15. The Council has a policy of lending to local business to further economic development in Shetland. The total value of the local investment fund is £15.4m, however, as at 31 March 2015 £4.4m of this balance was loaned to local businesses.

The following analysis summarises the Council's potential maximum exposure to credit risk at 31 March 2015, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Estimated maximum exposure at 31 March 2014	Amount at 31 March 2015	Historical experience of default (expressed as % of A)	Historical experience adjusted for market conditions at 31 March 2015	Estimated maximum exposure to default and uncollectability at 31 March 2015
		A	B	C	A*C
	£000	£000	%	%	£000
Deposits with Banks	9429	4,275	0	0	0
Customers	118	189	25	25	47

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

The Council does not generally allow credit for customers, such that £3.1m of the £4.8m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2014 £000		31 March 2015 £000
1,424	Less than three months	1,674
187	Three to six months	236
200	Six months to one year	202
531	More than one year	977
2,342	**Total**	**3,089**

Liquidity Risk

The Council has external investments with fund managers amounting to £278.0m at 31 March 2015. The Council 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 Council will be bound to sell external investments at a time of unfavourable market conditions.

The Council has ready access to borrowings from the money markets and the Public Works Loan Board. At 31 March 2015 the Council had fixed rate borrowings amounting to £31.0m from the Public Works Loan Board. The maturity analysis of the loans is as follows:

31 March 2014 £000		31 March 2015 £000
0	10-20 years	23,000
0	20-30 years	7,000
0	Over 40 years	1,000
0	**Total**	**31,000**

Market Risk

a) Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

The Council'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. As at 31 March 2015 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

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 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 largest investment exposure is to the Global Equity Fund, and a risk assessment of a general shift of +/-1% in the Fund would have resulted in a gain or loss in the region of £0.7m for 2014/15.

The Council at 31 March 2015 had external fixed rate borrowing amounting to £31.0m and no variable rate borrowing. Borrowings are not valued at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The Treasury Section actively assesses interest rate exposure to determine the impact on the Council's financial reserves strategy and medium to longer term financial strategy, which in turn informs the annual budget setting process. The Council uses the services of Capita Asset Services to advise on any borrowing requirements, including associated interest rate risks.

b) Price Risk

The Council had £278.0m of investments as at 31 March 2015 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council'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 Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the Comprehensive Income and Expenditure Statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £8.7m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2014/15.

c) Foreign Exchange Risk

The Council has £135.0m 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 2014 £000		31 March 2015 £000
0	Interest received	(616)
0	Interest paid	2,262
(1,884)	Dividends received	(2,286)
0	**Total**	**(640)**

The Surplus or Deficit on the Provision of Services has been adjusted for the following non- cash movements:

31 March 2014 £000		31 March 2015 £000
(13,995)	Depreciation	(15,376)
(647)	Impairment and downward valuations	(7,232)
(64)	Amortisation	(68)
	(Increase)/decrease in impairment for bad debts	9
1,280	(Increase)/decrease in creditors	(2,430)
12,940	Increase/(decrease) in debtors	(3,678)
231	Increase/(decrease) in inventories	(368)
(6,622)	Movement in pension liability	(8,397)
(1,000)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(2,550)
(281)	Other non-cash items charged to the net surplus or deficit on the provision of services	16,272
(8,158)	**Total**	**(23,818)**

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

31 March 2014 £000		31 March 2015 £000
36,576	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	1,368
1,485	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,404
8,716	Any other items for which the cash effects are investing or financing cash flows	9,794
46,777	**Total**	**13,566**

38. Cash Flow Statement – Investing Activities

31 March 2014 £000		31 March 2015 £000
13,006	Purchase of property, plant and equipment, investment property and intangible assets	12,461
2,941	Purchase of short-term and long-term investments	47,139
	Other payments for investing activities	
(1,485)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,404)
(17,220)	Proceeds from short-term and long-term investments	(1,720)
(8,763)	Other receipts from investing activities	(8,096)
(11,521)	**Total**	**47,380**

39. Cash Flow Statement – Financing Activities

31 March 2014 £000		31 March 2015 £000
0	Cash receipts of short and long term borrowing	(31,082)
1,043	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet	84
0	Repayments of short and long term borrowing	6
1,043	**Total**	**(30,992)**

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 but 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; and
- 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 (dwelling rents, services and other charges, Housing Support Grant) and expenditure (repairs, maintenance and management, capital financing costs, bad debts and voids).

In parallel with 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 Annual 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. Councils 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

2013/14 £000		2014/15 £000	2014/15 £000
	Expenditure		
2,346	Repairs and maintenance	2,625	
493	Supervision and management	669	
1,643	Depreciation and impairment of non-current assets	3,368	
0	Movement in the allowance for bad debts	14	
153	Other expenditure	146	
4,635	**Total expenditure**		**6,822**
	Income		
(6,180)	Dwelling rents	(6,538)	
(131)	Non-Dwelling rents	(141)	
(840)	Housing Support Grant	0	
(167)	Other Income	(41)	
(7,318)	**Total income**		**(6,720)**
(2,683)	**Net (income)/ cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**102**
146	HRA services' share of Corporate and Democratic Core		206
(2,537)	**Net Cost/(Income) of HRA Services**		**308**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(409)	(Gain) or loss on sale of HRA non-current assets		(253)
1,905	Interest payable and similar charges		694
(1,919)	Interest and investment income		(206)
0	Pension interest cost and expected return on pension assets		121
(460)	Capital grants and contributions		0
(883)	**Net HRA share of operating expenditure**		**356**
(3,420)	**(Surplus) or deficit for the year on HRA services**		**664**

c) Movement on the Housing Revenue Account Statement

2013/14 £000		2014/15 £000
0	**Balance on the HRA at the end of the previous year**	0
(3,420)	(Surplus) or deficit on the HRA Income and Expenditure Statement	664
	Adjustment between accounting basis and funding basis under statute	
(1,468)	Charges for depreciation and impairment of non-current assets	(2,179)
(175)	Revaluation losses on property, plant and equipment	(1,189)
460	Capital grants and contributions applied	0
(496)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,049)
2,499	Statutory provision for the financing of capital investment	1,101
1,249	Capital expenditure charged against HRA balances	985
906	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1302
(128)	Reversal of items relating to retirement benefits debited and credited to the Comprehensive Income and Expenditure Statement	(378)
130	Employer's pensions contributions and direct payments to pensioners payable in the year	214
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(39)
(443)		(568)
443	Transfers to or (from) reserves	568
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 in disclosure note 7 and transfers to or from other Statutory Reserves are shown in 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.

2013/14 Number	Housing Stock	2014/15 Number
104	1 Apartment	107
412	2 Apartment	411
534	3 Apartment	539
673	4 Apartment	651
36	5 Apartment	37
1	6 Apartment	1
2	8 Apartment	2
1,762	**Total**	**1,748**

2) Amount of Rent Arrears

The table below summarises the rent arrears position for 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.

2013/14 £000		2014/15 £000
161	**Rent Arrears**	**206**
319	Number of properties in arrears (number)	437
18.1%	Properties in arrears as share of total stock (%)	25.0%
£503	Average amount per property in arrears (£)	£471

3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2014/15:

2013/14 £000		2014/15 £000
(93)	**Balance as at 1 April**	**(54)**
	Bad rent debt written off:	
13	Council approved *	0
26	Delegated authority *	19
39		19
0	Miscellaneous bad debt written off	0
(54)		(35)
0	Contribution to/(from) Housing Revenue Account	0
(54)	**Balance as at 31 March**	**(35)**

* Council approval is required for bad debts which require to be written off with a value of over £5k.

4) Void Rents

The following table summarises the income lost due to voids in 2014/15. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2013/14 £000		2014/15 £000
74	General needs void rents and charges	79
38	Sheltered housing void rents and charges	27
7	Refurbishment properties void rents and charges	18
119	**TOTAL**	**124**

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

2013/14 £000		2014/15 £000
(10,117)	**Gross Council Tax levied and contributions in lieu**	**(10,227)**
690	Council Tax Reduction Scheme	637
1,157	Other discounts and reductions	1,165
50	Write-offs of uncollectable debts	49
(91)	Allowance for impairment of uncollectable debts	(10)
27	Adjustment to previous years' Community Charge and Council Tax	35
(8,284)	**Transfer to General Fund**	**(8,351)**

a) Council Tax Base

Overleaf is the analysis of the Council Tax base used to set the 2014/15 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:

- **Council Tax Reduction Scheme -** The Welfare Reform Act of 2012 abolished Council Tax Benefit with effect from 31 March 2013. In Scotland the Council Tax Reduction (Scotland) Regulations 2012 provide for a scheme to replace Council Tax Benefit with a Scotland wide scheme.

- **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 2014/15

	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	£27,000.00 to £34,999	£35,000.00 to £44,999	£45,000.00 to £57,999	£58,000.00 to £79,999	£80,000.00 to £105,999	£106,000.00 to £211,999	£212,000 upwards	
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)	0	3,008	1,804	2,682	1,760	1,292	234	58	1	**10,839**
Gross Tax Base (Properties x Weighting)	0	18,048	12,628	21,456	15,840	14,212	3,042	870	18	**86,114**
Adjusted Properties (Band D Equivalents)	0	2,005	1,403	2,384	1,760	1,579	338	97	2	**9,568**
Vacant Properties (Number.):	0					1,579				
Mandatory Standard Exemptions	0	(142)	(72)	(76)	(35)	(13)	(3)	(4)	(1)	**(346)**
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	0	0	0	0	**0**
Revised Total Properties (Number)	13	2,856	1,740	2,605	1,719	1,275	231	54	0	**10,493**
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 2014/15:										
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

2013/14 £000		2014/15 £000
20,567	Gross rates levied and contributions in lieu	21,152
(5,098)	Reliefs and other deductions	(4,344)
0	Payment of interest	0
(8)	Write-offs of uncollectable debts	(10)
(2)	Allowance for impairment of uncollectable debts	26
15,459	Net non-domestic rate income	16,824
(1,787)	Adjustment to previous years' national non-domestic rates	(246)
13,672	**Contribution to non-domestic rate pool**	**16,578**
(16,177)	Distribution from non-domestic rate pool	(17,602)
0	Adjustment for years prior to the pool	0
(16,177)	**Transfer to Comprehensive Income & Expenditure Statement**	**(17,602)**

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	561	7,713
Industrial	499	23,398
Other	937	12,965
TOTAL	**1,997**	**44,076**

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 2014/15 is 47.1p (up from 46.2p) with a large business supplement of 1.1p for all subjects with a rateable value above £35k. 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 £25k or less.

Trust Funds Administered by the Council

The Council administers, as sole trustee, five 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.

2013/14 £000		2014/15 £000
(10,905)	Shetland Development Trust	0
0	Shetland Development Trust - Bare Trust	(275)
(659)	Zetland Educational Trust	(663)
(3)	Others (3 Trusts)	(3)
(11,567)	**Total**	**(941)**

Following a Council decision in March 2008 to wind-up Shetland Development Trust, the majority of assets and undertakings have now transferred to the Council. The official wind-up date for the Development Trust was 28 February 2015.

The Bare Trust holds a number of loans and equity investments which were considered not to be cost effective to transfer to the Council on the winding-up of the Development Trust. All assets and income arising from the Trust Fund will be paid or delivered to SIC. The Council, as Trustee, has full powers in relation to the management of the Trust as if they were absolute owners and not trustees.

The Zetland Educational Trust, with an income of £7k and expenditure of £4k in 2014/15, part-funds projects to enhance the educational benefit of people belonging to Shetland under the following headings: educational excursions, special equipment, promotion of ability and skill in swimming, promotion of knowledge of Shetland, and educational experiments and research.

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 2014/15 requires the Council to prepare group accounts where the Council 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 2014/15.

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 on the grounds that they are immaterial in relation to the group accounts.

Subsidiary

The Code defines a subsidiary as an entity which the Council 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 the Council owns more than half the voting power of the entity.

The Shetland Development Trust was previously consolidated into the group statements as a subsidiary. However, following a Council decision in March 2008 to wind-up the Trust, the majority of assets and undertakings have now transferred to the Council. The official wind-up date for the Development Trust was 28 February 2015.

There are a number of loans and equity investments which were not considered to be cost effective to transfer to the Council. These assets are held in a Bare Trust, for which the Council is the sole Trustee. This is included in the Trust Fund note, however, it has been excluded from the group accounts on the basis of materiality.

The Council identified Zetland Transport Partnership as a subsidiary in the 2013/14 group statements. However, following a review in 2014/15, this entity has now been reclassified as an associate. This is due to the statutory nature of this body where the actual control of the Partnership is with Scottish Government. There is no material impact on prior year comparative figures as a result of this change.

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.

Therefore, there are no entities which fall under the criteria of subsidiaries at 31 March 2015.

Associates

The Code defines an associate as an entity for which the Council is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified three entities that meet the definition of an associate and, as such, have been included in the group accounts as associates at 31 March 2015. These are:

- Orkney and Shetland Valuation Joint Board;
- Zetland Transport Partnership; 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 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

The three associates have been consolidated at their financial year-ends of 31 March 2015 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 the Shetland Charitable Trust for which the share is based on the voting rights. In 2014/15 that share was as follows:

- Orkney and Shetland Valuation Joint Board – the Council contributed 50.3% of the Board's operating costs (49.2% in 2013/14);
- Zetland Transport Partnership – the Council contributed 94.1% of the Partnership's operating costs (92.4% in 2013/14); and
- Shetland Charitable Trust – the Council held 46.7% of the voting rights for the Trust (46.7% in 2013/14).

With the exception of the Shetland Charitable Trust, all group entities prepared their financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. The accounts of the Shetland Charitable 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 the investments transferred from the SDT. 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.

Group Movement in Reserves Statement 2014/15

	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 2014	**(13,860)**	**0**	**(71,783)**	**(1,920)**	**(153,309)**	**(118,551)**	**(359,423)**	**(239,118)**	**1,497**	**(237,621)**	**(597,044)**
Movement in Reserves during 2014/15											
(Surplus) or deficit on the provision of services	(1,892)	869	0	0	0	34	**(989)**	0	0	**0**	**(989)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(12,526)	105	**(12,421)**	**(12,421)**
Total Comprehensive Income and Expenditure	**(1,892)**	**869**	**0**	**0**	**0**	**34**	**(989)**	**(12,526)**	**105**	**(12,421)**	**(13,410)**
Adjustments between accounting basis & funding basis under regulations	1,997	(1,232)	(1,102)	1,277	0	(34)	**906**	(940)	34	**(906)**	**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	**105**	**(363)**	**(1,102)**	**1,277**	**0**	**0**	**(83)**	**(13,466)**	**139**	**(13,327)**	**(13,410)**
Transfers to/from Earmarked Reserves	757	363	(955)	0	(165)	0	**0**	0	0	**0**	**0**
SDT Assets transferred to SIC / Bare Trust	0	0	0	0	0	10,905	**10,905**	0	0	**0**	**10,905**
(Increase)/Decrease in 2014/15	**862**	**0**	**(2,057)**	**1,277**	**(165)**	**10,905**	**10,822**	**(13,466)**	**139**	**(13,327)**	**(2,505)**
Balance at 31 March 2015	**(12,998)**	**0**	**(73,840)**	**(643)**	**(153,474)**	**(107,646)**	**(348,601)**	**(252,584)**	**1,636**	**(250,948)**	**(599,549)**

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)**	**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 Comprehensive Income and Expenditure Account for year ended 31 March 2015

2013/14 Net Expenditure £000		2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
40,639	Education Services	51,660	(4,854)	46,806
1,798	Housing Services	4,813	(3,507)	1,306
(2,683)	Housing Revenue Account	6,822	(6,720)	102
4,820	Cultural and Related Services	5,902	(1,017)	4,885
5,506	Environmental Services	8,380	(2,772)	5,608
3	Fire Services	0	0	0
10,539	Roads and Transport Services	20,254	(3,842)	16,412
10,834	Trading Services	35,575	(24,089)	11,486
32	Police Services	0	0	0
5,594	Planning and Development Services	5,716	(2,546)	3,170
28,383	Social Work	35,592	(7,405)	28,187
2,712	Central Services to the Public	1,652	(94)	1,558
5,521	Corporate and Democratic Core	2,198	0	2,198
1,615	Non Distributed Costs	678	0	678
4,137	Associates Accounted for on an Equity Basis	294	(292)	2
119,450	**Cost of Services**	**179,536**	**(57,138)**	**122,398**
(485)	Other operating expenditure			146
(32,698)	Financing and investment income and expenditure			3,051
(113,803)	Taxation and non-specific grant income			(126,616)
(5,629)	Share of (surplus) or deficit on provision of services by Associates			32
(33,165)	**(Surplus) or Deficit on Provision of Services**			**(989)**
	Amounts that will not be reclassified to the (Surplus) or Deficit on Provision of Services			
(28,289)	(Surplus) on revaluation of property, plant and equipment assets			(14,983)
31,440	Amounts recycled from AFS reserve upon derecognition			1,020
12,690	Remeasurement of the net defined benefit liability			26,437
97	Share of other comprehensive income and expenditure of Associates and Joint Ventures			105
15,938				**12,579**
	Amounts that will not be reclassified to the (Surplus) or Deficit on Provision of Services			
(7,153)	(Surplus) on revaluation of available for sale financial assets			(25,000)
(7,153)				**(25,000)**
8,785	**Other Comprehensive Income and Expenditure**			**(12,421)**
(24,380)	**Total Comprehensive Income and Expenditure**			**(13,410)**
0	**SDT assets written out of Group Accounts**			**10,905**
(24,380)	**Movement on Balance Sheet**			**(2,505)**

Group Balance Sheet as at 31 March 2015

31 March 2014 £000		Notes	31 March 2015 £000
401,012	Property, Plant and Equipment		403,080
4,743	Heritage Assets		4,730
6,912	Intangible Assets	3	20,173
203,592	Long-term Investments	4	277,997
106,876	Investment in Associates		106,876
3,534	Long-term Loans	4	3,438
5,054	Other Long-term Debtors		30
731,723	**Long-Term Assets**		**816,324**
875	Assets Held for Sale		934
5,372	Inventories		5,004
20,644	Short-term Debtors	5	20,212
11,920	Cash and Cash Equivalents	6	2,823
38,811	**Current Assets**		**28,973**
(17,078)	Short-term Creditors	7	(18,157)
(192)	Provisions		(5,537)
(17,270)	**Current Liabilities**		**(23,694)**
(810)	Provisions		(728)
0	Long Term Borrowing		(31,000)
(6,089)	Finance Lease Liability		(6,000)
(148,562)	Pension Liability		(183,396)
(727)	Liabilities in Associates/Joint Ventures		(866)
(32)	Other Long-term Liabilities		(64)
(156,220)	**Long-Term Liabilities**		**(222,054)**
597,044	**Net Assets**		**599,549**
(359,423)	Usable Reserves		(348,601)
(237,621)	Unusable Reserves		(250,948)
(597,044)	**Total Reserves**		**(599,549)**

Group Cash Flow Statement for the year ended 31 March 2015

2013/14 £000		2014/15 £000	2014/15 £000
	OPERATING ACTIVITIES		
(31,673)	Net (surplus) or deficit on the provison of services	(1,023)	
(8,898)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 10)	(23,818)	
46,777	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 10)	13,566	
6,206	**Net cash flows from Operating Activities**	**(11,275)**	
(11,852)	Investing Activities (Note 11)	47,380	
1,043	Financing Activities (Note 12)	(30,992)	
(4,603)	**Net (increase) or decrease in cash and cash equivalents**		**5,113**
			7,936
7,317	Cash and Cash Equivalents at 1 April		11,920
4,603	Net movement of Cash and Cash Equivalents during the year		(5,113)
0	Removel of ZetTrans and SDT no longer classed as subsidiaries		(3,984)
11,920	**Cash & Cash Equivalents at 31 March**		**2,823**

c) Notes to the Group Accounts

1) Subsidiaries

No Subsidiaries have been identified for inclusion in the 2014/15 group accounts.

2) Associates

The Group financial statements include the consolidation of the investments in Orkney & Shetland Valuation Joint Board (OS&VJB), Zetland Transport Partnership (ZetTrans) 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 five members of the Board out of ten and contributed 50.3% of the Board's operating costs (49.2% in 2013/14). The Council has a significant interest in this body, it is therefore included in the group accounts as an associate.

The Council's share of the year-end net liability is £0.9m as at 31 March 2015 (£0.7m in 2013/14). The table below details Shetland Islands Council's share of O&SVJB's financial results for the year:

Orkney & Shetland Valuation Joint Board	2013/14 £000	2014/15 £000
Gross Income	(316)	(168)
Gross Expenditure	361	170
Net (Surplus)/Deficit	**45**	**2**
Non-Current Assets	0	0
Current Assets	13	29
Current Liabilities	(18)	(35)
Non-Current Liabilities	(722)	(860)
Capital and Reserves	727	866

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2015 (nil in 2014).

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. In 2014/15 the Council contributed 94.1% of the Partnership's income (92.4% in 2013/14). Due to its statutory nature, ZetTrans has been included in the group accounts as an associate.

The Council's share of the year-end net liability is nil at 31 March 2015 (nil in 2013/14). The table below details Shetland Islands Council's share of ZetTrans' financial results for the year:

Zetland Transport Partnership	2013/14 £000	2014/15 £000
Gross Income	(132)	(124)
Gross Expenditure	132	124
Net (Surplus)/Deficit	**0**	**0**
Non-Current Assets	0	0
Current Assets	132	124
Current Liabilities	(132)	(124)
Non-Current Liabilities	0	0
Capital and Reserves	0	0

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 seven of the 15 trustees are Councillors. It has therefore been included in the group accounts as an associate. The table below details Shetland Islands Council's share of SCT's financial results for the year:

Shetland Charitable Trust	2013/14 £000	2014/15 £000
Gross Income	6,880	0
Gross Expenditure	(8,320)	0
Net (Surplus)/Deficit	**(1,440)**	**0**
Non-Current Assets	103,687	103,687
Current Assets	4,914	4,914
Current Liabilities	(887)	(887)
Non-Current Liabilities	(838)	(838)
Capital and Reserves	(106,876)	(106,876)

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

3) Group Intangible Assets

31 March 2014 £000		31 March 2015 £000
	Balance at start of year:	
21,076	Gross carrying amounts	20,996
(13,171)	Accumulated amortisation	(14,084)
7,905	**Net carrying amount at start of year**	**6,912**
24	Purchases and transfers from SDT	19,491
0	Disposals and transfers to SIC	(18,687)
(1,010)	Amortisation for the period	12,154
(7)	Other changes	303
6,912	**Net carrying amount at end of year**	**20,173**

Fishing quota and fishing licences were previously held by the Shetland Development Trust and these were included in the 2013/14 group accounts at a net book vlaue of £6.3m. These assets transferred to the Council on 31 December 2014 as part of the wind-up of the Development Trust. The assets were valued upon transfer and are included in the Council's Balance Sheet at £19.47m as at 31 March 2015.

4) Group Financial Assets

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

Long-Term 31 March 2014 £000	Current 31 March 2014 £000		Long-Term 31 March 2015 £000	Current 31 March 2015 £000
		Financial Assets:		
		Investments:		
203,483	0	Available for sale financial assets	277,997	0
109	0	Unquoted equity investment at cost	0	0
203,592	**0**	**Total Investments**	**277,997**	**0**
		Debtors:		
3,534	1,274	Loans and receivables	3,438	894
3,534	**1,274**	**Total Debtors**	**3,438**	**894**

5) Group Short-Term Debtors

31 March 2014 £000		31 March 2015 £000
7,117	Central Government Bodies	6,532
2,625	Other Local Authorities	3,309
175	NHS Bodies	218
1,241	Public Corporations and Trading Funds	830
9,486	Other Entities and Individuals	9,323
20,644	**Total**	**20,212**

6) Group Cash and Cash Equivalents

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

31 March 2014 £000		31 March 2015 £000
42	Cash held by the Council	31
11,878	Bank current accounts	2,792
11,920	**Total**	**2,823**

7) Group Short-Term Creditors

31 March 2014 £000		31 March 2015 £000
(3,344)	Central Government Bodies	(3,871)
(2,819)	Other Local Authorities	(3,457)
(135)	NHS Bodies	(312)
(574)	Public Corporations and Trading Funds	(665)
(10,206)	Other Entities and Individuals	(9,852)
(17,078)	**Total**	**(18,157)**

8) Financial Impact

The inclusion of the three associates changes the net worth of the Group from the figure shown in the Council's own Balance Sheet.

The Group net worth at £599.5m is an increase of £106.0m from the Council's net worth of £493.5m. This is mainly due to the inclusion of the Shetland Charitable Trust which added £107.6m to the Balance Sheet.

9) Remuneration Report

No remuneration report has been prepared as there are no subsidiaries included in the Group Accounts.

10) Cash Flow - Operating Activities

Cash flows for operating activities include the following:

31 March 2014 £000		31 March 2015 £000
(131)	Interest received	(616)
0	Interest paid	2,262
(2,124)	Dividends received	(2,286)
(2,255)	**Total**	**(640)**

The Surplus or Deficit on the Provision of Services has been adjusted for the following non-cash movements:

31 March 2014 £000		31 March 2015 £000
(13,995)	Depreciation	(15,376)
(738)	Impairment and downward valuations	(7,232)
(1,010)	Amortisation	(68)
569	(Increase)/decrease in impairment for bad debts	9
1,156	(Increase)/decrease in creditors	(2,430)
12,792	Increase/(decrease) in debtors	(3,678)
231	Increase/(decrease) in inventories	(368)
(6,622)	Movement in pension liability	(8,397)
(1,000)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(2,550)
(281)	Other non-cash items charged to the net surplus or deficit on the provision of services	16,272
(8,898)	**Total**	**(23,818)**

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

31 March 2014 £000		31 March 2015 £000
36,576	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	1,368
1,485	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,404
8,716	Any other items for which the cash effects are investing or financing cash flows	9,794
46,777	**Total**	**13,566**

11) Cash Flow - Investing Activities

31 March 2014 £000		31 March 2015 £000
13,006	Purchase of property, plant and equipment, investment property and intangible assets	12,461
3,884	Purchase of short-term and long-term investments	47,139
(1,485)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,404)
(18,494)	Proceeds from short-term and long-term investments	(1,720)
(8,763)	Other receipts from investing activities	(8,096)
(11,852)	**Total**	**47,380**

12) Cash Flow - Financing Activities

31 March 2014 £000		31 March 2015 £000
0	Cash receipts of short and long term borrowing	(31,082)
1,043	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	84
0	Repayment of short and long term borrowing	6
1,043	**Total**	**(30,992)**

Independent Auditor's Report

Glossary of Terms

Much of the terminology used in this document 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 foregone 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 Council; 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 Council.

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.

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. They cannot eliminate all risk of failure of policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework

The role of committees in decision-making is set out within the Council's Constitution, which also sets out the delegated powers of individual officers. The 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 Council advised by the Policy and Resources Committee. There are four functional committees: Development, Education and Families, Environment and Transport and Social Services. These committees take decisions within their respective scope of responsibility. A refreshed Planning and Performance Management Framework underpins the governance arrangements, including a focus on service prioritisation, management of risk, 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 Committee, with a remit to oversee audit and scrutiny arrangements, and standards within the Council.

The Chief Executive and Directors, along with the Monitoring Officer, Chief Financial Officer and Chief Social Work 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.

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

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- how the Council performs in delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

The overall objective of the Council, through the Community Plan, Single Outcome Agreement and the 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 that reserves are stabilised at current levels.
- 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 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 12 March 2015. 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. 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 July 2014, which sets out the spending limits for each of the next five financial years. The 2015/16 Budget was set in December 2014 and was prepared from within the 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. During the year the Council has also introduced a new electronic system for monitoring complaints.

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. The Council has taken a corporate approach to the organising of training and the Human Resources Service co-ordinate this. A corporate focus on 'Building Better Business Cases' and 'Risk Management' has been a feature of corporate training during the year.

As part of the Annual Accounts work, provisions and 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 aims to focus its attention on strategic issues and the pertinent high level management matters, to reinforce the Scheme of Delegation that is in place across the Council. The Corporate Management Team receives regular progress and performance reports on all services of the Council, to lead and direct the delivery of the Council objectives.

Review of Effectiveness

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The Council approaches this with reference to different layers of assurance, namely management assurance, both internally through the Council, and externally through the group entities; the assurance and recommendations are provided by internal audit; and external audit and other external scrutiny reports.

Management Assurance

Each director has reviewed the arrangements in his/her portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2014/15 no areas of weakness or concern were raised.

With regards to the effectiveness of the Council's arrangements in relation to its statutory officers, the Executive Manager – Finance (Chief Financial Officer), Executive Manager – Governance & Law (Monitoring Officer) and Executive Manager - Children and Families (Chief Social Work Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit 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 – Audit, Risk and Improvement reports directly to the Audit Committee.

Assurance from Internal Audit

The Internal Audit work programme has been completed, with some minor carry-forward of work into the 2015/16 financial year. During the 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.

During the year the Audit Committee has received a range of reports produced by Internal Audit which enabled scrutiny and questioning of officers to take place, such that the Committee has gained assurance about the identified weaknesses and actions being taken to address them.

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

- Continued concern following last year in relation to compliance with Council Standing Orders and the Small Contracts Procedures, notably in Ferries and Ports & Harbours. Follow-up work was carried out which noted progress being made, and this also identified that it would take a period of two years before being fully compliant. The Director of Infrastructure continues to proactively manage this within the availability of resources.

- An independent review of risk management was commissioned and reported 26 action points. These actions are being progressed through a revised Risk Strategy and Policy, with approval sought in the first quarter of 2015/16. The Corporate Management Team has taken on the role of Risk Board and, as referred to above, risk management training is being rolled out.

- Contractual issues within the Energy Unit; VAT issues and a spend to save issue within Waste; lack of appropriate Service Level Agreements at Environmental Health and Sports & Leisure; relief workers not being appropriately used in the Council; financial management and asset security issues within the College; initial issues with the revised Travel Policy; incomplete register of interests records; disclosure issues; non-observance of purchasing/invoice procedures; lack of a post-implementation review and a continuing stock control issue at ICT. As previously stated, managerial commitment has been given to address other matters.

The Public Bodies (Joint Working) (Scotland) Bill, passed by the Scottish Parliament on 25 February 2014, establishes the framework for the integration of health and social care in Scotland. On the 2nd July 2014, the Council and NHS (Shetland) took the decision that the model for integration of health and social care services in Shetland would be the body corporate. Work to establish the body corporate integration model for Shetland was substantially completed during the year, and approval by the Scottish Government of the Integration Scheme meant that it was laid before Parliament in May 2015. The Integrated Joint Board will be formally constituted on 27 June 2015.

The internal auditors of NHS Shetland, Scott Moncrieff, have reported to NHS Shetland Audit Committee on the appropriateness of the pre-integration arrangements regarding the Shetland Islands Health and Social Care Partnership, and found them to be adequate and that effective controls were operating satisfactorily. Due to the close working relationship between the Council and NHS Shetland, this provides an assurance that the Council is also prepared for the commencement of the Integrated Joint Board, and these arrangements will be reviewed by Internal Audit during 2015/16.

External Audit and Other External Scrutiny

The Council's external auditor, Audit Scotland, regularly reports to the Audit Committee and their reports cover a wide range of year-end financial audits that are required at a local and national level.

In June 2014 the Audit Committee received the updated Assurance and Improvement Plan (AIP) for the period 2014-17 which makes reference to the Council continuing to develop its performance management arrangements, to note the revision to standing orders in 2013, and the continued focus on risk management. As such it was concluded that no specific scrutiny was required in relation to performance management and governance and accountability, but additional information was sought in terms of the corporate risk register.

The plan also noted the positive progress being undertaken towards the Council objective of achieving a sustainable financial position and living within its means. No specific scrutiny was required. The regular audit work of Audit Scotland will continue to monitor and report on future progress.

Planned scrutiny by the Care Inspectorate was identified in the area of children’s or adult services in the final quarter of the financial year.

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 assumes 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 2015 and up to the date of approval of the Annual 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 Committee.

Overall, we consider the governance and internal control environment operating in 2014/15 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
………………………...	………………………...
Date	Date

Agenda Item
4

Shetland Islands Council

Audit Committee **29 June 2015**

Pension Fund - Unaudited Accounts 2014/15	
F-033-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the 2014/15 unaudited accounts for Shetland Islands Council Pension Fund.

2.0 Decision Required

2.1 That the Audit Committee and Pension Fund Committee RESOLVE to:

a) CONSIDER the 2014/15 Unaudited Accounts for Shetland Islands Council Pension Fund (appendix 1); and
b) APPROVE the 2014/15 Annual Governance Statement which forms part of those accounts (appendix 2).

3.0 Detail

3.1 The Local Authority Accounts (Scotland) Regulations 2014 require elected Members to formally consider the unaudited accounts at a meeting of the Council, or a Committee of the Council charged with audit or governance, to be held no later than 31 August 2015. Best practice is for elected Members to have formally considered the unaudited accounts prior to submitting them to the appointed auditor, and making them available for public inspection.

3.2 The 2014 regulations also require elected Members to approve the Pension Fund's annual governance statement.

3.3 The unaudited accounts will be submitted to Audit Scotland on 30 June 2015 and be available for public inspection from 1 July 2015. The audited accounts will be formally presented to the Council on 22 September 2015 for approval.

4.0 Implications

<u>Strategic</u>

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. The new governance arrangements will require such matters to be discharged to the new Pension Fund Committee.

4.4 Risk Management – The unaudited accounts are being presented to the Committee in line with best practice. This is to mitigate any risk of the audited accounts not being approved for signature on 22 September 2015.

4.5 Equalities, Health And Human Rights – NONE.

4.6 Environmental – NONE.

Resources

4.7 Financial – There are no financial implications arising from this report,

4.8 Legal – NONE.

4.9 Human Resources – NONE.

4.10 Assets And Property – NONE.

5.0 Conclusions

5.1 The Pension Fund is required to prepare and publish a set of accounts, including an annual governance statement, within a set timescale. The accounts are then subject to external audit by Audit Scotland.

5.2 The unaudited accounts will be submitted to Audit Scotland on 30 June 2015, and be available for public inspection from 1 July 2015. Following the audit, the audited accounts will be formally presented to the Council on 22 September 2015 for approval.

For further information please contact:
Steve Whyte
Executive Manager - Finance
Email: steve.whyte@shetland.gov.uk
Telephone: 01595 74 4607

18 June 2015

List of Appendices

Appendix 1: Shetland islands Council Pension Fund - Unaudited Accounts 2014/15

Appendix 2: Shetland Islands Council Pension Fund - Annual Governance Statement 2014/15

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Shetland Islands Council

Pension Fund
Annual Report and Accounts
2014-15

Securing the Best for Shetland

Contents

Inside cover photograph by Andrew J Shearer

Introduction

Welcome to the Annual Report and Accounts for the Shetland Islands Council Pension Fund for the year ended 31 March 2015.

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 Pension Fund Annual Report for the financial year running from 1 April 2014 to 31 March 2015.

It is my 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.

To assist in the understanding of the Annual Accounts and financial statements I would encourage you to make reference to the Management Commentary in the first instance.

It is pleasing to report a strong increase in net assets during the year by the Pension Fund has been achieved while a revised investment strategy was implemented. Investment returns, although positive at 8.5%, were behind the benchmarks that had been set and monitoring continues on a regular basis to understand and explore with Fund Managers the reasons for this.

Under the financial leadership of my predecessor, James Gray, a review of the Pension Fund investments was undertaken, which led to the appointment of three new Fund Managers, in addition to the two that were already in place. This is to contribute towards the strategy of the Pension Fund being 100% funded by 2027. I would like to recognise the significant contribution that James Gray made to the Pension Fund in the time he was the Executive Manager - Finance.

The production of the Annual Accounts is very much a team effort involving many staff from Finance and other services in the Council. I would like to take this opportunity to personally acknowledge the considerable efforts of all staff in the production of the 2014/15 Annual Report and Accounts

Steven Whyte, CPFA
Executive Manager – Finance
June 2015

Management Commentary

The purpose of the Management Commentary is to inform all users of the accounts and help them understand the most significant aspects of the Pension Fund's financial performance during 2014/15 and year-end financial position as at 31 March 2015.

Background

The Shetland Islands Council Pension Fund is a contributory defined benefit pension scheme administered by Shetland Islands Council. The Pension Fund is governed by the Superannuation Act 1972, and is administered in accordance with 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 provides pensions and other benefits for pensionable employees of scheduled bodies and admitted bodies within Shetland, as shown below. Teachers are not included as they have a separate national pension scheme.

Employers

Shetland Islands Council	Scheduled Body
Orkney & Shetland Valuation Joint Board	Scheduled Body
Lerwick Port Authority	Admitted Body
Shetland Recreational Trust	Admitted Body
Shetland Fisheries Training Centre Trust	Admitted Body
Shetland Enterprise Co Ltd	Admitted Body
Shetland Islands Tourism	Admitted Body
Shetland Amenity Trust	Admitted Body
ABA Services Ltd	Admitted Body
Shetland Youth Information Services	Admitted Body
Shetland Seafood Quality Control	Admitted Body
Advocacy Shetland	Admitted Body
Shetland Voluntary Care Forum	Admitted Body
Disability Shetland	Admitted Body
Shetland Charitable Trust	Admitted Body
Shetland Arts Development Agency	Admitted Body
Atlantic Ferries	Admitted Body
CADSS	Admitted Body
Crossroads Shetland Care Scheme	Admitted Body

Administering Authority Arrangements

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 Council's Executive Manager - Finance has responsibility for:

- the financial accounting of the Pension Fund;
- the preparation of the Pension Fund Annual Report; and
- being the principal adviser on investment management to the Council in its capacity as Trustee to the Pension Fund and as the Pension Fund's Administering Authority.

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

The day-to-day benefits administration for the Pension 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 Local Government Pension Scheme (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 - Appointed

Blackrock	Nov 08
Schroders	Mar 07
M & G Investments	Nov 14
Kleinwort Benson	Nov 14
Newton	Nov 14

Investment Advisor
Hymans Robertson

Custodian
Northern Trust

Fund Actuary
Hymans Robertson

AVC Providers
Prudential
Equitable Life (closed to new members)

Banker
Bank of Scotland

External Auditor
Audit Scotland

Performance Management
State Street

The overview of the financial performance of the Pension Fund rests with the Policy & Resources Committee. The Policy & Resources 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. From 1 April 2015 a new Pension Board and Pension Fund Committee are to be set up, to replace the existing Pension Fund Consultative Panel. The new Pension Fund Committee is made up of the Councillors who currently sit on the Policy & Resources Committee.

The ultimate responsibility for the governance of Shetland Islands Council Pension Fund rests with the 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.

State Street 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 Policy & Resources Committee at the mid-year point and again after the end of the financial year.

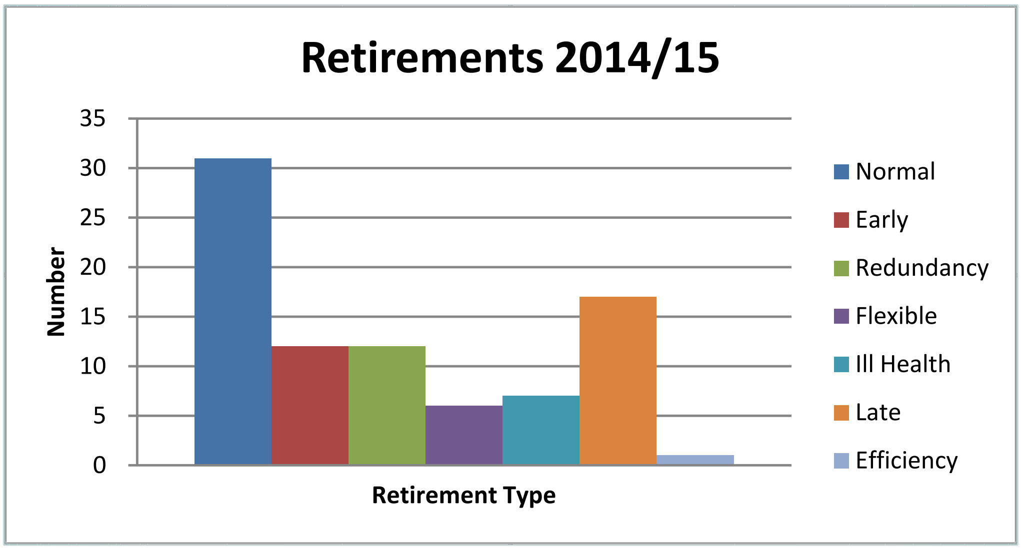
Valuation and Membership

At 31 March 2015, the value of the Pension Fund stood at £368m, an increase of £35m on the previous year. The increase in the value of the Pension Fund is due to investment gains and an excess of employer and employee contributions over benefits payable.

The Pension Fund membership increased during the financial year by 417 to 6,222 members, this includes active members (183), deferred members (148) and pensioners (86).

The increase in active members was mainly an increase in part time-employees. There was also an increase in deferred members. A deferred pensioner is someone who has paid into the Pension Scheme for a period greater than two years. They then ceased employment with one of the Pension Fund employers and have not transferred their pension pot into their new employment, or someone who has opted out of the Pension Scheme and ceased paying contributions. The fund that they had built up during the time they were paying into the Pension Scheme is held until they reach normal retirement age, or the pension pot can be transferred out into another pension scheme.

The table below shows the breakdown of the 86 new pensioners following retirement during the year:



Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund to £368m. The Pension Fund investment strategy aims to achieve a fully funded Pension Scheme by 2027. Other objectives of the Pension Fund are:

- to secure and maintain sufficient assets to meet liabilities which fall due by the Pension Fund;
- to minimise the risk of assets failing to meet these liabilities, through an investment strategy, specifically tailored to the Pension Fund's requirements; and
- to maximise investment returns within an acceptable level of risk and providing stability in the level of employers' contribution rates.

In January 2015, three new Fund Manager mandates were set up. In addition to the existing two Fund Managers, BlackRock and Schroders, the three new ones are M&G Investments, Kleinwort Benson and Newton. The revised investment strategy structure of the Pension Fund was as follows:

Managers	Investment Type	%
Blackrock	Passive UK Equities	18
Blackrock	Passive Overseas Equities	20
Schroders	Active Property	12
M & G Investments	Alternative Credit	10
Kleinwort Benson	Active Global Equities	20
Newton	Diversified Growth	20
Total		**100**

Funding Strategy Statement

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

The purpose of the Funding Strategy Statement 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 triennial valuation of the Pension Fund was carried out at 31 March 2014. It showed that the Pension Fund is 92% funded, with a deficit of £30m. The deficit has increased since the previous valuation in 2011 due to adverse conditions, in particular the decrease in the real gilt yield. The triennial valuation sets the employer contribution rates for the next three years. The total employer contribution rate, which is an average across the whole fund, has increased from 18.8% to 20.7%. The increased liabilities, recognising the value of future pension benefits, is the primary driver for this increase.

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 Pension 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, 8 North Ness, Lerwick, during normal working hours. It is currently being updated to take account of the new Fund Managers and investment strategy.

Performance Management

The Annual Accounts summarises the Pension Fund's transactions for the year. 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 Pension Fund Annual Report for the financial year from 1 April to 31 March.

The main statements of the Pension Fund are the Fund Account and the Net Assets Statement. These two statements are accompanied by notes to the Accounts which set out the accounting policies adopted by the Pension Fund and provide more detailed analysis of the figures disclosed on the face of the statements.

Financial Performance in 2014/15

The Pension Fund Account presents the full economic cost of providing Pension Fund services in 2014/15. This shows a net income of £35m. This differs from the draft outturn position, shown below, which was reported to the Policy & Resources Committee on 25 May 2015, and which is on Shetland Islands Council's website.

The reason for the difference is that income and expenditure relating to the Pension Fund investment is included in the Net Assets Statement, rather than in the Pension Fund Account, whereas the table below includes all income and expenditure.

The table below shows the variance of actual against budget as shown in the draft outturn report.

Description	2014-15 Annual Budget £'000	2014-15 Draft Outturn £'000	2014-15 Draft Outturn Variance Under/(Over) £'000
Total Expenditure	11,690	12,584	(894)
Total Income	(18,982)	(19,539)	557
Net Income	**(7,292)**	**(6,955)**	**(337)**

Expenditure was higher than budgeted due to additional costs relating to the introduction of three new Fund Managers. These additional costs included fees and a one-off consultancy fee in relation to the appointment of the new Fund Managers. There were also more benefits payable due to the increase in the number of new pensioners. Income was higher than budgeted due to one off gains in relation to the reorganisation of the Pension Fund.

Administration Strategy

The Pension Fund's Pension Administration Strategy highlights the duties of, and sets performance standards for, both the Fund and all the participating employers.

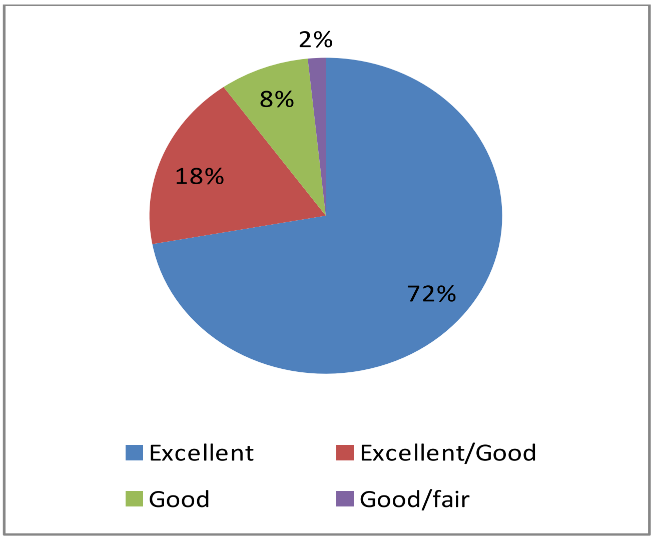
It is vital that employers provide prompt information to the Pension Fund so that timely and accurate information can be provided to the Scheme members. Performance is monitored on a regular basis. The information that the Pension Fund received during the year was delivered in a timely manner by all employers. This included information on new starts, leavers, normal retirements, early retirements and deaths in service. With the exception of two occasions, all employer contributions were received by the 19th of the month following deduction.

Administration Performance

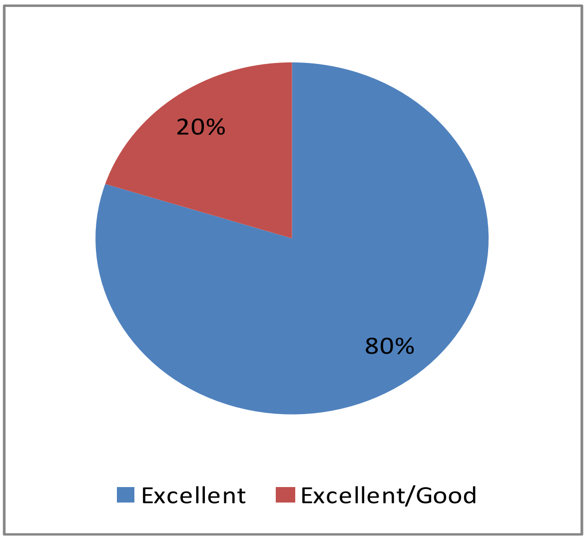
Shetland Islands Council as a Pension Administering Authority, is also committed to providing a high quality pension service to both members and employers and to ensure members receive their correct pension benefit entitlement.

To ensure excellent customer care is provided, retiring members and employers are requested to complete a customer satisfaction survey. Details of this survey are summarised below.

Member Satisfaction Survey 2014/15
Number of surveys received 61



Employer Satisfaction Survey 2014/15
Number of surveys received 5



The customer feedback is very positive for the year and specific comments received will form a basis for identifying and implementing improvement.

Monitoring Arrangements

The Fund Managers gave their annual presentation to the Council in May 2015. This performance review meeting covers the financial year 2014/15 and allowed the Council to meet the Fund Managers, hear their presentations so as to get a clear understanding of the factors and influences that impacted on investment performance during the year, and ask them questions.

Visits were made in November 2014 to each Fund Manager to review the six monthly investment positions. The Council also received audited quarterly performance books from the Fund Managers, which are used to produce a quarterly performance review report.

The Policy and Resources Committee receives regular requests on performance and 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 Pension Fund members.

Pension Fund Outlook

From 1 April 2015, the Pension Scheme moves away from a final salary pension scheme to a career average related earnings scheme (CARE). The main changes of this scheme are:

- a move towards benefits being worked out using career average related earnings rather than final salary;
- pensions 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; and
- benefits built up before April 2015 will continue to be calculated using actual final pensionable pay at date of leaving.

Pension auto enrolment commenced for some of the Pension 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.

From 1 April 2015, the Council, as the Administering Authority for the Pension Fund, is required to establish a Pensions Board. The Board was established by the Council on 27th May, and will be responsible for assisting the Council in relation to compliance with scheme regulations and requirements of the Pensions Regulator. In order to avoid conflict of interest, a Pension Fund Committee has also been set up, which will have the same membership as the Policy & Resources Committee. The Pension Board will be made up of three Council members and three substitute Council members, who are not members of the Pension Fund Committee. In addition to the Councillor members, the Pensions Board will appoint an Admitted Bodies Employer Representative and four Trade Union Representatives. One of the Trade Union Representatives along with the Executive Manager – Governance & Law will be appointed as joint secretary to the Pension Board.

....	....	....
Gary Robinson Leader of the Council	Mark Boden Chief Executive	Steven Whyte, CPFA Executive Manager – Finance
.... Date	.... Date	17/6/15 Date

Investment Policy and Performance Report

Investment Policy

The investment policy, along with the Council's approach to the management of risk for the Pension 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 Pension Fund investments against a suitable degree of risk. The Fund Managers, acting in the best financial interests of the Pension 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.

A new investment strategy was approved by the Council on 26th March 2014. The strategy's focus is on achieving a 100% funding level before the Pension Fund's contributions equal benefits payable, which is expected to be 2027. Beyond this point, it is expected that payments will exceed contributions made into the Pension Fund for the first time. The new strategy proposes a less volatile approach with a more diversified asset base. It is estimated that the new strategy will improve the level of return, and be protected against the full negative impact of volatile and falling markets due to its increased diversity.

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 % to 31/12/2014	Allocation % from 01/01/2015
UK Equities	40	18
Global Equities	40	40
UK Gilts	5	0
UK Corporate Bonds	5	0
Property	10	12
Alternative Bonds	0	10
Diversified Growth Fund	0	20
Total	100	100

The Pension Fund now has five Fund Managers as follows:

Manager	Mandate	Fund at March 2015 %
Blackrock	Passive UK Global Equities	41
Schroders	Active Property	11
Newton	Diversified Growth Fund	19
M & G	Alternative Bonds	9
Kleinwort Benson	Active Global Equities	20
Total		**100**

Investment Performance

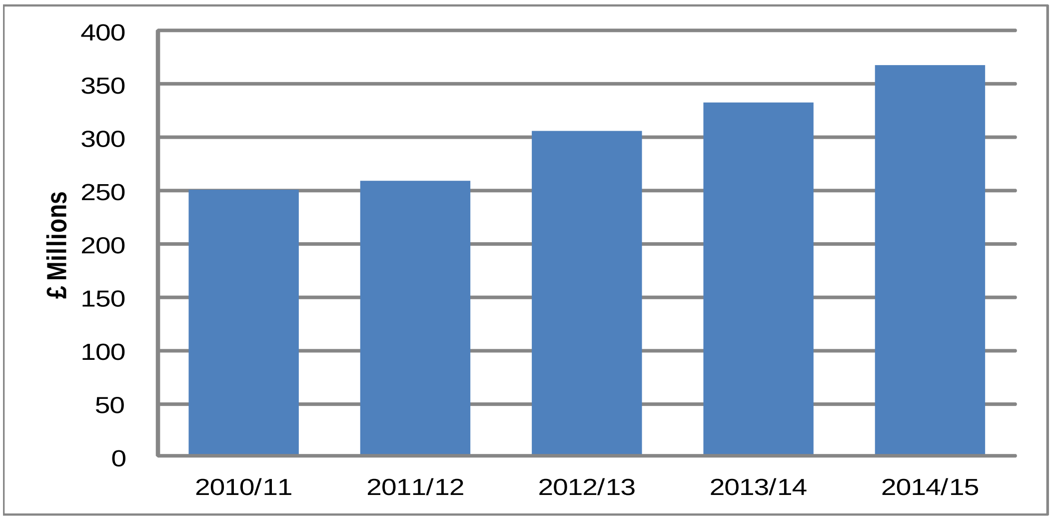
Investment performance is monitored against this benchmark return on a quarterly and annual basis.

For the year to 31 March 2015 the Pension Fund had a return of 8.8% compared to the benchmark return of 9.5%.

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

	2010/11 %	2011/12 %	2012/13 %	2013/14 %	2014/15 %	3 Year Annualised %	5 Year Annualised %
Fund Return	6.5	0.9	15.0	6.5	8.8	10.0	7.4
Benchmark	7.3	1.3	14.6	6.7	9.5	10.3	7.8
Performance	-0.8	-0.4	0.4	-0.2	-0.7	-0.3	-0.4

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



Remuneration Report

There is no need to produce a remuneration report for the Pension Fund, as the Pension Fund does not directly employ any staff.

All staff are employed by Shetland Islands Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by Shetland Islands Council.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Shetland Islands Council on the Council's website http://www.shetland.gov.uk/

Annual Governance Statement

Introduction

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

Administering Authority

Shetland Islands Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Shetland 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 Pension Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty partly directly and partly through the Policy & Resources Committee.

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

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

Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

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

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Pension 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 Funding Strategy Statement and Statement of Investment Principles);
- service planning arrangements;
- staff time allocations, appropriate to the scale of the Pension Fund;
- performance management arrangements, especially for Pension 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 Pension 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 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 Pension Fund, as described in the Funding Strategy Statement 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 Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The Pension Fund approaches this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and externally through the group entities; the assurance and recommendations provided by internal audit; external audit and other external scrutiny reports; and self evaluation compliance.

Management Assurance:

As the administration of the Pension Fund is directly within the remit of the Director of Corporate Services, assurance has been sought from her in relation to the effectiveness of internal financial controls to the Executive Manager – Finance. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2014/15 no areas of weakness or concern were raised.

In relation to the effectiveness of the Council's arrangements in relation to its statutory officers, both the Executive Manager – Finance (Chief Financial Officer) and Executive Manager – Governance & Law (Monitoring Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council Committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit 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 Committee.

Assurance from Internal Audit:

The Council provides internal audit arrangements to the Pension 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 work programme has been completed, with some minor carry forward of work into the 2015/16 financial year. During the year there were no specific internal audits carried out for the Pension Fund, and the controls work undertaken across the Council systems by internal audit were found to be adequate.

External Audit and Other External Scrutiny:

The external auditor, Audit Scotland, regularly reports to the Audit Committee and their reports cover a wide range of year end financial audits that are required at a local and national level.

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. Recent reports by Audit Scotland identified a limited number of minor recommendations in the area of internal control and these are being addressed by management in order to ensure weaknesses are strengthened.

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.

Self Evaluation of Compliance

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.

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.

Following a review of the effectiveness of the code of governance there are no significant governance issues that require to be reported.

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.

………………………...........	…………………………………
Gary Robinson	Mark Boden
Leader of the Council	Chief Executive
……………………	……………………
Date	Date

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 (section 95 of the Local Government (Scotland) Act 1973). In this authority, that 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 Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and

- approve the Annual Accounts for signature.

I can confirm that these Annual Accounts were approved for signature by the Council on 22 September 2015.

Signed on behalf of Shetland Islands Council

……………………………………	……………………
Gary Robinson	Date
Leader of the Council	

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 required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual 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 legislation; and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

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.

I certify that the Annual Accounts give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2015.

....17/6/15..........
Steven Whyte, CPFA Date
Executive Manager – Finance

Pension Fund Account 2014/15

2013/14 £000		Notes	2014/15 £000	2014/15 £000
	Dealings with members, employers and others directly involved in the scheme			
(17,623)	Contributions	7	(16,800)	
(1,477)	Transfers in from other pension funds	8	(353)	
(28)	Other income		(28)	
(19,128)				(17,181)
11,887	Benefits payable	9	10,689	
189	Payments to and on account of leavers	10	579	
242	Administrative expenses	11	442	
6	Other payments		4	
12,324				11,714
(6,804)	**Net (additions)/withdrawals from dealing with members**			**(5,467)**
	Returns on investments			
(935)	Investment income	12	(2,358)	
(19,407)	(Profits) and losses on disposal of investments and change in market value of investments	15b	(27,985)	
462	Investment management expenses	13	871	
(19,880)	**Net returns on investments**			**(29,472)**
(26,684)	**Net (increase)/decrease in the net assets available for benefits during the year**			**(34,939)**

Net Assets Statement as at 31 March 2015

2013/14 £000		Notes	2014/15 £000	2014/15 £000
318,840	Investment Assets	14	365,677	
13,139	Cash Deposits	14	511	
331,979				366,188
2,142	Current Assets	19		3,303
(1,222)	Current Liabilities	20		(1,653)
332,899	**Net assets of the fund available to fund benefits at the period end**			**367,838**

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

The unaudited accounts were issued on 17 June 2015.

Steven Whyte, CPFA
Executive Manager – Finance

17/6/15
Date

Page 24

Notes to the Accounts

1. Description of Pension 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 Pension Fund is a summary.

a) General

The Pension Fund is governed by the Superannuation Act 1972. The Pension 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 Pension 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 Pension Fund; and

- Admitted bodies, which are other organisations that participate in the Pension Fund under an admission agreement between the Pension 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 2014		Shetland Islands Council Pension Fund		31 March 2015
	19	**Number of employers with active members**		19
		Number of employees in scheme:		
2,455		Shetland Islands Council	2,614	
360		Other employers	384	
	2,815	**Total**		2,998
		Number of pensioners/dependants		
1,337		Shetland Islands Council	1,410	
93		Other employers	106	
	1,430	**Total**		1,516
		Deferred pensioners		
1,334		Shetland Islands Council	1,465	
226		Other employers	243	
	1,560	**Total**		1,708
	5,805	**Scheme Total**		6,222

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension 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 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2014 set these employers' contribution rates which range from 17.2% to 33.8% 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 Pension Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Pension 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 2014/15 are:

- IFRS 13 Fair Value Measurement (May 2011); and
- Annual Improvements to IFRS’s (2011 - 2013 Cycle).

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 financial statements.

3. Summary of Significant Accounting Policies

Pension 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 Pension 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 Pension 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

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

- **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.

- **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.

Pension 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 Pension 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 Pension 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 Pension Fund. Management, accommodation and other overheads are apportioned to the Pension 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 Pension 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 Pension 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 Pension Fund.

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

i) 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 Pension Fund, net of applicable withholding tax.

j) 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.

k) 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.

l) 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 Pension 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).

m) 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 Pension 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 2015 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% decrease in the discount rate assumption would result in a decrease in the pension liability of £59m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £21m, and a one-year increase in assumed life expectancy would increase the liability by approximately £15m.

6. Events after the Balance Sheet Date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category:

31 Mar 2014 £000		31 Mar 2015 £000
(12,904)	Employers - normal	(12,801)
(1,021)	Employers - augmentation	(366)
(3,698)	Members - normal	(3,633)
(17,623)	**Total**	**(16,800)**

By authority:

31 Mar 2014 £000		31 Mar 2015 £000
(15,340)	Administering authority	(14,473)
(119)	Scheduled bodies	(119)
(2,164)	Admitted bodies	(2,208)
(17,623)	**Total**	**(16,800)**

8. Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 Mar 2014 £000		31 Mar 2015 £000
(1,477)	Individual transfers in	(353)
(1,477)	**Total**	**(353)**

The Pension Fund received 23 transfers in during 2014/15 with an average value of £15,300 compared to 51 transfers in during 2013/14 with an average value of £29,000.

9. Benefits Payable

By category:

31 Mar 2014 £000		31 Mar 2015 £000
7,858	Pensions	8,430
3,765	Commutation and lump sum retirement benefits	1,682
264	Lump sum death benefits	577
11,887	**Total**	**10,689**

By authority:

31 Mar 2014 £000		31 Mar 2015 £000
10,918	Administering authority	9,501
71	Scheduled bodies	78
898	Admitted bodies	1,110
11,887	**Total**	**10,689**

10. Payments to and on Account of Leavers

31 Mar 2014 £000		31 Mar 2015 £000
23	Refunds to members leaving service	18
48	Payments for members joining state scheme	18
118	Individual transfers	543
189	**Total**	**579**

11. Administrative Expenses

31 Mar 2014 £000		31 Mar 2015 £000
140	Staff time allocations	198
61	Support services and system costs	185
5	Printing and publications	5
0	Governance costs	0
4	Actuarial fees	21
32	External audit fees	33
242	**Total**	**442**

12. Investment income

31 Mar 2014 £000		31 Mar 2015 £000
0	Fixed Income Unit Trusts	(369)
(749)	Pooled property unit trusts - UK	(1,130)
(81)	Pooled property unit trusts - Overseas	(737)
(58)	Interest on cash deposits	(44)
(47)	Other	(78)
(935)	**Total**	**(2,358)**

13. Investment Expenses

31 Mar 2014 £000		31 Mar 2015 £000
229	Management fees	537
123	Unit trust manager charges	130
30	Custody fees	36
48	Performance monitoring service	98
3	Actuarial fees - investment consultancy	3
29	Consultancy costs	67
462	**Total**	**871**

14. Investments

Market Value 31 Mar 2014 £000		Market Value 31 Mar 2015 £000
	Investment assets	
267,813	Pooled funds	293,336
29,575	Fixed income unit trusts	34,059
21,431	Pooled property unit trusts	38,277
13,135	Cash deposits	511
21	Property income due	5
4	Cash income due	0
331,979	**Total investment assets**	**366,188**

14a. Reconciliation of movements in investments

	Market Value 01/04/2014 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2015 £000
Investment assets					
Pooled funds	267,813	208,642	(202,035)	18,746	293,166
Fixed income unit trusts	29,575	34,199	(29,575)	(140)	34,059
Pooled property unit trusts	21,431	16,269	(1,177)	1,754	38,277
	318,819	259,110	(232,787)	20,360	365,502
Investment Income Due					
Fixed income income due	0				170
Property income due	21				5
	318,840				365,677
Other investment balances:					
Cash deposits	13,135				511
Cash income due	4				0
Net investment assets	**331,979**	**259,110**	**(232,787)**	**20,360**	**366,188**

	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**

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

14b. Analysis of investments

31 Mar 2014 £000		31 Mar 2015 £000
	Additional analysis	
131,983	Pooled funds (UK)	70,161
135,830	Pooled funds (Overseas)	152,441
0	Diversified Growth	70,564
14,930	Fixed income unit trusts (UK bonds)	0
14,645	Fixed income unit trusts (UK corp bonds)	0
0	Alternative Credit	34,059
18,689	Pooled property unit trust (UK)	36,522
2,742	Pooled property unit trust (Overseas)	1,755
318,819	**Total investment assets**	**365,502**

Investments analysed by Fund Manager (including investment assets and external cash):

Market Value 31 Mar 2014 £000	%		Market Value 31 Mar 2015 £000	%
309,724	93	BlackRock	150,247	41
22,255	7	Schroders	38,821	11
0	0	Newton Asset Management	70,564	19
0	0	Kleinwort Benson	72,327	20
0	0	M & G Investments	34,229	9
331,979	**100**		**366,188**	**100**

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

Market Value 31 Mar 2014 £000	%		Market Value 31 Mar 2015 £000	%
43,926	13	BlackRock Europe ex UK index	0	0
29,304	9	BlackRock Japan index	0	0
32,139	10	BlackRock North American index	0	0
30,460	9	BlackRock Pacific Rim index	0	0
131,953	40	Aquila Life UK equity index	70,131	19
0	0	M & G Alpha Opp Fd AGBP	34,059	9
0	0	Kleinwort Benson 1 Dividend Plus	72,327	20
0	0	Newton Real Rtrn X ACC NAV	70,564	19
0	0	Aquila Life World EX UK Fund Series 1	80,113	22

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 2014				31 Mar 2015		
Fair value through profit and loss	Receivables	Financial liabilities		Fair value through profit and loss	Receivables	Financial liabilities
£000	£000	£000		£000	£000	£000
			Financial assets			
267,813	-		Pooled funds	293,336	-	
29,575	-		Fixed income unit trusts	34,059	-	
21,431	-		Pooled property unit trusts	38,277	-	
-	13,819		Cash	-	2,343	
21	-		Property income due	5	-	
-	1,429		Debtors	-	1,471	
318,840	**15,248**	**0**		**365,677**	**3,814**	**0**
			Financial liabilities			
-	-	(1,222)	Creditors	-	-	(1,653)
0	**0**	**(1,222)**		**0**	**0**	**(1,653)**
318,840	**15,248**	**(1,222)**		**365,677**	**3,814**	**(1,653)**

15b. Net gains and losses on financial instruments

31 Mar 2014 £000		31 Mar 2015 £000
	Financial assets	
(19,407)	Fair value through profit and loss	(27,985)
(19,407)	**Total**	**(27,985)**

15c. Value of financial instruments

31 Mar 2014			31 Mar 2015	
Book value	Market value		Book value	Market value
£000	£000		£000	£000
		Financial assets		
195,890	318,840	Fair value through profit and loss	314,903	365,677
195,890	**318,840**	**Total**	**314,903**	**365,677**

16. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Pension 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 Pension Fund and to maximise the opportunity for gains across the whole Pension Fund portfolio. The Pension 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 Pension Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Pension Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Pension 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 Pension 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 Pension 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 Pension 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 Pension Fund investment strategy.

Other Council price risk - sensitivity analysis

In agreement with the Pension 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:

Asset Type	Potential market movements (+/-)
UK Equities	10.18%
Overseas Equities	9.47%
Total Bonds & Index Linked	4.77%
Cash	0.01%
UK Property	2.53%
Overseas Property	11.18%

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 Pension 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 Pension 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 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	511	0.01%	511	511
Investment portfolio assets:				
UK Equities	70,161	10.18%	77,303	63,019
Overseas Equities	223,004	9.47%	244,122	201,886
Total Bonds & Index Linked	34,229	4.77%	35,862	32,596
UK Property	36,528	2.53%	37,452	35,604
Overseas Property	1,755	11.18%	1,951	1,559
Total assets	**366,188**		**397,201**	**335,175**

Asset Type	Value as at 31 March 2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £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**

Interest rate risk

The Pension 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 Pension Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2015 are set out below:

31 Mar 2014 £000		31 Mar 2015 £000
	Asset type	
13,139	Cash and cash equivalents	511
680	Cash balances	1,832
13,819	**Total**	**2,343**

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Pension 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 Pension Fund under current interest rate circumstances. The Pension 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 2015	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	511	5	(5)
Cash balances	1,832	18	(18)
Total change in assets available	**2,343**	**23**	**(23)**

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)**

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 Pension Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Pension Fund (£ sterling). The Pension Fund holds both monetary and non-monetary assets denominated in currencies other than £ sterling.

The following table summarises the Pension Fund's currency exposure as at 31 March 2015 and as at the previous period end:

31 Mar 2014 £000		31 Mar 2015 £000
	Asset type	
135,830	Pooled Funds - overseas equities	223,004
2,742	Pooled Property Unit Trusts - overseas	1,755
138,572	**Total**	**224,759**

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 5.76%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 5.76% strengthening/weakening of the pound against the various currencies in which the Pension Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Carrying amount as at 31 March 2015	Change to net assets available to pay benefits	
		+5.76%	-5.76%
	£000	£000	£000
Pooled Funds - overseas equities	223,004	235,849	210,159
Pooled Property Unit Trusts - overseas	1,755	1,856	1,654
Total change in assets available	**224,759**	**237,705**	**211,813**

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**

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 Pension 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 Pension Fund's financial assets and liabilities.

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

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

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Pension Fund's cash holding under its treasury management arrangements at 31 March 2015 was £2.343m (31 March 2014: £13.819m). This was held with the following institutions:

31 Mar 2014 £000		31 Mar 2015 £000
	Fund manager deposits	
12,364	BlackRock - Liquidity Heritage Fund	0
772	Schroders cash	509
3	BlackRock cash	2
	Bank current accounts	
680	Bank of Scotland Plc	1,832
13,819	**Total**	**2,343**

Liquidity risk

Liquidity risk represents the risk that the Pension 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 Pension 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 Pension Fund's exposure to liquidity risk is considered negligible.

The Pension 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 2015 the value of illiquid assets was £38.3m, which represented 10.5% of the Pension Fund assets (31 March 2014: £21.4m, which represented 6.7% of the Pension 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 Pension 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 2014.

The funding policy is set out in the Shetland Islands Council Funding Strategy Statement (FSS), dated March 2015.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Pension Fund and the solvency of individual employers' share of the Pension 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 Pension 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 Funding Strategy Statement sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Pension 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 Pension 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 2014. This valuation revealed that the Pension Fund's assets, which at 31 March 2014 were valued at £333 million, were sufficient to meet 92% (91% at 31 March 2011 valuation) of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £30 million (2011 valuation: £25 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 2015 to 31 March 2018 is 20.7% of pensionable pay, (i.e. the rate which all employers in the Pension 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 2015 to 31 March 2018 were set in accordance with the Pension Fund's funding policy as set out in its Funding Strategy Statement.

The payment due by the Shetland Islands Council during this period includes an employer's rate of 18.7%, 19.8% and 20.8% per annum for each of the three years and £1.6 million in 2016 to meet a funding shortfall arising from the transfer of pension benefits associated with former Shetland Towage employees.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from the Shetland Islands Council, Administering Authority to the Pension Fund.

Principal actuarial assumptions and method used to value the liabilities

Full details of the method used is described in a valuation report from the actuaries, Hymans Robertson LLP, available on request from the Shetland Islands Council, Administering Authority to the Pension 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 Pension Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

	31 March 2014	
Financial assumptions	**% p.a. Nominal**	**% p.a. Real**
Discount rate	5.2%	2.5%
Pay increases *	4.5%	1.8%
Price inflation/Pension increases	2.7%	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	22.8 years	23.8 years
Future Pensioners	24.9 years	26.7 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 2014	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-April 2009 service.

18. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Pension 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 2015 was £551 million (31 March 2014: £478 million). The Pension 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 2014.

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 2014 % p.a.	Year ended	31 March 2015 % p.a.
2.8%	Inflation/pension increase rate	2.4%
5.1% *	Salary increase rate	4.3%
4.3%	Discount rate	3.2%

*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 2014 £000		31 Mar 2015 £000
	Debtors:	
307	• Contributions due - employees	301
1,059	• Contributions due - employers	1,096
59	• Transfer values receivable	57
4	• Sundry debtors	5
33	Prepayments	2
0	Accrued Income	10
680	Bank current accounts	1,832
2,142	**Total**	**3,303**

The significant majority of debtors are other local authorities.

Analysis of debtors

31 Mar 2014 £000		31 Mar 2015 £000
15	Central government bodies	8
1,184	Other local authorities	1,207
0	Public corporations & trading funds	1
230	Other entities and individuals	255
1,429	**Total**	**1,471**

20. Current Liabilities

31 Mar 2014 £000		31 Mar 2015 £000
(203)	Sundry creditors	(614)
(1,019)	Benefits payable	(1,039)
(1,222)	**Total**	**(1,653)**

Analysis of creditors

31 Mar 2014 £000		31 Mar 2015 £000
(2)	Central government bodies	(1)
(729)	Other local authorities	(875)
(22)	Public corporations and trading funds	(22)
(469)	Other entities and individuals	(755)
(1,222)	**Total**	**(1,653)**

21. Unfunded Pension

31 Mar 2014 £000		31 Mar 2015 £000
672	Added years pension	702

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 2014 £000		31 Mar 2015 £000
4,040	Prudential	4,406
86	Equitable Life	91
4,126	**Total**	**4,497**

AVC contributions of £0.470m were paid directly to Prudential during the year (2013/14 £0.484m).

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 £0.409m (2013/14 £0.210m) in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses.

The investments of the Pension Fund are overseen by the Council's Treasury Section; their costs are levied by staff time allocations. Costs incurred were £0.058m (2013/14 £0.017m) in relation to investment of the Pension Fund and the Council was subsequently reimbursed by the Pension Fund for these expenses.

The Council incurred costs of £8.429m (2013/14 £7.858m) in relation to pensioner payments, which was subsequently reimbursed by the Pension Fund.

In addition the Council is the single largest employer of Pension Fund members, and contributed £11.423 to the Pension Fund (2013/14 £12.212m).

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 2014/15

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 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £333 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £30 million.

Individual employers' contributions for the period 1 April 2015 to 31 March 2018 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 31 March 2015.

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 2014 valuation were as follows:

Financial Assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	5.2%	2.5%
Pay increases	4.5%	1.8%
Price inflation/Pension increases	2.7%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.8 years	23.8 years
Future pensioners*	24.9 years	26.7 years

*Future pensioners are assumed to be currently aged 45 as at 31 March 2014.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from Shetland Islands Council, the Administering Authority to the Fund.

Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
29 May 2015

Hymans Robertson LLP
20 Waterloo Street,
Glasgow
G2 6DB

Contact Details

For more information relating to this report, please contact:

Finance Services
Shetland Islands Council
Office Headquarters
8 North Ness Business Park
Lerwick
Shetland
ZE1 0LZ

Email: finance@shetland.gov.uk

Annual Governance Statement

Introduction

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

Administering Authority

Shetland Islands Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Shetland 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 Pension Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 2008. The Council discharges this duty partly directly and partly through the Policy & Resources Committee.

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

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

Scope of Responsibility

The Council is responsible for ensuring that the Pension Fund:

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

In discharging these responsibilities, Council members and staff are responsible for implementing effective arrangements for governing the affairs of the Pension 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 Funding Strategy Statement and Statement of Investment Principles);
- service planning arrangements;

- staff time allocations, appropriate to the scale of the Pension Fund;
- performance management arrangements, especially for Pension 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 Pension 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 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 Pension Fund, as described in the Funding Strategy Statement 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 Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control.

The Pension Fund approaches this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and externally through the group entities; the assurance and recommendations provided by internal audit; external audit and other external scrutiny reports; and self evaluation compliance.

Management Assurance:

As the administration of the Pension Fund is directly within the remit of the Director of Corporate Services, assurance has been sought from her in relation to the effectiveness of internal financial controls to the Executive Manager – Finance. This assurance provides the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2014/15 no areas of weakness or concern were raised.

In relation to the effectiveness of the Council's arrangements in relation to its statutory officers, both the Executive Manager – Finance (Chief Financial Officer) and Executive Manager – Governance & Law (Monitoring Officer) are full members of the Corporate Management Team and are in attendance at the Council, Audit Committee and Policy and Resources Committee to advise as appropriate.

The Council Committee structure supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout. The Audit Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering all reports prepared by the external auditor.

The Audit 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 Committee.

Assurance from Internal Audit:

The Council provides internal audit arrangements to the Pension 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 work programme has been completed, with some minor carry forward of work into the 2015/16 financial year. During the year there were no specific internal audits carried out for the Pension Fund, and the controls work undertaken across the Council systems by internal audit were found to be adequate.

External Audit and Other External Scrutiny:

The external auditor, Audit Scotland, regularly reports to the Audit Committee and their reports cover a wide range of year end financial audits that are required at a local and national level.

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. Recent reports by Audit Scotland identified a limited number of minor recommendations in the area of internal control and these are being addressed by management in order to ensure weaknesses are strengthened.

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.

Self Evaluation of Compliance

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.

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.

Following a review of the effectiveness of the code of governance there are no significant governance issues that require to be reported.

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.

………………………..........	…………………………………
Gary Robinson	Mark Boden
Leader of the Council	Chief Executive
……………………	……………………
Date	Date

Agenda Item
5

Shetland Islands Council

Audit Committee **29 June 2015**

Zetland Educational Trust: Annual Report and Financial Statements to 31 March 2015	
F-031-F	
Report Presented by Executive Manager - Finance	Corporate Services

1.0 Summary

1.1 The purpose of this report is to present the Annual Report and Financial Statements to 31 March 2015 for this small trust administered by Shetland Islands Council.

2.0 Decision Required

2.1 That the Audit Committee NOTE the Annual Report and Financial Statements for the Zetland Educational Trust for 2014/15.

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 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 The Audited Annual Report and Financial Statements will be submitted to the Council on 22 September 2015 for approval.

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.

4.4 Risk Management – NONE.

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. This report is being submitted to ensure that the annual report and financial statements are submitted to Audit Scotland by 30 June.

For further information please contact:
Steve Whyte **Executive Manager -Finance**
Email: steve.whyte@shetland.gov.uk
Telephone: 01595 744607

List of Appendices

Appendix 1: Zetland Educational Trust Annual Report and Accounts 2014/15

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

Zetland Educational Trust Schemes 1961 to 1965

Scottish Charity No SC001146

Annual Report & Financial Statements

For the Year Ended 31 March 2015

(Unaudited)

``

Trustees' Annual Report
For the Year Ended 31 March 2015

The trustees have pleasure in presenting their report together with the financial statements and the independent examiner's report for the year ended 31 March 2015.

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 Trustees
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.

Trustees
The trustee is Shetland Islands Council, the local authority for the Shetland Islands area. The trustee is responsible for ensuring that the financial statements for ZET are produced in accordance with the Charities Accounts (Scotland) Regulations 2006 (as amended). It is also responsible for making judgements and estimates that are both reasonable and prudent, whilst also keeping adequate and up to date accounting records. Finally the trustee is responsible for taking steps for the prevention and detection of fraud and other irregularities.

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.

Financial Review

The Trust holds assets at 31 March 2015 of £662,548 (2014: £659,286).

In the year, the Trust earned £7,209 (2014: £20,819) from bank investments and made payments of £2,745 (2014: £17,842) on grants and donations. After expenses of £1,201 (2014: £53), of which £1,200 was an external auditor fee, the Trust's current account was left with a deficit in the year of £1,737 due to £5,000 being transferred to a long term investment account (£2014: £20,000).

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 7-month fixed term account was set up in March 2015, this provides a guaranteed interest rate at maturity, and ensures that bursaries and grants are awarded with 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 degree programmes.

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

Achievements & Performance

During the year twelve 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 seven and five recipients respectively with payments in the year totalling £2,400.

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 2015 this totalled £345 (2014: £15,242).

A breakdown of the total expenditure on grants and donations of £2,745 (2014: £17,842) is shown at Note 4.

``

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 trustees on 17 June and signed on their behalf by:

Dated: 17/6/15

Steven Whyte CPFA
Executive Manager - Finance

4

``

Statement of Receipts and Payments - For the Year Ended 31 March 2015

	Note	Unrestricted funds to nearest £	Total 2015 to nearest £	Total 2014 to nearest £
Receipts				
Income from bank investments		7,209	7,209	20,819
Total receipts		7,209	7,209	20,819
Payments				
Investment management costs	(5)	1	1	3
Independent Examiner's Fee		1,200	1,200	50
Grants and donations	(4)	2,745	2,745	17,842
Transfer to Investment		5,000	5,000	20,000
Total payments		8,946	8,946	37,895
Net receipts / (payments)		(1,737)	(1,737)	(17,076)
Surplus / (deficit) for year		(1,737)	(1,737)	(17,076)

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

``

Statement of Balances - As at 31 March 2015

Cash Funds	Unrestricted funds to nearest £	Total 2015 to nearest £	Total 2014 to nearest £
Cash and bank balances at start of year	9,285	9,285	26,362
Surplus / (deficit) shown on receipts and payments account	(1,737)	(1,737)	(17,076)
Cash and bank balances at end of year	7,548	7,548	9,286

Investments	Market valuation to nearest £	Last year to nearest £
Bank of Scotland - Fixed Term Deposit	655,000	650,000
Total	655,000	650,000

Trust balances at 31 March 2015

	£	£
Cheque Account	7,548	9,286
Fixed Term Deposit	655,000	650,000
Total	662,548	659,286

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

Approved by the trustees on 17 June and signed on their behalf by:

Dated : 17/6/15.

Steven Whyte CPFA
Executive Manager - Finance

6

``

Notes to the Accounts – For the Year Ended 31 March 2015

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 furtherance of the ZET objectives is achieved by unrestricted funds within the limits of the funds available annually. These funds are maintained in a fixed interest account and, to enable payment of annual awards, a balance is held in a cheque account. This account forms part of the Shetland Islands Council's banking contract and is interest bearing.

3 Related Parties Transactions

During 2014/15 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 2015		**Total 2014**	
	Number	£	Number	£
Arthur Anderson Bursaries	5	1,000	5	1,000
E & M Gair Bursaries	7	1,400	6	1,600
Educational Excursion	1	345	12	8,716
Special Equipment	-	-	4	5,233
Swimming	-	-	-	-
Knowledge of Shetland	-	-	3	1,773
Experiments and Research	-		1	691
<u>Previous Grants Repaid</u>				
Educational Excursion	-	-	4	(1,075)
Special Equipment	-	-	1	(85)
Knowledge of Shetland	-	-	1	(11)
		2,745		**17,842**

During 14/15 no grants were paid to any external bodies. (2 bodies in 13/14).

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.