



Meeting:	SIC Audit Committee
Date:	22 September 2015
Report Title:	Shetland Health and Social Care Partnership Integration Joint Board (IJB) Governance Arrangements – cover paper
Reference Number:	CRP-20-15-F
Author / Job Title:	Christine Ferguson, Director Corporate Services

Decisions / Action required:

1. To note the progress made with the programme of work to establish the governance arrangements for the IJB including the audit function for the IJB; and
2. To comment and advise the Council of any concerns with regard to the governance arrangements established for the IJB.
3. To comment on the format of the report as referred to in section 2.5 of the attached report.

High Level Summary:

The governance framework as required by the Integration Scheme for the IJB has reached the stage where the IJB can function as the integration joint body for Shetland's Health and Social Care Partnership.

The core governance documents including the standing orders, financial regulations and scheme of administration are in place and any future changes can be taken forward through the normal working arrangements put in place to support the IJB.

The IJB has approved proposals with regard to a single Clinical, Care and Professional Governance framework for all health and social care services for the Shetland Islands Council (the Council) and Shetland NHS Board (the Health Board). These proposals are subject to approval by the Council and the Health Board. Once the clinical, care and professional governance arrangements for the IJB have been finalised, the IJB can consider approval of the Strategic Plan for 2015/16 previously agreed by the Council and the Health Board.

Work is in hand to develop the Strategic Plan for 2016-19.

Corporate Priorities and Joint Working:

Appropriate governance arrangements must be in place for the IJB in order for the IJB to fulfil its role with regard to the functions delegated to the IJB by the Council and the Health Board.

The IJB as a public body must ensure that it operates in accordance with relevant legislation and the principles and codes that apply to all public bodies.

Key Issues:

The Council remains accountable for the functions delegated by the Council to the IJB. Therefore the Council must make sure that appropriate governance arrangements are in place for the IJB and that an appropriate assurance framework is established with regard

to the functions delegated to the IJB by the Council.

Implications :	
Service Users, Patients and Communities:	<p>The IJB has a Participation and Engagement Strategy to ensure the views of service, users, patients and communities are heard and taken into account in developing services.</p> <p>The IJB Audit Committee will perform an important performance monitoring role with regard to the efficient and effective performance of the IJB itself and its role in commissioning health and social care services.</p> <p>This will complement the work of professional advisers to the IJB and of the Clinical and Care Governance Committee ensuring that the best possible outcomes are achieved for service users, patients and the community.</p>
Human Resources and Organisational Development:	<p>All staff working in the integrated Health and Social Care Partnership will be employed either by the Council or the Health Board and accordingly, all employers' liability will rest with either the Council or the Health Board.</p> <p>There is a HR and OD Action Plan which is kept under review by the Joint Staff Forum which meets regularly to discuss any HR and OD matters for the Health and Social Care Partnership. It has been agreed that the internal audit function for the IJB will be undertaken by the Council's Internal Audit Service and this is reflected in their current work programme.</p> <p>Support for the IJB Audit Committee will be provided by the IJB's Chief Officer, Chief Financial Officer, Chief Internal Auditor, who is the Chief Internal Auditor for the Council and Corporate Services Support as required.</p>
Equality, Diversity and Human Rights:	<p>Quality assurance on Equalities, Diversity and Human Rights is an integral part of the activities of the Council and the Health Board and any performance issues for the functions delegated to the IJB will be reported to the IJB or the IJB Audit Committee as appropriate.</p> <p>The recommendations in this report do not require an Equalities Impact Assessment.</p>
Legal:	<p>The IJB is required to establish its own governance arrangements under the terms of the Public Bodies (Joint Working) (Scotland) Act 2014 (the Act), the associated Regulations and Guidance and Shetland's Integration Scheme.</p>
Finance:	<p>All health and social care services with regard to the functions delegated to the IJB will be either provided or purchased by the Council and the Health Board who will set the budgets following the budget setting process set out in the Integration Scheme. Budgets will be monitored regularly and quarterly performance reports prepared for the IJB.</p> <p>The IJB's accounts will be maintained using the Council's systems.</p> <p>The IJB's Chief Financial Officer role is being undertaken by a member of staff from the finance team of the Health Board. This</p>

	<p>arrangement will be reviewed after six months operation of the IJB.</p> <p>Any expenses and costs associated with the activities of the IJB itself including backfill for its members will be met from within existing budgets of the Council and the Health Board. The costs will be recorded and monitored to inform future budget setting processes.</p>
Assets and Property:	<p>There are no implications for major assets and property. It is proposed that all meetings of the IJB and its Committees will be held in either the premises of the Council or the Health Board and that the costs will be covered accordingly by the Council and the Health Board.</p>
Environmental:	<p>There are no environmental issues arising from this report.</p>
Risk Management:	<p>The IJB is required to have its own Risk Management Strategy and Risk Register; these have been put in place for the IJB. The main risks associated with this report are either failure to ensure adequate assurance arrangements are in place for all aspects of health and social care business with some falling between the scrutiny arrangements in place for the three agencies; the Council, the Health Board and the IJB or duplication across the agencies in this regard.</p> <p>Subsequent and consequent risks would be the failure to deliver Best Value through inadequate checks and balances on performance or inefficient processes due to duplication of effort.</p>
Policy and Delegated Authority:	<p>The IJB does not have responsibility for the performance of health and social care services until it agrees and adopts a Strategic Plan. In the meantime, the Council through the Social Services Committee retains responsibility with regard to all community care and adult social work services.</p>
Previously considered by:	<p>This report has not been presented to any other formal meeting.</p>



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1. Introduction

- 1.1 This report presents information regarding the work that has been undertaken locally to establish the governance arrangements for Shetland's Health and Social Care Partnership Integration Joint Board (IJB) as required by the Public Bodies (Joint Working) (Scotland) Act 2014 (the Act).

2. Establishing the IJB

- 2.1 Shetland NHS Board (the Health Board) and Shetland Islands Council (the Council) approved the Body Corporate as the preferred model for Health and Social Care Integration (H&SCI) in Shetland under the terms of the Act at meetings on 1 July 2014 and 2 July 2014 respectively. This decision followed a lengthy period of discussion with a wide range of stakeholders including staff, professional groups and the public.
- 2.2 Arrangements for a Transition Programme to manage a number of projects and work streams to ensure the successful implementation of Shetland's chosen model for health and social care integration were agreed by the Council's Social Services Committee and the CHP Committee on 31 July 2014. The Transition Programme has been led by the Council's Director of Corporate Services on behalf of both organisations.
- 2.3 Advice and support for the Transition Programme is provided by the H&SCI Steering Group, which is chaired by Councillor Cecil Smith in his dual role as chair of Social Services Committee and CHP Committee. The role and membership of the Steering Group is set out in the Programme Initiation Document and is included below for ease of reference.

Steering Group	<ul style="list-style-type: none"> • To maintain an overview of the Programme on behalf of the Council and the Board • To receive reports on the progress made against the objectives of the programme • To support and advise the Programme Executive.
Name	Title
Cecil Smith (Chair)	Chair CHP Committee / Chair SIC Social Services Committee
Ralph Roberts	Chief Executive NHS Shetland
Mark Boden	Chief Executive Shetland Islands Council
Sarah Taylor	Director of Public Health
Simon Bokor-Ingram	Director of Community Health and Social Care
Malcolm Bell	SIC Convener
Ian Kinniburgh	NHS Board Chairman
Keith Massey	NHS Board non-executive member
Gary Cleaver	Vice-chair SIC Social Services Committee
Christine Ferguson	SIC Director of Corporate Services Programme Executive in attendance

2.4 In November 2014, the Council and the Health Board agreed that:
“..the committees, sub-committees and governance groups that are needed for the Body Corporate should all be joint, looking at all the business of the Council and the (Health) Board unless there is a specific reason why this cannot be done e.g. legal impediment”. (Min Ref SIC 78/14)
 In discussion with members of the Council and the Health Board, it was also generally agreed that we should seek to learn from the practices across the organisations involved in the partnership with a view to developing models of best practice that wherever possible would apply to all activities across the Council and the Health Board.

2.5 These decisions and principles have underpinned the work of the Transition Board. For example, with regard to the management of agendas and reports for the IJB, it has been agreed that the agenda management process used by the Council to ensure that the reports presented to the Council and its committees have been reviewed by the Council’s proper officers and other senior members of staff should be used for all reports to the IJB and its committees. It has also been agreed that the format of reports should be based on the format used by the Health Board. This format means that reports are presented in two parts:

- 1) A covering report summarises the key points, decisions required and the implications under a series of headings including Risk and Equalities; and
- 2) The main report explains the background and considerations that have been taken into account in developing the proposals and recommendations.

This report follows this format and Audit Committee are asked to comment on the format and advise as to whether or not they think it would be advantageous to use this format for all Council reports. There has been some mention of this in discussions at a recent meeting of the Council’s Policy and Resources Committee where it was considered that this might

help in giving prominence to the implications of a decision which would assist members in coming to a decision.

- 2.6 The Integration Scheme for the IJB was approved by the Council and the Health Board at meetings on 11th and 18th February 2015 respectively (Min Ref SIC 05/15) and the IJB was formally constituted on 27th June 2015. The inaugural meeting of the IJB, which confirmed the full membership of the IJB, was held on 20 July 2015 (Min Ref IJB 01/15). Since their appointment to the IJB, the voting members appointed by the Council and the Health Board have attended meetings of the H&SCI Steering Group.
- 2.7 At the second meeting of the IJB on 29 July 2015, the IJB approved their Standing Orders, Scheme of Administration and Financial Regulations (Min Ref IJB 02/15) and at a meeting on 25 August 2015, the IJB approved proposals to establish the IJB Audit Committee, approved the IJB Risk Management Strategy and Risk Register and the IJB Participation and Engagement Strategy.
- 2.8 The IJB also approved proposals with regard to a single Clinical, Care and Professional Governance framework for all health and social care services for the Council and Shetland NHS Board. These proposals are subject to approval by the Council and the Health Board.
- 2.9 If approved by the Council and the Health Board, the new Joint Clinical, Care and Professional Governance Committee (CCPGC) would report separately to the three agencies advising on specific aspects of service delivery in accordance with each agency's responsibilities as follows:

Functions	Agency/Committee
Delegated health and social care functions as set out in the Integration Scheme	IJB
Other health care services	Shetland NHS Board
Children's Social Work	SIC Education and Families Committee

The IJB would advise and/or direct the Council and the Health Board as relevant and appropriate with regard to matters affecting the delivery of services covered by the delegated functions as set out in the Integration Scheme.

- 2.10 Further work is required to finalise the detail of the proposals in terms of operational procedures and arrangements particularly with regard to social work where previously there has been no equivalent formal committee structure covering professional governance arrangements in this way. There is considerable interest in this proposal at a national level and across other health and social care partnerships where the approach has been to create a separate clinical and care governance committee for the IJB and retain

different and separate arrangements for children's social work and social care where this is not included in the integrated service model.

The IJB Audit Committee

- 2.11 The IJB is advised to have its own Audit Committee under the terms of the Public Bodies (Joint Working) (Scotland) Act 2014, the associated Regulations and Guidance. The membership and Terms of Reference of the IJB Audit Committee is attached below at Appendix 1.
- 2.12 The Scottish Government established the Integrated Resources Advisory Group (IRAG) to consider the financial implications of integrating health and social care and to help develop professional guidance. An extract from the guidance which covers the role of IJB audit committees is attached at Appendix 2.
- 2.13 IRAG has made a number of recommendations, including the requirement for each IJB to put in place systems to establish good governance arrangements and proportionate internal audit arrangements.
- 2.14 The Council and the Health Board have agreed that the Council's internal audit service will undertake the role of internal audit for the IJB in Shetland. Time has been set aside for the IJB in the Council's service plans for internal audit activities in 2015/16 and the IJB has appointed the Council's Executive Manager Audit, Risk and Improvement as the Chief Internal Auditor for the IJB.
- 2.15 IRAG recognises that the post-integration period is a critical stage in the process of implementing the new arrangements for health and social care integration and has recommended that IJB Audit Committees are provided with a Post Integration Report within the first year of the establishment of the IJB to evaluate the actual risk and financial performance against the post integration assumptions, performance on relevant integration milestones, to identify lessons learned and assess whether the IJB is on course to deliver long term benefits. Work on a Post Integration Report will be included in the IJB Audit Plan.
- 2.16 The audit report produced in May 2015 by Scott Moncrieff regarding the work undertaken to establish the IJB in Shetland will inform the work on the Post Integration Report. The audit report by Scott Moncrieff is attached at Appendix 3 for information. This report has been presented to the IJB for information. Scott Moncrieff currently provides internal audit services to the Health Board.

External Audit for the IJB

- 2.17 It is understood that the external auditor for the IJB will be the same as the external auditor for the Council i.e. Audit Scotland.

Ongoing Support Arrangements for the IJB

- 2.18 Corporate services support is co-ordinated by the Council's Director of Corporate Services and support for strategic planning for the IJB is provided by the Health Board's Director of Public Health who is also the Director of Planning for the Health Board. Senior members of staff will continue to meet

on a regular basis in order to review support services work programmes to ensure support services are co-ordinated and work to join up and streamline processes continues.

- 2.19 Social Services Committee and CHP Committee agreed at a meeting on 30 July 2015 that once the Transition Programme is closed down, a new liaison group would be formed to provide a forum where representatives of the Council, the Health Board and the IJB can meet informally to discuss any issues with regard to the governance arrangements and in particular with regard to the budget allocations for the delegated functions. The proposed remit and membership is attached at Appendix 4. The Liaison Group would act as a steering group for the six month review of the governance arrangements including the arrangement for the appointment of the Chief Financial Officer of the IJB

3. Recommendations

3.1 It is recommended that the Council's Audit Committee:

- 1. Consider the information presented in this report and the appendices;**
- 2. Advise the Council and its Committees as appropriate of their views; and**
- 3. Discuss and advise on any future reports required by the Committee on the work of the Health and Social Care Partnership.**

4. Conclusions

- 4.1 This report presents a summary of the work undertaken locally to establish the new model for integrated health and social care services in Shetland in order to comply with the Public Bodies Act.
- 4.2 The work of the Transition Programme means that the IJB governance framework as required by the Integration Scheme has reached the stage where any future changes can be taken forward through the normal working arrangements put in place to support the IJB. These are set out in the Integration Scheme with corporate services support co-ordinated by the Council's Corporate Services and support for strategic planning for the IJB provided by the Health Board's Director of Public Health who is also the Director of Planning for the Health Board.

Contact Details:

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11 September 2015

Appendices

- Appendix 1: IJB Audit Committee Draft Terms of Reference
- Appendix 2: Extract from IRAG Guidance
- Appendix 3: NHS Shetland Internal Audit Report, Review of Governance, Risk Management and Project Management for the Integrated Board by Scott Moncrieff
- Appendix 4: Remit and Membership of the H&SCI Liaison Group

Background Documents

- H&SCI Integration Scheme [Integration Scheme](#)
- Joint Strategic (Commissioning) Plan [Strategic Plan](#)

Shetland Health and Social Care Partnership Integration Joint Board Audit Committee Terms of Reference

1. INTRODUCTION

- 1.1 The Integration Joint Board (IJB) is required to properly manage its financial affairs. A key component to fulfilling this obligation would be to have an Audit Committee. .
- 1.2 The IJB Audit Committee was established as a Standing Committee of the IJB *on date to be inserted*.

2. PURPOSE OF THE IJB AUDIT COMMITTEE

The IJB Audit Committee will have a key role with regard to:

- 2.1 Ensuring sound governance arrangements are in place for the IJB; and
- 2.2 Ensuring the efficient and effective performance of Shetland's Health and Social Care Partnership in order to deliver the outcomes set out in the Integration Scheme.

3. CONSTITUTION OF THE IJB AUDIT COMMITTEE

Appointments

- 3.1 The IJB will make all appointments to the IJB Audit Committee including the appointment of the Chair and Vice-chair of the Committee.

Membership

- 3.2 The Committee will consist of four voting members of the IJB comprising two elected members of the Council and two non-executive members of the Health Board.

Chair and Vice-Chair

- 3.3 The Chair and Vice-Chair of the IJB Audit Committee will be voting members of the IJB appointed from amongst those members appointed to the IJB Audit Committee; one will be an elected member of the Council and the other will be a non-executive member of the Health Board. They may not also be either the Chair or Vice-Chair of the IJB.
- 3.4 The role of Chair and Vice-Chair will rotate every 3 years with the first rotation taking place in May 2017.

Quorum

- 3.5 In accordance with the IJB Standing Orders for meetings, two members of the Committee will constitute a quorum, being one elected member of the Council and one non-executive member of the Health Board.

Frequency of Meetings

- 3.6 The Committee will meet at least quarterly.

In Attendance

- 3.7 The Chief Officer, Chief Finance Officer and Chief Internal Auditor and other professional advisers or their nominated representatives will normally attend meetings. Other persons shall attend meetings at the discretion of the Chair.
- 3.8 The external auditor will be invited to attend meetings of the IJB Audit Committee.

Sub-groups

- 3.9 The Committee may at its discretion set up working groups for specific tasks. Membership of working groups will be open to anyone whom the IJB Audit Committee considers will be able to assist in the task assigned. The working groups will report their findings and any recommendations to the IJB Audit Committee.

4. POLICY AND DELEGATED AUTHORITY

- 4.1 The IJB Audit Committee is authorised to request reports and to make recommendations to the IJB on any matter which falls within its Terms of Reference.

5. REMIT

- 5.1 The IJB Audit Committee will review the overall internal control arrangements of the IJB and make recommendations to the IJB regarding signing of the Governance Statement and any other matters within its Terms of Reference.
- 5.2 Specific areas of responsibility include:

Performance Monitoring and Best Value

- 1. To ensure that the Chief Officer establishes and implements satisfactory arrangements for reviewing and appraising service performance against agreed objectives, levels and standards of service.
- 2. To consider reports on performance and to review progress against the national outcomes and the outcomes in the Strategic Plan.
- 3. To review and advise on Best Value and performance initiatives.

Audit

- 1. To review and recommend the annual Internal Audit Plan to the IJB.
- 2. To oversee and review progress on actions taken on audit recommendations and report to the IJB on these as appropriate.
- 3. To consider monitoring reports on the activity of Internal Audit.
- 4. To consider External Audit Plans and reports as appropriate; any matters arising from these and management actions identified in response.
- 5. To review risk management and insurance arrangements and receive regular risk management updates and reports.
- 6. To ensure compliance with IJB governance arrangements and strategies e.g. Risk Management Strategy, Participation and Engagement Strategy.
- 7. To be responsible for setting its own work programme including reviews in order to properly advise the IJB on matters covered by the IJB Audit Committee's Terms of Reference.

Final Accounts

1. To consider the annual financial accounts of the IJB and any related matters before submission to and approval by the IJB.

Standards

1. To promote the highest standards of conduct and professional behaviour by IJB members in line with The Ethical Standards in Public Life etc (Scotland) Act 2000;
2. To assist IJB Members in observing the relevant Codes of Conduct.

Ends.

**Extract from
Integrated Resources Advisory Group Financial Guidance
2nd Draft Version 1**

Note: This revised version of the IRAG Guidance is expected to be available on Scottish Government website in early course. Meantime, a full version can be provided by SIC Corporate Services.

2.4 Internal audit

- 2.4.1 It is the responsibility of the Integration Joint Board to establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. This will include determining who will provide the internal audit service for the Integration Joint Board and nominating a Chief Internal Auditor.
- 2.4.2 The operational delivery of services within the Heath Board and Local Authority on behalf of the Integration Joint Board will be covered by their respective internal audit arrangements as at present.
- 2.4.3 The internal audit service should undertake its work in compliance with the Public Sector Internal Audit Standards¹.
- 2.4.4 To ensure that the risk based audit plans for the Integration Joint Board, Local Authority and Health Board are co-ordinated to ensure proper coverage, avoid duplication of efforts and determine areas of reliance from the work of each team, it is recommended that the Chief Internal Auditors for each of the respective bodies share information, co-ordinate activities with each other and with other external providers of assurance and consulting services.

Will there be a separate internal audit plan for the Integration Joint Board?

- 2.4.5 Yes; it is recommended that there should be a risk based internal audit plan. Until the Integration Joint Board is empowered to provide services (**Section 12 (1)(c)(d)**), the Chief Internal Auditor of the Integration Joint Board, in developing the audit plan, would be expected to consider the risks associated with:
- ☐ The Strategic Plan and planning process;
 - ☐ Financial plan underpinning the Strategic Plan; and
 - ☐ Relevant issues raised from the partner Health Board and Local Authority internal auditors
- 2.4.6 The risk based audit plan should be developed by the Chief Internal Auditor of the Integration Joint Board and approved by the Integration Joint Board or other committee (see 2.6 Audit Committees). It is recommended that it is shared with the relevant committees of the Health Board and Local Authority.

Who will provide the internal audit service?

¹ Relevant internal audit standard setters adopted set of common internal audit standards from 1 April 2013

2.4.7 It is recommended that internal audit service should be provided by one of the internal audit teams from the Health Board or Local Authority. It is recommended that the arrangements for the internal audit service provided to the Integration Joint Board should be set out in a service level agreement.

2.4.8 It is recommended that the Chief Internal Auditor from either of the Health Board or Local Authority fulfil this role in the Integration Joint Board in addition to their role as Chief Internal Auditor of their respective Authority.

How will the internal audit be reported?

2.4.9 The Integration Joint Board Chief Internal Auditor should report to the Integration Joint Board on the annual audit plan, delivery of the plan and recommendations and should provide an annual internal audit report including the audit opinion.

2.4.10 It is recommended that the Integration Joint Board annual internal audit report is shared with the partner Health Board and Local Authority through the reporting arrangements in those bodies for internal audit.

2.4.11 Reports on each internal audit engagement will be reported to the Chief Officer. The IJB should determine any other reporting arrangements it requires from the Chief Internal Officer Auditor.

2.5 External Audit

Will the Integration Joint Board require an external audit?

2.5.1 Yes; this will be specified in the legislation (**Section 13**).

Who will carry out the external audit?

2.5.2 The Accounts Commission will appoint the auditors to the Integration Joint Board.

(**Section 13**).

2.6 Audit Committees

Will the Integration Joint Board be required to have an audit committee?

2.6.1 The Integration Joint Board should make appropriate and proportionate arrangements, for consideration of the audit provision and annual financial statements, which are compliant with regulations and good practice governance standards in the public sector. This should include any reports from internal audit, external audit and the annual accounts (see section 3). For example this may be an audit committee which meets before the main Integration Joint Board meeting two or three times per year.

Who may be the members of the audit committee?

- 2.6.2 It will be the responsibility of the Integration Joint Board to agree the membership having regard to the agreed remit, skills and good practice for a public sector audit committee². It is anticipated that members of the Integration Joint Board will serve in this capacity.

² On Board: A Guide for Board Members on Public Bodies in Scotland, 2006 , section 4.8 Audit Committees
<http://www.scotland.gov.uk/Topics/Government/public-bodies/On-Board>



NHS Shetland
Internal Audit Report
Review of Governance, Risk
Management and Project
Management for the Integrated
Board
May 2015



Scott-Moncrieff
business advisers and accountants

NHS Shetland

Internal Audit Report

Review of governance, risk management and project management for the Integrated Board

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Introduction

This audit will review the progress made by NHS Shetland in meeting the pre-integration provisions included in the Scottish Government “Guidance for Integration Financial Assurance”, to support the preparation of the 2014/15 Governance Statement.. The control objectives included in this review are:

Governance

- whether an Integrated Board is in place and attended by all relevant stakeholders;
- whether the Board has clear terms of reference and the decision making processes are clear;
- whether the Board is receiving sufficient information to take informed decisions;

Risk management

- whether a risk process has been developed to monitor and assess risks facing the Board;
- is the risk process embedded into the day to day activities of the Board;

Project management

- is there a project plan and is it broken into appropriate works stream and does it contain relevant milestones;
- does the Board receive regular updates as to progress against the project milestones;

Finance

- is there clarity over the services the Board will be responsible for and is the budget transfer aligned to those services;
- are mechanisms for addressing any overspend understood;

Background

The Scottish Government has issued guidance on providing financial assurance for health and social care integration. Guidance for Integration Financial Assurance states that the assurance process should enable the integration authority and the delegating local authority and health board to identify the resources to be delegated and the risks associated with the integrated functions.

Integration Joint Boards will be established during 2015/16 and so will not be able to formally participate in the financial assurance process until that point. In the interim, the Scottish Government have recommended that:

- the shadow Chief Officer and the shadow Chief Finance Officer work with the Health Board and Local Authority Directors of Finance in carrying out the assurance work; and
- the Health Board and Local Authority internal auditors provide a report to the Health Board and Local Authority audit committees on this assurance process.

A recent Audit Scotland Technical Bulletin (2015/01) recommended that the assurance report provided is considered in the preparation of the 2014/15 Governance Statements of both bodies.

Summary of findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Further details, along with any improvement actions, are set out in the Management Action Plan.

No	Control Objective	Control objective assessment
1	Governance	GREEN
2	Risk management	GREEN
3	Project management	GREEN
4	Finance	GREEN

Assessment	Definition
BLACK	Fundamental absence or failure of key control procedures - immediate action required.
RED	The control procedures in place are not effective - inadequate management of key risks.
YELLOW	No major weaknesses in control but scope for improvement.
GREEN	Adequate and effective controls which are operating satisfactorily.

Conclusion

We conclude that the Board has made appropriate pre-integration arrangements regarding the Shetland Islands Health and Social Care Partnership (SIHSCP)

The Council and Board have worked in partnership through the Community Health Partnership Committee for a number of years with a shared joint lead post. This joint appointment will become the Chief Executive of the SIHSCP.

An appropriate governance framework has been established for the transition to the SIHSCP. This transition is being managed by a Transition Programme Board which consists of senior individuals from the council and board. The Transition Programme Board has established 9 work streams covering areas required for the successful establishment of the SIHSCP. These work streams are monitored monthly through progress reporting against an agreed work plan. Risks to the successful implementation are regularly considered and the project is being appropriately managed.

The local partnership finance team has been working to address developments in financial reporting and management information requirements. The Integration Scheme covers how over and under spends should be dealt with. The minutes of the finance work stream confirm that any over spends will remain the responsibility of the host body.

The draft Integration Scheme is still with the Scottish Government for approval although this approval is anticipated in the near future. A shadow Integrated Joint Board will be established before the Board goes fully live in April 2016.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Appendix 1 – Health and Social Care Integration checklist

Requirement	Yes	No	Observation
Governance			
1. Is there a project Board or similar decision making body attended by all relevant stakeholders, in place and maintaining a high level monitoring role over the project and ensuring decisions made are adequately considered?	✓		A Transition Programme Board was established by SIC and NHSS which has been meeting at least monthly since September 2014. Items reviewed include a Transition Programme action plan. Nine work streams have been established.
2. Are roles and responsibilities clearly articulated and understood including: <ul style="list-style-type: none"> • Terms of reference, role descriptions and delegated authorities? • Clear identification of the management structure and decision making process within the project, including whop is acting as a project manager? • A process for the escalation of issues to the appropriate forum, where decisions will be made on the actions required to address them? 	✓		Terms of reference were established as part of the Programme Initiation Document (PID) for the Transition Programme in September 2014. These included: aims and objectives, project brief and organisation and reporting structure. The Transition Programme Board reports to a Steering Group which includes both chief executives and the chairmen of the board and council committee. Ultimately any issues would be escalated to the respective committees of the Board and Council.
3. Is the project Board receiving regular information/evidence that the project and key actions are under control and risks are being managed in terms of delivery on time, within budget and the expected outcomes originally intended?	✓		The Transition Programme Board receives updates each meeting against the work stream action plans. The action plan includes a risk assessment against each of the work streams.
4. Is there a realistic and sufficiently detailed project plan to ensure that tasks relevant officers' responsibilities and timescales for action and decision making points are clear and subject to regular review/monitoring.	✓		The work streams cover all of the areas one would expect to see covered and the action plan appears comprehensive. Actions and updates from the work streams are considered at the monthly meetings.

Requirement	Yes	No	Observation
5. Are there clear governance arrangements in place to ensure that when project issues cross organisational boundaries there are arrangements in place to ensure sustainable alignment with corporate objectives and management arrangements for all organisations involved?	✓		Any project issues are raised at the Transition Programme Board and escalated to the Steering Group and ultimately the governance committees of the Board and Council. The CHPC and Social Services Committee have since late 2014/15 been holding joint meetings to discuss the collective agenda.
6. Is there a requirement for ongoing independent review and challenge of the project to provide assurance that the project continues to be effective and if so, have any such arrangements been defined and approved?	✓		A joint budget seminar was held where by councillors and non-executive directors of the Board reviewed and challenged the IJB budget assumptions. The Steering Group will challenge the Transition Programme Board on matters as they arise.
Risk management			
7. Has a risk register been developed, which assesses the likelihood and impact and the resultant relative importance of individual risks, and are the results used to inform the management of project risks and report to the Project Board?	✓		Each of the work streams developed a risk register and this is reported back to the Transition Programme Board as part of the action plan update.
8. Are the project's risk processes consistent with, and informed by, SIC and NHSS's risk management frameworks?	✓		Project risks are considered by the Transition Programme Board. The risk management strategy and procedures build upon the existing joint risk management processes in place. A first shared risk management strategy will be prepared and presented to the IJB by 30 June 2015.
9. Is the project's risk management framework embedded within the day-to-day project processes, such as constraints, assumptions, risks, dependencies?	✓		Each work stream established a risk register and updates are regularly reported as part of the action plan.
10. Has the Project Board established tolerances for costs, time and quality for the project and put in place agreed clear escalation levels should the level of risk be outside agreed limits?	✓		Escalation procedures are in place and were included within the PID.

Requirement	Yes	No	Observation
Project management			
11. Is there a project plan broken down into manageable work streams and relevant project milestones which are meaningful to the Project Board to allow accurate and frequent tracking of progress on the project and maximise visibility of critical path activities and any inter-dependences?	✓		<p>Work streams cover: Corporate governance, Finance, ICT, Information governance: data sharing, Staff governance, Care and Clinical Governance, Communications, Single management structure adult services, Localities. Some of these work streams were already in place eg Local Partnership Finance team and these have been assimilated into the overall project.</p> <p>Costs and timescales are included in an action plan which is updated monthly.</p>
12. Does the Project Board regularly receive an analysis of progress against plan/key milestones and/or the effects of any slippage in time, cost, scope or quality?	✓		Progress against the action plan is monitored by the Transition Programme Board on a monthly basis.
13. Has the Project Team developed a resource plan for the duration of the project, in order to inform the Project Board on future and on-going resource requirements?	✓		The Transition Programme Board members are carrying out this work as part of their on-going duties. Administrative support has been provided to the Board through funding from the Scottish Government.
14. Does the Project Team have sufficient allocated resources and the necessary skills and/or access to relevant specialist expertise to achieve the project objectives successfully?	✓		The Transition Programme Board covers leads from each work stream and is chaired by the Director of Corporate Services, SIC. Membership is at an appropriately senior level and includes those disciplines one would expect to be covered.
15. Is there regular reporting of performance, against pre-defined criteria on cost, time and quality and project milestones to the Project Board and to other key stakeholders (e.g. SIC and NHSS) which clearly highlights the key issues affecting the project at the time of	✓		Minutes have been produced of the Transition Programme Board meetings and feedback to the council and board takes place as and when required.

Requirement	Yes	No	Observation
reporting?			
Finance			
16. The allocation of services to The Project Board is clear and the proposed budget allocation made by NHSS accurately reflects the budgets for the services that the Project Board will administer.	✓		As part of the budget setting process, council members and NHS board members met in a joint session in November to review budgets. The Director of CHSC has been directly involved in the budget setting process and was formerly Director of Clinical Services for the Board so has an understanding of the budget.
17. Significant assumptions within the NHSS budgets for health (including allowances for demographic change) and deviations from previous experience should be identifiable and understood.	✓		NHS budgets have been set in line with the current establishments and needs of the service. In particular they reflect the capacity requirements of a rural and islands setting.
18. The mechanisms for addressing and allocating any over spend by the Integrated Board are understood.	✓		This was discussed and agreed by the local joint finance work stream. Any over spends against agreed plans will initially sit with the host body. Capital budgets have not been agreed as part of the IJB budget and will continue to lie with the SIC or NHSS.

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Shetland's Health and Social Care Partnership Liaison Group Terms of Reference

1. INTRODUCTION

- 1.1 Shetland Islands Council (the Council) and Shetland NHS Board (the Health Board) agreed in July 2014 to implement a Body Corporate model of integration under the terms of the Public Bodies (Joint Working) (Scotland) Act 2014.
- 1.2 Shetland's Integration Joint Board (IJB) was formally established on 27 June 2015.
- 1.3 The work to implement the Body Corporate model of integration for Shetland was undertaken through a Transition Programme using Prince2 methodology. A key element of the Programme was the work of a Steering Group which brought together senior representatives of the Council and the Health Board.
- 1.4 Members of the Steering Group identified the need for an informal liaison group, similar in composition to the Steering Group, which would meet on a regular basis once the Transition Programme had been concluded. The new group would bring together senior representatives of the Council, the Health Board and the IJB to discuss matters relating to the governance and funding arrangements of the Body Corporate model in Shetland. The outcome of these discussions would inform the work of Shetland's Health and Social Care Partnership.

2. REMIT OF THE HEALTH AND SOCIAL CARE PARTNERSHIP LIAISON GROUP (H&SCPLG)

- 2.1 To encourage the development of an open, trusting and supportive culture which recognises and explores solutions to the challenges presented by differing approaches to corporate governance arrangements within the Council and the Health Board.
- 2.2 To provide a forum for open, honest dialogue regarding funding and other matters affecting the work of the IJB.

- 2.3 To ensure that there is commitment and support at the highest level in the Council and the Health Board for the work of the IJB.
- 2.4 To support and encourage effective leadership for all health and social care services across all three agencies
- 2.5 To provide advice to the Council, the Health Board and the IJB on any matters pertaining to the governance and funding arrangements of the IJB.
- 2.6 To provide a sounding board for any issues relating to the integration of health and social care services locally.
- 2.7 To assist in an advisory role in the resolution of disputes between the agencies e.g. with regard to the funding allocations for the IJB.

3. COMPOSITION

- 3.1 The **H&SCPLG membership** comprises:

- The Convener of the Council
- The Chair of the Health Board
- The Chair and Vice Chair of the IJB
- The Chief Executive of the Council
- The Chief Executive of the Health Board
- The Chief Officer of the IJB

Members of the H&SCPLG may nominate a substitute for any meeting of the Group.

- 3.2 The following personnel will be **in attendance**:
- Director of Corporate Services, Shetland Islands Council
(IJB corporate services support role)
 - Director of Public Health, Shetland NHS Board
(IJB strategic planning support role)
- 3.3 Other representatives of the Council, the Health Board and/or the IJB may be **invited to attend** for specific topics.
- 3.4 Meetings of H&SCPLG will normally be chaired by the chair of the IJB.

4. REPORTING MECHANISMS

- 4.1 Each member of the H&SCPLG will take responsibility to ensure that information is disseminated within their own agency as appropriate in accordance with their substantive role in that agency acting in the capacity in which they are a member of the H&SCPLG.

5. ADMINISTRATION ARRANGEMENTS

- 5.1 A brief note of each meeting will be prepared to assist members of H&SCPLG in disseminating information within their own agency as per paragraph 4.1.
- 5.2 The H&SCPLG will meet quarterly. The dates will be set a year in advance and synchronised with key dates in the IJB Business Programme including the budget setting and allocation of funds for the IJB.
- 5.3 Additional meetings will be arranged as required following discussion with the Chairs of the three agencies.
- 5.4 Any items for discussion or requests for additional meetings should be sent to the Director of Corporate Services, who will book a room, send out a notice of the meeting along with a list of items for discussion and any supporting papers or other information.

6. DELEGATED AUTHORITY

- 6.1 The H&SCPLG is an informal liaison group which has no delegated authority from any of the agencies represented on the Group.

7. RESOLUTION OF CONFLICT BETWEEN THE AGENCIES

- 7.1 The H&SCPLG may be asked for advice by one or more of the agencies represented on the Group with regard to any matter relating to the local governance arrangements for health and social care integration that is unclear.

**Special Audit Committee****22 September 2015****Audit Scotland Report on Public Performance Reporting****Report : IA-21-F****Executive Manager – Audit, Risk and Improvement****Corporate Services****1 Summary**

- 1.1 This report gives Members an opportunity to consider the contents of the recent Accounts Commission / Audit Scotland report on Public Performance Reporting (PPR), and to consider the Council's proposed action plan (as set out in Sections 3.5 to 3.9 of the report) in response to that report.

2 Decision Required

- 2.1 The Audit Committee should consider the contents of the Accounts Commission / Audit Scotland report, the Council's proposed action plan and recommend any further performance reporting activity it wishes to see.

3 Detail

Appendix A contains an Audit Scotland report, received by the Chief Executive on 28 July 2015. The report to the Audit Commission from Audit Scotland aims to:

- Report on Council's approaches to responding to the 2012 Statutory Performance Information (SPI) Direction
- Provide an update to the Commission on the development of the Local Government Benchmarking Framework (LGBF) SPI 3.
- Provide an update to the Commission on how our approach to evaluating and supporting PPR has developed.
- Provide the Commission with an assessment of the quality of PPR against the corporate management themes under SPI 1 and the service performance themes under SPI 2, as set out in the Direction.

- Identify where there has been improvement in how councils are reporting their performance and where further improvement is still required.
 - Identify a sample of good practice examples
- 3.1 Appendix B contains the breakdown of this Council's PPR assessment.
- 3.3 As you will see from page 7 of the report Audit Scotland have split an overall assessment of Councils into 4 quartiles. This is based on the 18 themes relating to SPI 1 & SPI 2 which form 18 of the 26 categories assessed. Shetland Islands Council are in the third quartile.
- 3.4 It should be noted that in the assessment of 2012/13 the Council was not compliant in any of the categories. So whilst there is work still to do, there has been significant improvement. This is acknowledged by Audit Scotland in their 2014/15 annual report to Members and the Controller of Audit.
- 3.5 Full compliance has been seen across some services, for example, by using the Planning & Performance Framework, Planning have now met the evidence requirement. The Asset Strategy 2014-16 contains adequate information for Assets to also meet the evidence requirement.
- 3.6 Areas for Improvement include feedback with our customers. How have we reacted to feedback and how have we used that to improve services. There is also a lack of information available, for example, on Sustainable Development – Energy consumption figures, vehicle fleet CO₂ emissions, and derelict land. This may mean that the figures are not collected, therefore we would need to start collecting this information.
- 3.7 It is hoped that ongoing work by Performance and Improvement staff working in conjunction with relevant officers will improve the councils PPR score. This includes activities such as introducing a performance related poster which is displayed in our public receptions and officer time spent with services.

Action Plan

- 3.8 The Audit Scotland / Accounts Commission report was presented to Corporate Management Team on 25 August with a proposed action plan.
- 3.9 Responsible Officers / Services have been identified and agreed by Corporate Management Team.
- 3.7 Officers identified have been provided with the report highlighting the specific areas they are deemed to be responsible for. An action plan is to be submitted and agreed with the Performance & Improvement Officer by the end of September 2015 with information required for 2014/15 being provided by November 2015.
- 3.8 Tasks that require undertaken by officers must be included in 2016/17 Service Plans and if deemed of such significance should also feature in Directorate Plans.

- 3.9 Corporate Management Team to be appraised of progress by the end of 2015.

4 Implications

Strategic

- 4.1 Delivery On Corporate Plan Commitments – This report is in line with our commitment: “We will have strong improvement-led and performance-driven culture and systems”
- 4.2 Community /Stakeholder Issues – PPR is an effective way of providing information to our Community / Stakeholders.
- 4.3 Policy And / Or Delegated Authority – As outlined in Section 2.6 of the Council’s Scheme of Administration and Delegations, the remit of the Audit Committee includes promoting good internal control, financial management, risk, governance and performance management.
- 4.4 Risk Management – Failure to undertake a robust approach to Performance Reporting may risk non-compliance with Statutory and Corporate Plan commitments and result in censure from audit Scotland. National PPR is an opportunity for the Council to gauge local performance and gain a perspective on how we are performing in relation to other local authorities
- 4.5 Equalities, Health and Human Rights – Equalities reporting is an aspect of PPR.
- 4.6 Environmental – Environmental issues should be reported as part of PPR.

Resources

- 4.7 Financial – No direct implications.
- 4.8 Legal and Administration – No direct implications.
- 4.9 Human Resources – No direct implications.
- 4.10 Assets And Property – No direct implications.

5 Conclusions

- 5.1 This report gives the Members of the Audit Committee an opportunity to consider the contents of the attached Audit Scotland report, the Councils proposed action plan and recommend any further performance reporting it wishes to see.

For further information please contact:

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List of Appendixes

Appendix A– Audit Scotland Report – Public Performance Reporting

Appendix B – Shetland Islands Council - Public Performance Reporting Assessment

MEETING: 11 JUNE 2015

REPORT BY THE DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

STATUTORY PERFORMANCE INFORMATION 2013/14: AN EVALUATION OF COUNCILS' RESPONSES TO THE 2012 DIRECTION

Purpose

1. This report provides the Accounts Commission with a summary of how well councils have met the requirements of its Statutory Performance Information (SPI) Direction 2012. The aim of the report is to:
 - Provide the Commission with an evaluation of how well councils have responded to:
 - SPI 1 and 2 (by reporting a range of corporate management and service performance information, sufficient to demonstrate Best Value)
 - SPI 3 (by reporting service performance in accordance with the requirements of the Local Government Benchmarking Framework).
 - Identify where public performance reporting (PPR) has improved and where further improvement is still required in relation to councils demonstrating a broad and balanced approach to PPR that reflects the requirements of the 2004 statutory guidance¹.
 - Identify a sample of good practice examples.

Structure of the report

2. The report is structured into a short update followed by appendices giving further detail on the assessment, good practice and our methodology. The attached appendices are:
 - [Appendix 1](#). Indicators in the SPI Direction 2012.
 - [Appendix 2](#). Methodology/sample assessment for an anonymised council.
 - [Appendix 3](#). 2015 assessments – by SPI theme.
 - [Appendix 4](#). 2015 assessments – by council.
 - [Appendix 5](#). Examples of good practice.

¹ Local Government in Scotland Act 2003. Best Value [Statutory Guidance - Measures to Support Public Performance Reporting](#). Scottish Executive, Edinburgh, 2004

Background

3. The Commissions' SPI Direction 2008 marked a significant shift in approach to SPIs, encouraging councils to develop their PPR alongside a shorter set of comparable indicators than had previously been prescribed by the Commission. In 2011, Audit Scotland produced an evaluation of councils' response to the Direction 2008. A similar annual assessment has been reported to the Commission each following year.
4. The Direction 2012 marked the next step in the change of approach with the introduction of SPI 3, which requires councils to report their performance in accordance with the requirements of what is now the Local Government Benchmarking Framework. SPIs 1, 2 and 3 in the Direction 2012 are set out in [Appendix 1](#).
5. **Exhibit 1** clarifies the relationship between the year each Direction is published, the financial year to which it pertains and when performance is reported and subsequently assessed.

Exhibit 1

SPI Directions and corresponding financial years

The Direction 2012 applied to councils' performance during 2013/14.

Direction	2008	2009	2010	2011	2012
About performance in year	2009/10	2010/11	2011/12	2012/13	2013/14
Council report the performance publically	2010/11	2011/12	2012/13	2013/14	2014/15
Audit Scotland assessment in Spring	2011	2012	2013	2014	2015

-
6. This report evaluates councils' response to the Direction 2012 in reporting performance for the 2013/14 financial year. It is the fifth year that we have reported on councils' approaches to reporting performance in relation to SPIs 1 and 2 and the first year that the evaluation includes SPI 3.

Audit Scotland's approach to evaluating the quality of councils' response to the SPI Direction 2012

7. In June 2014, the Commission considered the evaluation of reporting against the Direction 2011. The report responded to a previous request from the Commission for more transparency in the process and for the inclusion of examples of good practice to share with councils. At the meeting, the Commission recognised the progress made and requested that we consider what further information from the process could be provided to councils to support continuous improvement.
8. In July 2014, the Chair of the Commission wrote to all councils enclosing a copy of the 2014 evaluation report and a copy of their individual assessment. Since then, we have sought feedback from stakeholders [including the Improvement Service and the Scottish Performance Management Forum (SPMF)] about the process and assessments. The feedback indicated there is an appetite for more information and more transparency in the assessment process. The feedback also showed some indications of a compliance culture, with the assessment information being used by councils as quantitative measure and a league table, or as something to pass rather than a tool for supporting improvement.

9. In September 2014, appointed auditors completed and submitted a review of each council's planned arrangements for PPR for the forthcoming year. This is the first time this review has taken place. The detailed reports from auditors have provided a significant amount of information that has been a useful additional resource for the evaluation of the quality of reporting against the SPIs set out in this report.
10. In response to the Commission's request and the feedback from stakeholders, we have made a number of changes to the assessment process. In particular, the process has been undertaken with a clear aim of providing detailed individual reports for each council to support improvement. An example is set out at [Appendix 2](#).
11. Each assessment has been peer reviewed as a cross-check within the assessment team and a factual accuracy check has taken place with each council. This more comprehensive testing of the assessments has been generally welcomed by the appointed auditors and councils.
12. In previous assessments, councils were assessed as either 'fully', 'partially' or 'not' meeting requirements. For this year's evaluation we introduced a simpler and clearer assessment scale which also promoted a stronger focus on continuous improvement. This involved assessed councils as either fully meeting requirements ('Yes') or having an 'area for improvement' (AFI).
13. The change in methodology means it is not possible to make exact comparisons between the 2014 and 2015 assessments. However, it is evident that there remains a significant gap between top-performing councils and those that are still finding PPR challenging across a broad range of the characteristics we have reviewed.
14. The assessments are structured to be as objective as possible but an element of subjectivity is unavoidable when assessing the quality of the information and how it is presented. The team worked closely together and cross-checked each others' judgements to ensure consistency in the assessments. Each council's PPR was assessed against a framework of quality themes relating to SPIs 1, 2 and 3, as well as a number of overarching quality themes, including whether there is:
 - a structured approach to PPR, with clear presentation of information
 - effective use of customer satisfaction information
 - a balanced picture of performance
 - a good use of comparators
 - a good use of financial and cost information
 - evidence of the council's dialogue with the public
 - evidence of the accessibility of information.
15. Examples of the quality themes used as part of the assessment are set out in **Exhibit 2**. The team reviewed each council's PPR arrangements to identify whether there was evidence of the characteristics being met or if there were areas for improvement. [Appendix 2](#) illustrates how the themes were assessed for an individual anonymised council.

Exhibit 2

Examples of themes and assessment characteristics

Each council should report a range of information sufficient to demonstrate that it is securing Best Value in relation to:

SPI/Quality themes	Public performance reporting (PPR) characteristics
SPI 1/Responsiveness to communities <ul style="list-style-type: none"> Engagement Customer feedback Satisfaction survey Consultation Citizen panel Customer care Complaints FOI requests Contact centre 	A range of PPR info gives a broad overview of performance.
	PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> how well the council meets the needs of specific communities data from its surveys and consultations how it has reacted to feedback how it has improved services.
	The council actively seeks feedback on corporate and service issues.
	Complaints data are reported for all services.
	It is easy to make a complaint or FOI request.
SPI 2/Community care <ul style="list-style-type: none"> Community care Delayed discharge Respite care Care satisfaction Waiting times Service user survey Telecare Care staff training Personal care 	A range of PPR info gives a broad overview of performance.
	PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> service user satisfaction number of people waiting longer than target time for service percentage of personal carers qualified to the Scottish Social Services Council standard.
	PPR includes commentary on the integration of adult health and social care and other relevant policy developments, eg Self-Directed Support.
	PPR has clear links to higher-level strategic themes in the Single Outcome Agreement (SOA) and/or community planning partnership (CPP) plan/strategy
SPI 3/LGBF <ul style="list-style-type: none"> Framework Benchmarking Service Performance 	The council reports its performance against the indicators in the Local Government Benchmarking Framework (LGBF).
	The council reports its performance at the 'mylocalcouncil' benchmarking website.
Overall quality aspects/ Structured approach to PPR, with clear presentation of information	PPR information is linked directly from website's Home page.
	There is a coherent look and feel to how information is presented and structured.
	There is a high-level summary on the council's overall performance.
	There is clear layering and signposting of information, which is easy for the reader to navigate.
	There is relevant explanatory narrative – which is in Plain English.
	There are supporting informative graphics, eg charts, tables, and diagrams.
	Web links to other PPR info work.
	The council reports on additional indicators that contribute to an overall view of its performance.

Evaluation of councils' response to the 2012 Direction

Councils' response to SPI 1 and SPI 2 has continued to improve

16. The new assessment methodology means that direct comparisons between the 2015 assessment and previous years' cannot be made on a like-for-like basis. Nonetheless, the evidence indicates an overall improvement from last year to this year. Contributory factors to that improvement are:
- Several councils have overhauled their corporate website and/or improved the design of their web pages on council performance.
 - At least three quarters of councils now utilise specialist performance management software which supports both operational performance management within the council and simplifies the provision of public-facing performance information.
 - All councils have been even-handed in reporting their performance, rather than simply emphasising the positives.
17. Although councils' PPR arrangements continue to improve overall, there are significant variations among the SPI 1 and SPI 2 themes, and among councils. [Appendix 3](#) shows the total number of councils that achieved a 'Yes' rating for 2013/14, on the themes in SPI 1 and SPI 2, and on the overall quality themes we considered. [Appendix 4](#) details councils' assessments ratings on the SPI 1 and SPI 2 themes.
18. **Exhibit 3** illustrates the number of councils that were assessed as meeting the coverage and quality requirements in the 2015 assessments.
19. The number of councils meeting the characteristics within SPI 1 improved on all seven of its themes. The number of councils meeting the 11 characteristics within SPI 2 also increased overall and reduced only for community care, from 27 to 26 councils.
20. The sophistication of councils' approaches to PPR bears little correlation with their size or location. Some smaller, more rural councils are performing relatively well (eg Angus, Moray) in contrast with some larger central belt councils (eg City of Edinburgh, Glasgow City).
21. Areas for further improvement varied across councils but common weaknesses continued to be:
- a reliance on data tables, with limited use of infographics
 - the use and quality of narrative surrounding the data to explain performance to the public in layman's terms.

All councils have some scope to improve their PPR.

Exhibit 3

Number of councils meeting the characteristics in 2014 and 2015

In SPI 1, the number of councils meeting the criteria increased on all seven themes.

In SPI 2, the number of councils increased on 10 themes and decreased on one.

SPI	Theme	2014	2015	Change
SPI 1	Responsiveness to its communities	19	23	▲
	Revenues & service costs	27	29	▲
	Employees	13	18	▲
	Assets	3	21	▲
	Procurement	14	19	▲
	Sustainable development	21	28	▲
	Equalities & diversity	7	20	▲

SPI 2	Benefits administration	9	22	▲
	Community care	27	26	▼
	Criminal justice social work	14	18	▲
	Cultural & community services	14	28	▲
	Planning	15	26	▲
	Education of children	24	29	▲
	Child protection/social work	19	28	▲
	Housing & homelessness	20	29	▲
	Protective services	9	20	▲
	Roads & lighting	13	23	▲
	Waste management	16	26	▲

22. **Exhibit 4** illustrates how well councils met all 18 themes of SPI 1 and SPI 2. To show the spread of councils' performance, the exhibit presents the number of 'Yes' assessments that each council has received in approximate quartile ranges. Within each quartile, councils are listed in alphabetical order.

Exhibit 4

Councils' level of full compliance with SPIs 1 and 2

Councils have been sorted into quartiles, in terms of their levels of full compliance with the eighteen themes in SPIs 1 and 2. In each quartile, councils are listed in alphabetical order.

Better performance	Quartile	Councils in this quartile
	Q 1 (Full compliance with 15-18 themes)	<ul style="list-style-type: none"> • Aberdeenshire • Angus • East Ayrshire • East Dunbartonshire • East Lothian • East Renfrewshire • City of Edinburgh • Fife • Inverclyde • Midlothian • Moray • North Ayrshire • North Lanarkshire • Perth & Kinross • South Lanarkshire • Stirling • West Dunbartonshire • West Lothian
	Q 2 (Full compliance with 10-14 themes)	<ul style="list-style-type: none"> • Argyll & Bute • Clackmannanshire • Dumfries & Galloway • Dundee City • Glasgow City • Orkney Islands • Renfrewshire • Scottish Borders
	Q3 (Full compliance with 5-9 themes)	<ul style="list-style-type: none"> • Eilean Siar • Falkirk • Highland • Shetland Islands • South Ayrshire
	Q4 (Full compliance with 0-4 themes)	<ul style="list-style-type: none"> • Aberdeen City

There was a wide range of performance among SPI 1 themes

23. Across the seven themes in SPI 1, the number of councils meeting the 2015 assessment's requirements ranged between 18 (Employees) and 29 (Revenues and service costs).

24. Councils were found to be good at reporting on engaging with their communities through mechanisms such as online consultations, citizens' panels and surveys – but less good at demonstrating how feedback from the public had been utilised to improve council services and the council's overall performance. Councils also performed well overall on the provision of information about their income and expenditure, utilising the body of data already used routinely for management information purposes. PPR about sustainable development has benefited from accumulating a sizeable range of performance

indicators over the years. Where PPR was weaker, it often lacked supporting narrative explanation in layman's terms.

25. The three weakest themes were the provision of performance information on employees (18 councils), procurement (19) and equalities and diversity (20). Reporting on these themes was also relatively weak in 2014 and tended to use a small number of indicators. However, the number of councils found to meet the assessment characteristics for assets rose from three in 2014 to 21 in 2015, and the number of councils nearly trebled for equalities and diversity, from seven to 20.

There was also a wide range of performance among SPI 2 themes

26. Across the 11 themes in SPI 2, the number of councils meeting the 2015 assessment's characteristics ranged between 18 (criminal justice social work) and 29 (the education of children). The number of councils doubled or more for three themes (benefits administration; cultural and community services; and protective services).
27. The two weakest themes overall were criminal justice social work (18 councils) and protective services (20 councils), yet some councils' response to the SPIs was of a high standard on these themes. Across all SPI themes, reasons for changes between 2014 and 2015 varied widely among councils, but factors included:
- Quantity – the use of additional performance indicators within each theme, eg including indicators of service performance that are linked to corporate objectives in the council's Single Outcome Agreement, thereby demonstrating how performance improvements are aligned with the council's and its partners' strategic objectives.
 - Quality – better quality reporting on performance indicators, eg including the use of colour exhibits; information on targets, trends, family group comparisons; and narrative clearly explaining performance.

All councils complied with SPI 3

28. In 2015, all councils reported their performance through the LGBF arrangements, in line with the Commission's expectations under SPI 3. The LGBF uses data which is largely drawn from Scottish Government public data sources and is therefore subject to Scottish Government validation processes. For data submitted directly to the Improvement Service, detailed guidance and metadata ensure consistent data are returned across all councils. Protocols for validating and cleaning data are also in place. All data received are compared against previous years' data and other councils' to check consistency; and all outliers are checked, queried and confirmed with the source.
29. Areas where consistency can be strengthened further through clearer guidance are identified by a working group that has been established to develop family-group comparisons, and are then addressed via council-led task groups (eg the LGBF's Directors of Finance subgroup).
30. Also, the Improvement Service has recently reviewed the reporting of LGBF information and considered how the approach can be strengthened. It made a web page template available to councils, comprising a virtual 'contents page' framework which councils could use to structure their online PPR. The review identified five councils which largely followed the guidance in the template (Dumfries & Galloway, Falkirk, Fife, Perth and West Dunbartonshire) and others that have taken its general principles on board.

Good practice

31. This report aims to support continuous improvement by highlighting examples of an effective overall approach to PPR. The examples in **Exhibit 5** are set out in full at [Appendix 5](#). They are not necessarily best practice and should more accurately be considered as ‘interesting practice’ that may be of benefit to other councils.

Exhibit 5

Good practice

This is a sample of good council practice.



Overall quality characteristics of PPR	Councils
A well-structured approach to PPR	<ul style="list-style-type: none">Dumfries & Galloway, Fife
Effective use of customer satisfaction info	<ul style="list-style-type: none">South Ayrshire, West Dunbartonshire
Balanced picture of performance	<ul style="list-style-type: none">East Renfrewshire, South Lanarkshire
Good use of comparators	<ul style="list-style-type: none">City of Edinburgh
Good use of financial and cost information	<ul style="list-style-type: none">Glasgow City
Dialogue with the public	<ul style="list-style-type: none">Aberdeen City, Perth & Kinross
Accessibility	<ul style="list-style-type: none">Argyll & Bute, Eilean Siar (Western Isles)

Exhibit 6 illustrates aspects of public performance that councils could strengthen, and others presenting risks that councils should be alert to.

Exhibit 6

Scope for further improvement

Councils should aim to improve on a range of aspects.

 Improve	<ul style="list-style-type: none">Consistently high quality presentation of information for all SPI 1 & 2 themes.Plain English narrative to explain complex datasets, describe performance and trends in layman’s terms and target improvements for the following year.Infographics to summarise complex financial information.Information on customer satisfaction, feedback and complaints for individual council services; any improvement actions taken as a result of feedback.Use of benchmarking against family groups – an aspect of the LGBF currently being developed by the Improvement Service – to set performance in context, identify performance strengths, and to prioritise improvements.
 Reduce	<ul style="list-style-type: none">Convolved and lengthy website pathways to performance information.Inconsistent treatment of performance information on different themes.Reliance on detailed committee reports for public performance reporting.Bureaucratic language.Broken web links.

Recommendations

32. It is recommended that the Commission:

- Note that councils' response to SPI 1 and SPI 2 has continued to improve overall, in terms of their handling of public performance reporting.
- Note that all councils are complying with SPI 3, on the Local Government Benchmarking Framework, which was introduced with the Direction 2012 for performance in 2013/14.
- Note that councils' progress with responding to the areas for improvement identified in this assessment will be monitored through our annual audit and Best Value processes.
- Consider writing to all councils reporting the progress that has been made in this area across the local government sector during 2014/15 offering further encouragement for councils to make further progress with improving PPR. The Commission may also wish to take this as an opportunity to refer to its consideration of its long-term strategic direction in relation to SPIs.

Fraser McKinlay

Director of Performance Audit and Best Value/Controller of Audit

11 June 2015

APPENDICES

Appendix 1. Indicators in the SPI Direction 2012

The Direction 2012 specified three high-level indicators, and bulleted a range of supporting themes for SPI 1 and SPI 2. This information formed the cornerstones of the 2015 PPR assessments.

SPI 1. Corporate management – Each council will report a range of information, sufficient to demonstrate that it is securing Best Value in relation to:

- responsiveness to its communities
- revenues and service costs
- employees
- assets
- procurement
- sustainable development
- equalities and diversity.

SPI 2. Service performance – Each council will report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate):

- benefits administration
- community care
- criminal justice social work
- cultural & community services (covering at least sport & leisure, museums, the arts and libraries)
- planning (both environmental and development management)
- the education of children
- child protection and children's social work
- housing & homelessness
- protective services including environmental health & trading standards
- roads and lighting
- waste management services.

SPI 3. SOLACE benchmarks – Each council will report its performance in accordance with the requirements of the Society of Local Authority Chief Executive (SOLACE) benchmark project.

Appendix 2. Example assessment

Column A – SPI themes

Under each SPI, sit a number of themes, as set out in the Direction 2012 – eg Responsiveness to Communities. These are taken directly from the Direction 2012.

Column B – characteristics of PPR.

The criteria for the assessment are set out as a broad set of characteristics that describe what is expected under each theme that the council may report to demonstrate that it is securing Best Value

Column C – evidence on the council's PPR

For each characteristic, the assessment team sourced evidence from:

- local auditors
- councils' websites
- an invitation to each council to submit evidence of its 2013/14 PPR
- e-copies of council publications, eg council newspapers, Council Tax leaflet, etc.

Column D – a summary narrative assessment

This was drafted by the assessment team. Councils were able to comment on the narrative for each SPI theme, but the final assessment was made and articulated in this summary by Audit Scotland

Column E – overall assessment rating for each aspect, as either:

- Yes = meets the criteria, or
- AFI = area for improvement.

X COUNCIL – ASSESSMENT OF THE COUNCIL’S PUBLIC PERFORMANCE REPORTING FOR 2013/14

Roles	Organisation	Name & title	Email	Telephone
Audit Scotland	PABV Group	Name of Audit Manager	Email address	Number
Auditor	Audit Scotland/firm	Name & title of appointed auditor	Email address	Number
Auditor	Audit Scotland/firm	Name & title of audit manager	Email address	Number
Council	Council name	Name & /title of lead contact for SPI/PPR purposes	Email address	Number

Key links

SPI1. Corporate management

- Link from the council’s Home page to its lead page for performance information
- Link from the lead performance page to the corporate annual performance report (if any)
- Links from the lead performance page to performance information on the themes in SPI 1 (if any)

SPI2. Service performance – links from the lead performance page to:

- Performance information on the themes in SPI 2 (if any)

SPI 3. LGBF – links from the lead performance page to:

- Information about the LGBF
- Performance against LGBF indicators
 - The online benchmarking tool at <http://scotland.mylocalcouncil.info/>

Links to SPIs / summary of ratings

SPI 1. Corporate	Rating	SPI 2. Service	Rating	SPI 3.	Rating	4. Overall aspects	Rating	Good practice
1.1 Responsiveness to communities	YES	2.1 Benefits administration	AFI	3.1 LGBF	YES	4.1 Structured approach	YES	
1.2 Revenues & service costs	YES	2.2 Child protection/social work	AFI			4.2 Customer satisfaction	YES	
1.3 Employees	YES	2.3 Community care	AFI			4.3 Balanced picture	YES	
1.4 Assets	AFI	2.4 Criminal justice social work	AFI			4.4 Comparators	YES	
1.5 Procurement	YES	2.5 Cultural & community services	AFI			4.5 Financial and cost info	YES	
1.6 Sustainable development	YES	2.6 Education of children	AFI			4.6 Dialogue with the public	YES	
1.7 Equalities and diversity	AFI	2.7 Housing homelessness	YES			4.7 Accessibility	AFI	
		2.8 Planning	YES					
		2.9 Protective services	AFI					
		2.10 Roads & lighting	AFI					
		2.11 Waste management	AFI					
Number of Yes	5		2		1		6	
Number of AFI	2		9		-		1	

Assessment detail

The summary **Rating** should be noted as **Yes** (fully meets requirements) or **AFI** (area for improvement).

Key to other terms: **CPO** = Community Payback Order. **CPP** = Community Planning Partnership. **FOI** = Freedom of Information. **Info** = information. **KPI** = performance indicator. **LGBF** = Local Government Benchmarking Framework. **PPR** = Public Performance Reporting. **SOA** = Single Outcome Agreement. **SPI** = Statutory Performance Indicator.

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
SPI 1. CORPORATE MANAGEMENT – Each council should report a range of information sufficient to demonstrate that it is securing Best Value in relation to:				
1.1 Responsiveness to communities <ul style="list-style-type: none"> Engagement Customer feedback Satisfaction survey Consultation Citizen panel Customer care Complaints FOI requests Contact centre 	1.1.a. A range of PPR info gives a broad overview of performance.	The Corporate performance reporting page links to: the Public Performance Report 2014; 2013/14 Benchmarking summary overview report; the Public Performance Policy and Performance indicators for 2013/14. Each page has an A-Z menu bar at the top, giving easy access to detailed info on complaints, FOI, Citizens' panel, consultations, customer care.	The council provides the reader with comprehensive, contextual information on performance in responsiveness to communities and links to relevant documents. It would also be helpful to demonstrate consistently how the council has reacted to feedback gleaned through consultations and to include working links.	YES
	1.1.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> how well the council meets the needs of specific communities data from its surveys and consultations how it has reacted to feedback how it has improved services. 	<p>The council's Performance indicators 2013/14 include six responsiveness to communities-related indicators, such as:</p> <ul style="list-style-type: none"> the percentage availability of the COUNCIL website the number of complaints per 1,000 population the customer satisfaction index score. <p>The council's Recent consultation & feedback page features closed consultations spanning from 2012 to 2015. There were 13 consultations in 2013/14. There is an issue with consistency in the way consultations are reported, eg the Adult social care contributions policy consultation has a helpful 'you said, we did' approach, but other consultations do not include this info.</p>		
	1.1.c. The council actively seeks feedback on corporate and service issues.	The Consultations and have your say page has a link to a feedback, complaints and suggestions online form. In addition, each webpage has a 'Rate this page' tab which opens a feedback form.		
	1.1.d. Complaints data are reported for all services.	The Complaints page contains the section 'Complaints analysis and performance indicators', where the 2013/14 Annual complaints report is located, providing complaints data for the year. However, a customer satisfaction survey for the complaints service was not carried out in 2013/14.		
	1.1.e. It is easy to make a complaint or a FOI request.	Links to complaints and FOI pages are at the bottom of each web page. Both pages explain requests/complaints.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
1.2 Revenues and service costs <ul style="list-style-type: none"> Budget Revenue Expenditure Income Service cost Council tax 	1.2.a. A range of PPR info gives a broad overview of performance.	A Statement of accounts 2013/14 is accessed through Council and government > Annual reports. The document provides a brief overview of finances and financial performance throughout the year and highlights the council's financial position as at 31 March 2014 as well as budget, expenditure and revenues. There is info on how Council Tax works. An A-Z search brings up a Revenue Budget page comparing 2013/14 budget with 2014/15 budget and includes a breakdown of budgets by service area.	Comprehensive, relevant performance information is available, providing a good overview of revenues and service costs.	YES
	1.2.b. PPR includes local indicators giving a full picture, eg on: <ul style="list-style-type: none"> unit costs/service expenditure efficiency targets. 	The Statement of accounts 2013/14 outlines seven financial performance indicators, including the Council Tax in-year collection rate and the impact of capital investments on Council Tax and weekly rents. The council's Key indicators 2013/14 include info on total cash efficiency savings for the year. A Confirmation of efficiencies delivered in 2013/14 document, accessible via the performance page, summarises efficiency savings in five different activities, eg asset management and energy efficiencies. Unit cost-related indicators, eg annual property costs per m ² and the cost of collecting Council Tax per dwelling are found in the Key indicators 2013/14.		
1.3 Employees <ul style="list-style-type: none"> Sickness absence Staff survey Staff engagement Staff feedback Staff turnover Staff satisfaction Staff training 	1.3.a. A range of PPR info gives a broad overview of performance.	The council's Performance Indicators 2013/14 provide some info on sickness-absence rates and include info on employee surveys for 2012/13; but this info is not available for 2013/14 until sometime later in 2015. In addition, the path: Council and government>Performance reporting> Service performance leads the reader to the 2013/14 Performance monitoring statements , which includes further employee-related indicators.	The council reports on a number of employee-related performance measures, providing a comprehensive overview of this aspect of corporate performance. However, PPR would benefit from updated information on the council's workforce.	YES
	1.3.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> wider performance measures such as job satisfaction the cost of the HR 	The 2013/14 Revised revenue budget provides info on the cost of HR & ICT for 2013/14 and 2014/15, under Corporate services. Statistical info on the workforce is available through the 2013/14 Performance indicators link and refers to the period 1 Nov 2012 – 31 Oct 2013. This includes data on staff turnover and sickness-absences for the period, with bar charts, indicating		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	<ul style="list-style-type: none"> function staff engagement workforce changes, eg staffing reductions through voluntary severance or redundancy senior management restructuring. 	trends over time. In addition, an Employee survey – results summary 2013 provides information on staff satisfaction and staff feedback on council issues.		
1.4 Assets <ul style="list-style-type: none"> Asset management Property maintenance Property repairs Buildings Vehicles Equipment 	1.4.a. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> corporate asset management plan key projects (eg new HQ) property repairs property maintenance spend work with partners to best use joint assets. 	The council's Performance indicators 2013/14 booklet includes eight indicators on assets and the vehicle fleet, eg: <ul style="list-style-type: none"> the proportion of properties at a satisfactory standard the cost of required maintenance customer satisfaction with building cleaning and catering the average mileage of pool cars. 	The council reports on a number of asset-related indicators, but there was no evidence of actions taken to improve performance.	AFI
1.5 Procurement <ul style="list-style-type: none"> Procurement Procurement Capability Assessment (PCA) 	1.5.a. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> e-procurement. PCA score Improvements from joint spend with partner bodies. 	The council produces a Procurement performance (2013/14) and priority report (2014/15) , which gives an overview of procurement performance for 2013/14 and includes narrative on the PCA score as well as an e-tendering system, but there is no performance info on this aspect. The council's Key indicators 2013/14 include two procurement-related indicators, eg, the total cash savings achieved through procurement. The document has info on procurement performance and links the reader to a set of tables that provide further procurement performance info, eg: <ul style="list-style-type: none"> total cash savings achieved through procurement in 2013/14 updates against procurement targets for 2013/14. 	There is a good range of performance information on procurement and on the PCA score, but the council could usefully provide information on any joint spend.	YES

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
1.6 Sustainable development (Focusing on environmental aspects) <ul style="list-style-type: none"> • Sustainability • Environmental • Green, Ecology • Street cleaning • Carbon emissions • Energy efficiency • Biodiversity 	1.6.a. A range of PPR info gives a broad overview of performance.	Seven sustainable development indicators, plus commentary on performance and targets met within the Carbon management plan 2009-2014 , are found in the Key indicators 2013/14 document. A report on Carbon management is included in the commentary, and provides further info on performance against targets set in the plan. An Annual energy report 2013/14 details the council's performance in energy consumption (including graphs) and gives info on sustainable development schemes, such as an energy awareness initiative.	The council reports on a range of sustainable development-related PPR material, which paints an overall picture of performance in this area.	YES
	1.6.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • biodiversity actions and targets • energy consumption • vehicle fleet CO₂ emissions • derelict land • parks and outdoor spaces. 	Indicators cover: derelict land; annual energy consumption; and annual CO ₂ emissions. In addition, the Performance monitoring statements includes two performance indicators – on the percentage of adults satisfied with parks and open spaces, and on the cost of parks. Performance info is compared with previous years' and quarters and measured with a 'traffic light' scale.		
1.7 Equalities and diversity <ul style="list-style-type: none"> • Equality • Diversity • Female employees • Disability • Ethnic minority 	1.7.a. A range of PPR info gives a broad overview of performance.	An Equality impact assessment for the calendar year 2013 details impacts identified in the year and areas for improvement in 2014. An Equality outcomes 2013-2017 report sets out equality outcomes for the council and a Mainstreaming report 2013 gives material on mainstreaming activities and comprehensive coverage of the workforce, including the employee profile.	There is some performance information on equalities and diversity. However, there is no information on the wider aspects of the council's role in promoting equality and diversity.	AFI
	1.7.b. PPR recognises equalities & diversity in its broader sense, and covers how well the council is tackling inequality.	See 1.7.a.		
	1.7.c. PPR includes commentary on the council's response to its statutory duties on diversity and	See 1.7.a.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	equality.			
	1.7.d. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none">complaints by ethnic minoritiesuser satisfaction with services.	There are three indicators in the Key indicators 2013/14 document, eg: <ul style="list-style-type: none">% of highest paid 5% of earners that are women% of primary school pupils taking school meals. Additional indicators, such as on disabilities and satisfaction levels, would be helpful.		
SPI 2. SERVICE PERFORMANCE - Each council will report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate)				
2.1 Benefits administration <ul style="list-style-type: none">BenefitBenefit fraudWelfare reform	2.1.a. A range of PPR info gives a broad overview of performance.	The Benefits administration page links to the PPR calendar 2015, service business plan progress reports, Exchequer PIs, Benefits Business Plan, Welfare Reform, Improvement Service dashboard, and discretionary housing payments. PPR calendar refers to 2 indicators and Welfare Fund. No trend data provided.	The website contains a lot of information on benefits and the welfare reform. While the two reports contain data on 2013/14 performance, the absence of trend data makes it difficult to establish what progress has been made over time.	AFI
	2.1.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none">how well the council has responded to welfare reformsservice impacts as a result.	The Counter Fraud Business Plan 2014/15 provides a number of indicators, but there is no trend data or values for 2013/14 with targets. Comments are provided for the indicators that did not meet the target. KPIs are included in the Finance and Corporate resources report, but no trend data are provided.		
	2.1.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy.	The Benefit and Counter Fraud Business Plan 2014/15 makes no reference to the SOA.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
2.2 Child protection & children's social work <ul style="list-style-type: none"> • Child protection • Children looked after at home • Child care • Foster care • Supervision order 	2.2.a. A range of PPR info gives a broad overview of performance.	The Child Protection and Children's Social Work page links to the PPR calendar 2015, service business plan progress reports, The 2010-14 Children's Services Performance Report, The Chief Social Work Officer report 2013/14 and info pages.	The website contains a lot of information on child protection & children's social work, but no local indicators with trend data are provided in any of the reviewed reports.	AFI
	2.2.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • placement of looked after children • % of children seen by a supervisor officer < 15 days • children on the child protection register. 	Three indicators included in the PPR calendar, but no trend data are provided. The 2010-14 Children's Services Performance Report includes several indicators with trend data and comparison with the Scottish average, as well local authority ranking (LBGF indicators). Neither contextual narrative nor local indicators are provided in the report. The Chief Social Work Officer report 2013/14 contains considerable contextual info, but has no indicators. The Education & Children's Services KPI quarterly progress report has a number of indicators, but there is no trend data.		
	2.2.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	No reference to the SOA in the reviewed reports. The KPI report links to higher themes in council's strategies.		
2.3 Community care <ul style="list-style-type: none"> • Community care • Delayed discharge • Respite care • Care satisfaction • Waiting times • Service user survey • Telecare • Care staff training • Personal care 	2.3.a. A range of PPR info gives a broad overview of performance.	The Community Care page contains links to the PPR calendar 2015, service business plan progress reports, the adult social care performance report and other related pages – like satisfaction surveys, complaints procedures and Care Inspectorate reports.	The council's performance page contains a lot of information on child protection & children's social work, but no local indicators with trend data are provided in any of the reviewed reports.	AFI
	2.3.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • service user satisfaction • no. of people waiting longer than target time for service • % of personal carers qualified to Scottish 	The 2010-14 Adult Social Care performance report includes LBGF indicators with trend data and Scottish average comparisons. Neither contextual narrative nor local indicators are provided in the report. The Social and Community Services KPI progress report includes a number of relevant indicators, but no trend data. The SOA Measuring Success 2013/14 report includes one relevant indicator (Number of older people aged 65+ with intensive care needs receiving personal care at home (Rate per 1000		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	Social Services Council standard.	population)). The Expenditure on Adult Social Care Services in Scotland 2003-04 to 2013-14 report is a national report with no local data.		
	2.3.c. PPR includes commentary on the integration of adult health and social care and other relevant policy developments, eg Self-Directed Support.	Yes, a Self-Directed support indicator is included in the Social and Community Services KPI progress report. References are included to integration in the KPI report. There are also references to the health and social care integration and self-directed support in the PPR calendar.		
	2.3.d. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	No reference to the SOA in the reviewed reports. The KPI report links to higher themes in council's strategies.		
2.4 Criminal justice social work <ul style="list-style-type: none"> • Criminal justice • Community payback orders • Reconviction rates • Child reporting • Young offenders • Probation orders • Payback orders 	2.4.a. A range of PPR info gives a broad overview of performance.	The Criminal Justice Social Work page contains links to the PPR calendar 2015, service business plan progress reports, the Northern Community Justice website and links to the relevant Scottish Government pages on reconviction rates and crime and justice.	There are a few links on the council page, but no 2013/14 performance information.	AFI
	2.4.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • no. of community payback orders started <7 working days • % of community payback orders successfully completed • reconviction rates. 	Unable to find any performance info in the documents provided on the website. Two relevant indicators in the SOA Measuring Success 2013/14 report, but no data for 2013/14 are provided.		
	2.4.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	There are a few references in the PPR calendar, connecting to aspirations and local outcomes.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
2.5 Cultural & community services <ul style="list-style-type: none"> Community access Satisfaction survey Cultural heritage Learning centres 	2.5.a. A range of PPR info gives a broad overview of performance.	The Culture and Community Services page contains links to the PPR calendar 2015, service business plan progress reports, a link to the performance report on culture and leisure services, social media pages to relevant services and other info pages.	The website contains a lot of information on cultural and community services, but no local indicators with trend data are provided in any of the reviewed reports.	AFI
	2.5.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> cost per attendance at a sport/leisure facility service user satisfaction specific improvement commitments/ actions. 	<p>The 2010-2014 Culture and Leisure Performance Report is an extract of the LGBF report. Trend data and comparisons with Scottish average are included, but no supporting narrative. No additional local indicators included. A few indicators are included in the PPR calendar. No trend data.</p> <p>The SOA Measuring Success 2013/14 report contains one indicator on volunteering, but no 2013/14 data are provided.</p>		
	2.5.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy.	There are a few references in the PPR calendar, so performance info linked to corporate aspirations and target local outcomes.		
2.6 Education of children <ul style="list-style-type: none"> Young people Attainment School inspections School leaver Education cost School survey Exclusion Attendance +ve destinations School meals Eco schools Special education 	2.6.a. A range of PPR info gives a broad overview of performance.	The performance page for the Education of Children contains links to the PPR calendar 2015, service business plan progress reports, the 2010-2014 Children's Services Performance Report, and the Chief Social Worker's report.	<p>The website contains a lot of information on the education of children, but no local indicators with trend data are provided in any of the reviewed reports.</p> <p>The PPR calendar provides broadly sufficient information on this area.</p>	AFI
	2.6.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> Education Scotland inspection results and satisfaction info SQA/SCQF attainment levels. 	<p>The 2010-2014 Children's Services Performance Report is an extract of the LGBF report. Trend data and comparisons with Scottish average are included, but no supporting narrative. No additional local indicators feature. A few indicators are included in the PPR calendar, but no trend data.</p> <p>The Chief Social Work Officer report 2013/14 contains contextual information, but there are no indicators in the report</p> <p>A lot of contextual info and performance data (presented as infographics, are featured but no trend data are available for any indicators in the PPR calendar.</p> <p>The SOA Measuring Success 2013/14 report contains two relevant indicators (eg school leavers positive and sustained destinations), but 2013/14 data are provided for only one of</p>		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
		them.		
	2.6.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	References are made in the PPR calendar, linking performance to the council's aspirations and local outcomes.		
2.7 Housing & homelessness <ul style="list-style-type: none"> • Homeless • House repair • Domestic noise • House building • Affordable homes • Rent arrears • Scottish Housing Quality Survey • Building investment • Energy efficiency 	2.7.a. A range of PPR info gives a broad overview of performance.	The Housing and Homelessness page links to the Homeless Annual report, Housing Services page, and local strategy housing review documents.	The Homelessness Annual report 2013/14 and the PPR calendar jointly provide sufficient coverage of this aspect.	YES
	2.7.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • rent arrears • energy efficiency • house building rates • affordable homes • homelessness • tenant engagement. 	<p>The Housing Services page contains a table with a selected number of performance indicators (including a local one) with trend data and targets. Some data are missing.</p> <p>The Homelessness Annual Report 2013/14 includes a number of indicators (some of them locally developed) along with trend data and supportive narrative.</p> <p>References to homelessness are made in the PPR calendar and a few indicators included with (infographics).</p>		
	c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	References are made in the PPR calendar, linking performance to the council's aspirations and local outcomes.		
2.8 Planning <ul style="list-style-type: none"> • Planning applications • Building warrants • Use of land • Building standards 	2.8.a. A range of PPR info gives a broad overview of performance.	The Planning page contains links to the PPR calendar, the council's annual report, planning stats on the Scottish Government website, customer satisfaction survey and levels, the building standard scorecard and other related pages.	The reports included on the website provide sufficient information on the council's performance on this aspect.	YES
	2.8.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • the council's aims • service costs • customer satisfaction. 	<p>One indicator is mentioned in the PPR calendar (with infographics).</p> <p>The Planning Performance Framework Annual Report 2013/14 has indicators and contextual info (trends provided for 2012/13). The Planning Performance Framework Feedback report provides additional info on performance in this area.</p> <p>The Building Standards performance indicators report includes</p>		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
		<p>local indicators and data for 2012/13 and 2013/14.</p> <p>Survey results are published on the website, but there is no info on what the council is planning to do as a result of the feedback received. However, the Balanced Scorecard for 2014/15 provides additional info on the progress of key actions.</p>		
2.9 Protective services <ul style="list-style-type: none"> Protective services Environment Trading Standards Food safety Pest control Food hygiene Noise complaints Flood alleviation 	2.9.a. A range of PPR info gives a broad overview of performance.	The Protective Services page contains links to the Consumer and Environmental Services Monitoring reports, the annual review report, the PPR calendar, social media, and the LGBF report, and the press releases.	Documents on the website give insufficient performance information. No local indicators with trend or comparative information are provided for this aspect.	AFI
	2.9.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> food safety pest control flood alleviation customer satisfaction. 	Noise complaints indicators (without trend data) are included in the PPR calendar. The LGBF report contains no local indicators and no supporting narrative. Most indicators in this report refer to Waste Management. Quarterly reports provide info and data, but no trends. The Service Plan 2012/13 Review contains some trend data for a few indicators, including food safety inspections.		
	2.9.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy.	References are made in the PPR calendar, linking performance to the council's aspirations and local outcomes.		
2.10 Roads & lighting <ul style="list-style-type: none"> Roads Lighting Cost of repairs Road resurfacing Road satisfaction 	2.10.a. A range of PPR info gives a broad overview of performance.	The Roads and Lighting page contains links to the PPR calendar 2015, service business plan progress reports, and a number of transport and street lighting documents.	Apart from a few reference in the PPR calendar, no other performance info is available on the website.	AFI
	2.10.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> traffic light failure repairs winter maintenance works completed in target time period % of road network resurfaced. 	<p>A few roads indicators are included in the PPR calendar.</p> <p>No performance info is found in the documents provided on the web page.</p>		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	2.10.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	References are made in the PPR calendar, linking performance to the council's aspirations and local outcomes.		
2.11 Waste management <ul style="list-style-type: none">Waste collectionWaste recyclingMissed collectionsLandfillSatisfaction surveyComplaints	2.11.a. A range of PPR info gives a broad overview of performance.	The Waste Management Services page contains links to the PPR calendar 2015, service business plan progress reports, and waste documents. The LGBF profile link does not work.	Apart from a few reference in the PPR calendar, no other performance info is available on the website.	AFI
	2.11. b. PPR includes local indicators that give a full picture, eg on refuse bin collection rates.	References to waste on the PPR calendar and a few indicators included. No other performance info is available in the documents provided on the page.		
	2.11.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	References are made in the PPR calendar, linking performance to the council's aspirations and local outcomes.		
3. SPI 3. Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)				
3.1 LGBF <ul style="list-style-type: none">FrameworkBenchmarkingServicePerformance	3.1.a. The council reports its performance against the performance indicators in the LGBF.	Yes	There is a link from the main PPR page to the LGBF page on the council's website. The page contains links to individual reports, LGBF dashboard and Family Groups Performance Graphs report.	YES
	3.1.b. The council reports its performance at mylocalcouncil	Yes		
4. OVERALL				
4.1 Structured approach to PPR, with clear presentation of information	4.1.a. PPR info is linked directly from website's Home page.	From Home > Council and democracy > Council performance Performance pages can also be found using the A to Z function or search box.	The council provides its information in a structured and clear manor so that the relevant information needed was accessible.	YES
	4.1.b. There is a coherent look & feel to how info is presented and structured.	Yes – the info is presented in tables and narrative that follow a coherent form from indicator to indicator. Performance pages can also be found using the A to Z function or search box.		

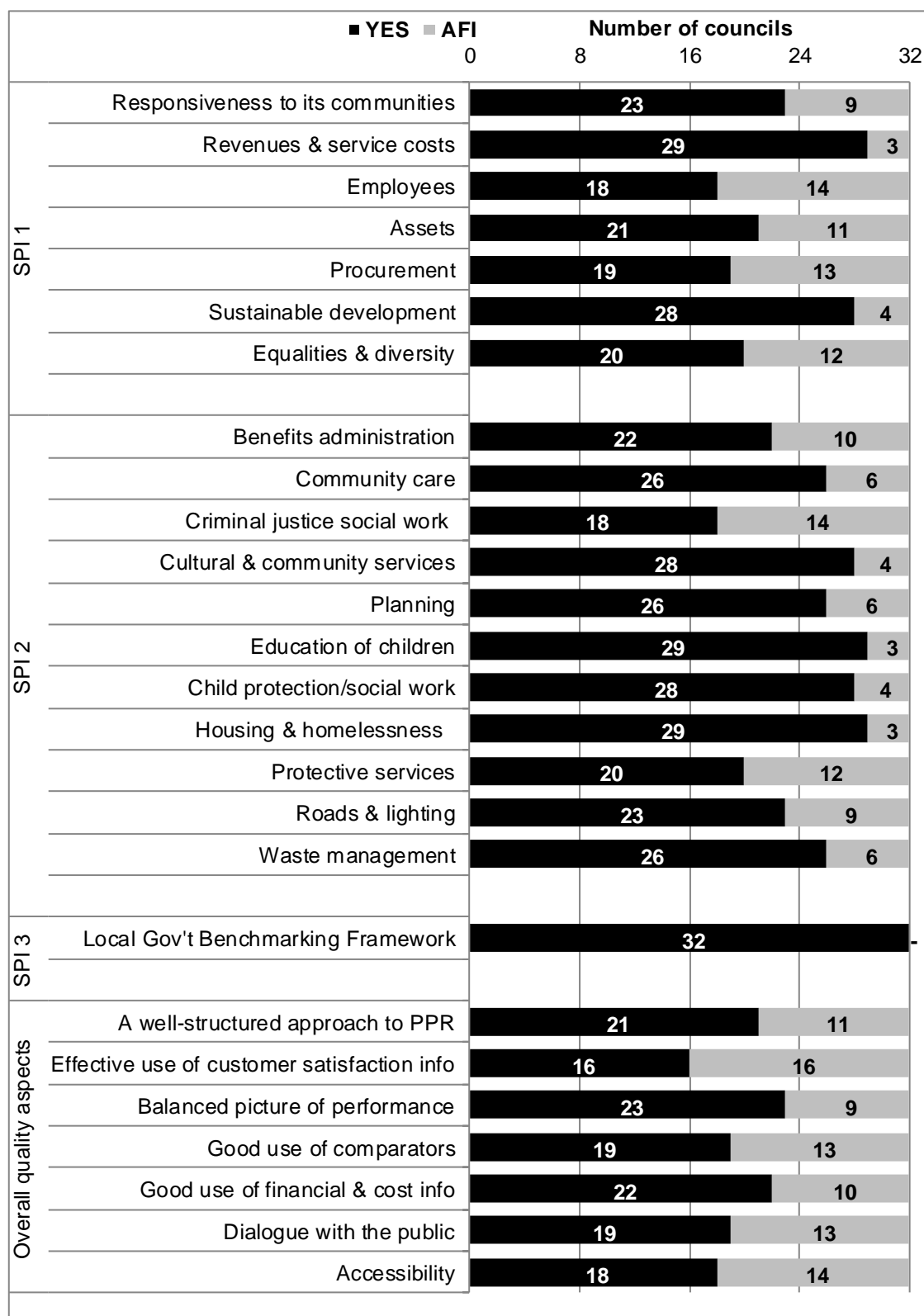
Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	4.1.c. There is a high-level summary on the council's overall performance.	Yes – provided in the annual performance report , which outlines the overall performance of the council.		
	4.1.d. There is clear layering and signposting of info, which is easy for the reader to navigate.	Yes – the council's website is clear and easy to navigate, with clear labels for the different tabs.		
	4.1.e. There is relevant explanatory narrative, which is in Plain English	Yes – explanatory text was found in the annual performance report that described what was seen in the table in the SPIs		
	4.1.f. There are supporting, informative graphics, eg charts, tables, and diagrams.	Yes – there were tables that laid out the info, but there was a lack of infographics.		
	4.1.g. Web links to other PPR info work.	Yes – all the links tried worked.		
	4.1.h The council reports on additional indicators that contribute to an overall view of their performance.	Yes – some local indicators mentioned in the Annual performance report as contributing to the council's overall performance.		
4.2 Effective use of customer satisfaction information	4.2.a. PPR explains consultations and/or satisfaction surveys carried out, and specify the findings.	Yes – as seen with the info in section 1.1, the council carries out surveys. Also through the additional papers and key documents that the council provides with the SPIs the public can gain a greater explanation into results and findings.	There is evidence of customer satisfaction information being gathered and utilised by the council.	YES
	4.2.b. PPR explains what the council is doing as a result of feedback.	Yes – see section 1.1. There is a paper on the complaints info received and what the council does about it.		
4.3 Balanced picture of performance	4.3.a. The council presents a balanced picture of performance.	Yes – the council presents indicators that tell a balanced a good and a bad story.	The council provides the public with a balanced picture of its performance.	YES
	4.3.b. Traffic light-style colours or symbols give a helpful overview.	Arrows are used to highlight which indicators are performing well and those which have seen a decrease in performance.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	4.3.c. Priorities for improvement by the council is clear to the reader.	Through the narrative, it is clear to the reader which topics need the most work.		
4.4 Good use of comparators	4.4.a. Performance is set in context using comparators and trends.	Yes – the narratives used to describe the performance of the council make use of time periods to explain trends and patterns in the council	The council uses comparators and trends through out its performance pages, and makes comparisons with family-group councils, where possible.	YES
	4.4.b. Trends are included for all council indicators, as appropriate.	Yes – the council's indicators are set out in tables that include previous years' data.		
	4.4.c. There are meaningful comparisons with other councils, eg in family groups, and overall.	Family groups were observed once in this assessment, and the narrative describes collaborative work with surrounding councils to ensure that services are offered at the most efficient price.		
4.5 Good use of financial and cost information	4.5.a. PPR features the costs and other financial aspects of service delivery.	Yes – in a number of indicators, the cost per individual is quoted. Eg, for education, there is a cost per pupil and in community care, there is a cost for each hour of care received.	The council utilises financial costs effectively to demonstrate to the significance of the different indicators and there impact on the council's budget	YES
	4.5.b. Financial info is well structured and clearly presented.	Yes – it is easy to understand how the numbers relate year-to-year.		
	4.5.c. There is info on services' unit costs, eg £ per primary school pupil.	Yes – See 4.5a		
	4.5.d. PPR includes info on the council's budgets for major services.	Within the Annual performance report there are tables showing the costs of the major service groups.		
	4.5.e. Plain language explains the figures.	There is good use of narrative about figures in the Annual performance report , informing the reader of the meaning of the figures.		

Aspect	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
4.6 Dialogue with the public	4.6.a. The council has consulted the public on what it wants from PPR.	No evidence of the council collecting direct feedback on PPR, but it does offer the over the public the opportunity to provide overall feedback, and this could incorporate PPR feedback.	The council offers the public opportunity to give feedback, although it does not necessarily ask for PPR feedback. It also provides links to social media, but how it uses social media to inform its approach to PPR is unclear	YES
	4.6.b. The council uses social media to engage the public and have a dialogue on performance.	Yes – links at the bottom of each council web page take the reader to media such as Facebook and Twitter. However, how it uses social media to shape PPR is unclear. For example, the Twitter feed carries news snippets but no information on the council's Twitter policy is listed under T in the A-Z toolbar.		
4.7 Accessibility	4.7.a. PPR features a range of outputs that target specific audiences.	The range of outputs is thorough and can be used by diverse audiences.	The council offers a range of outputs, but options for viewing them in other languages and in other document formats are unclear.	AFI
	4.7.b. Info is available in different languages, on request.	Not evidenced.		
	4.7c. Printed info is available on request.	Not evidenced.		

Appendix 3. Overview of 2015 PPR assessments – by SPI theme

Councils' PPR performance varied widely among the themes in SPI, SPI 2, and the overall quality aspects



Appendix 4. Councils' PPR performance

	Yes	AFI
SPI 1. Corporate management		
Responsiveness to its communities	Aberdeenshire, Angus, Clackmannanshire, Dundee City, East Ayrshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Highland, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Scottish Borders, Shetland Islands, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Argyll & Bute, Dumfries & Galloway, East Dunbartonshire, Glasgow City, Orkney Islands, Perth & Kinross, Renfrewshire, South Ayrshire.
Revenues & service costs	Aberdeenshire, Angus, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Glasgow City, Highland, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Dundee City, Shetland Islands.
Employees	Aberdeenshire, Angus, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Highland, Inverclyde, Moray, North Lanarkshire, Orkney Islands, Perth & Kinross, Stirling, West Dunbartonshire.	Aberdeen City, Argyll & Bute, Dundee City, East Dunbartonshire, Eilean Siar, Falkirk, Glasgow City, Midlothian, North Ayrshire, Renfrewshire, South Ayrshire, Scottish Borders, Shetland Islands, West Lothian.
Assets	Aberdeenshire, Angus, Clackmannanshire, Dundee City, East Ayrshire, East Dunbartonshire, East Renfrewshire, City of Edinburgh, Eilean Siar, Fife, Midlothian, Moray, North Ayrshire, Orkney Islands, Perth & Kinross, Shetland Islands, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Argyll & Bute, Dumfries & Galloway, East Lothian, Falkirk, Glasgow City, Highland, Inverclyde, North Lanarkshire, Renfrewshire, Scottish Borders.
Procurement	Angus, Clackmannanshire, Dundee City, East Ayrshire, East Dunbartonshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Inverclyde, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Scottish Borders, Shetland Islands, South Lanarkshire, West Dunbartonshire, West Lothian.	Aberdeen City, Aberdeenshire, Argyll & Bute, Dumfries & Galloway, East Lothian, East Renfrewshire, Glasgow City, Highland, Midlothian, Orkney Islands, Renfrewshire, South Ayrshire, Stirling.

	Yes	AFI
Sustainable development	Aberdeenshire, Angus, Clackmannanshire, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Glasgow City, Highland, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Argyll & Bute, Inverclyde, Shetland Islands.
Equalities and diversity	Angus, Argyll & Bute, Clackmannanshire, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, Eilean Siar, Fife, Inverclyde, Midlothian, Moray, North Lanarkshire, Orkney Islands, Perth & Kinross, Scottish Borders, Shetland Islands, South Lanarkshire, Stirling, West Dunbartonshire,	Aberdeen City, Aberdeenshire, Dundee City, Dumfries & Galloway, City of Edinburgh, Falkirk, Glasgow City, Highland, North Ayrshire, Renfrewshire, South Ayrshire, West Lothian,
SPI 2. Service performance		
Benefits administration	Aberdeenshire, Angus, Argyll & Bute, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Inverclyde, Midlothian, Moray, North Ayrshire, Orkney Islands, Perth & Kinross, Renfrewshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Clackmannanshire, Eilean Siar, Falkirk, Glasgow City, Highland, North Lanarkshire, South Ayrshire, Scottish Borders, Shetland Islands.
Community care	Aberdeenshire, Angus, Argyll & Bute, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Clackmannanshire, Dundee City, Eilean Siar, Falkirk, Highland.
Criminal justice social work	Aberdeenshire, Angus, Argyll & Bute, Dundee City, East Ayrshire, East Dunbartonshire, East Lothian, City of Edinburgh, Fife, Inverclyde, Glasgow City, Midlothian, North Ayrshire, Orkney Islands, Perth & Kinross, Renfrewshire, West Dunbartonshire, West Lothian.	Aberdeen City, Clackmannanshire, Dumfries & Galloway, East Renfrewshire, Eilean Siar, Falkirk, Highland, Moray, North Lanarkshire, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire, Stirling.

	Yes	AFI
Cultural & community services	Aberdeen City, Aberdeenshire, Angus, Argyll & Bute, Clackmannanshire, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Falkirk, Fife, Glasgow City, Highland, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, South Lanarkshire, West Dunbartonshire, Stirling, West Lothian.	Eilean Siar, Scottish Borders, Shetland Islands, South Ayrshire.
Planning	Aberdeenshire, Angus, Clackmannanshire, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, Eilean Siar, Falkirk, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire, Stirling, West Lothian.	Aberdeen City, Argyll & Bute, City of Edinburgh, Highland, Renfrewshire, West Dunbartonshire.
The education of children	Aberdeen City, Aberdeenshire, Angus, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Dundee City, Highland, Shetland Islands.
Child protection & children's social work	Aberdeenshire, Angus, Argyll & Bute, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Falkirk, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, South Ayrshire, Scottish Borders, Shetland Islands, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Aberdeen City, Clackmannanshire, Eilean Siar, Highland.

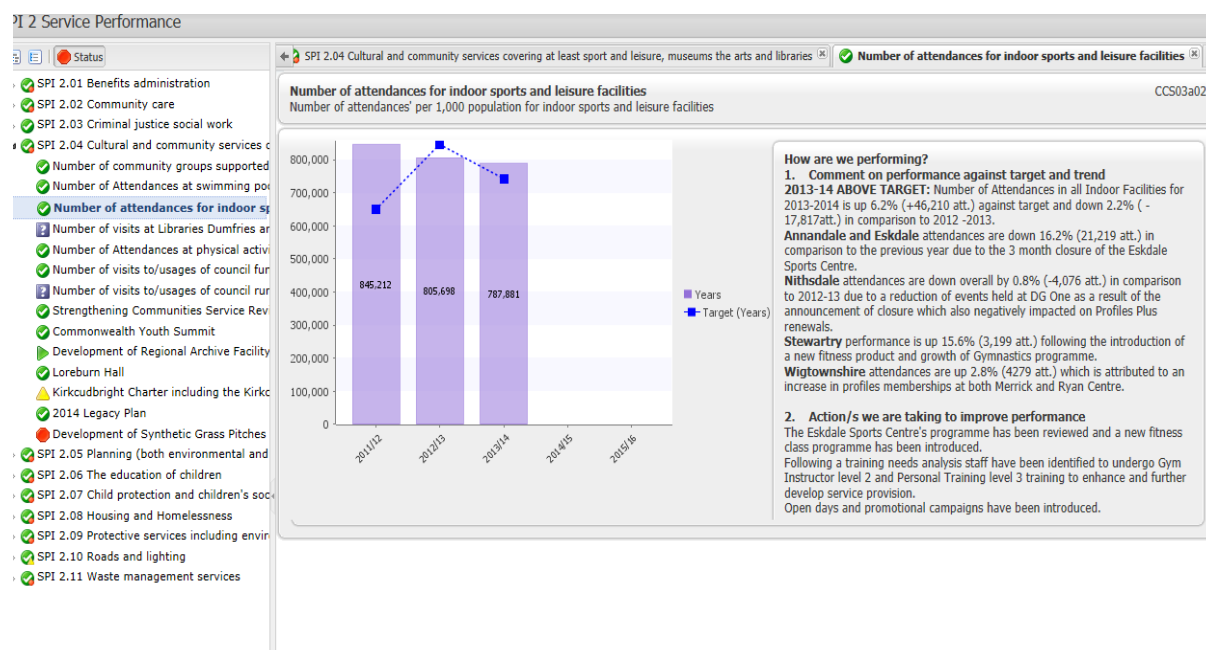
	Yes	AFI
Housing & homelessness	Aberdeen City, Aberdeenshire, Angus, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Falkirk, Fife, Glasgow City, Highland, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Renfrewshire, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Argyll & Bute, Clackmannanshire, Orkney Islands.
Protective services	Aberdeenshire, Angus, Argyll & Bute, Dundee City, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, Fife, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Shetland Islands, South Lanarkshire, Stirling, West Lothian.	Aberdeen City, Clackmannanshire, City of Edinburgh, Eilean Siar, Falkirk, Glasgow City, Highland, Orkney Islands, Renfrewshire, Scottish Borders, South Ayrshire, West Dunbartonshire.
Roads and lighting	Aberdeenshire, Angus, Argyll & Bute, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Glasgow City, Highland, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Renfrewshire, Scottish Borders, South Lanarkshire, Stirling, West Lothian.	Aberdeen City, Clackmannanshire, Dundee City, Eilean Siar, Falkirk, Orkney Islands, Shetland Islands, South Ayrshire, West Dunbartonshire.
Waste management	Aberdeen City, Aberdeenshire, Angus, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire, West Lothian.	Argyll & Bute, Dundee City, Eilean Siar, Falkirk, Highland, Shetland Islands.
SPI 3. Solace benchmark framework / Local Government Benchmarking Framework		
LGBF	All councils	No councils
Overall quality themes		
A well-structured approach to PPR	Aberdeenshire, Angus, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, City of Edinburgh, Fife, Highland, Inverclyde, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Renfrewshire, Scottish Borders, South Lanarkshire, Stirling, West Dunbartonshire,	Aberdeen City, Argyll & Bute, Dundee City, Eilean Siar, Falkirk, Glasgow City, Midlothian, Orkney Islands, Shetland Islands, South Ayrshire, West Lothian,

	Yes	AFI
Effective use of customer satisfaction info	Aberdeenshire, Clackmannanshire, East Dunbartonshire, East Lothian, East Renfrewshire, Falkirk, Fife, Highland, Inverclyde, Moray, North Ayrshire, North Lanarkshire, Perth & Kinross, Stirling, West Dunbartonshire, West Lothian,	Aberdeen City, Angus, Argyll & Bute, Dumfries & Galloway, Dundee City, East Ayrshire, City of Edinburgh, Eilean Siar, Glasgow City, Midlothian, Orkney Islands, Renfrewshire, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire,
Balanced picture of performance	Aberdeenshire, Angus, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Dunbartonshire, East Lothian, East Renfrewshire, Eilean Siar, Fife, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Renfrewshire, Scottish Borders, Shetland Islands, South Lanarkshire, Stirling, West Dunbartonshire,	Aberdeen City, Dundee City, East Ayrshire, City of Edinburgh, Falkirk, Glasgow City, Highland, South Ayrshire, West Lothian,
Good use of comparators	Aberdeen City, Aberdeenshire, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Renfrewshire, Fife, Glasgow City, Inverclyde, Midlothian, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Renfrewshire, Perth & Kinross, Stirling, West Dunbartonshire,	Angus, East Lothian, Dundee City, City of Edinburgh, Eilean Siar, Falkirk, Highland, Scottish Borders, Shetland Islands, South Ayrshire, South Lanarkshire, West Lothian,
Good use of financial & cost information	Aberdeenshire, Angus, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Lothian, East Renfrewshire, City of Edinburgh, Eilean Siar, Fife, Glasgow City, Inverclyde, Moray, North Ayrshire, North Lanarkshire, Orkney Islands, Perth & Kinross, Scottish Borders, South Ayrshire, South Lanarkshire, West Dunbartonshire,	Aberdeen City, Dundee City, East Dunbartonshire, Falkirk, Highland, Midlothian, Renfrewshire, Shetland Islands, Stirling, West Lothian,
Dialogue with the public	Aberdeen City, Angus, Clackmannanshire, East Ayrshire, East Renfrewshire, Eilean Siar, Falkirk, Fife, Glasgow City, Highland, Inverclyde, North Lanarkshire, Perth & Kinross, Renfrewshire, Scottish Borders, Shetland Islands, Stirling, West Dunbartonshire, West Lothian,	Aberdeenshire, Argyll & Bute, Dumfries & Galloway, Dundee City, East Dunbartonshire, East Lothian, City of Edinburgh, Midlothian, Moray, North Ayrshire, Orkney Islands, South Ayrshire, South Lanarkshire,
Accessibility	Aberdeen City, Angus, Argyll & Bute, Clackmannanshire, Dumfries & Galloway, East Ayrshire, East Dunbartonshire, East Lothian, East Renfrewshire, Fife, Glasgow City, North Ayrshire, Orkney Islands, Perth & Kinross, Scottish Borders, South Ayrshire, South Lanarkshire, Stirling, West Dunbartonshire,	Aberdeenshire, Dundee City, City of Edinburgh, Eilean Siar, Falkirk, Highland, Inverclyde, Midlothian, Moray, North Lanarkshire, Shetland Islands, West Lothian,

Appendix 5. Examples of good practice

Structured approach

Dumfries and Galloway Council presents its performance indicator information in a coherent manner using a database system. A wide range of indicators is easily accessible by following the information tree to the end point for the indicator of interest. Each indicator is then presented in a similar fashion with graphs and tables as well as narrative on 'How we are performing' that provides a further description with a 'Comment on progress' and 'Action/s we will take'.



Fife Council uses mini-sites for each SPI theme. The sites contain a list of indicators including trend data, targets and trend arrows.

Environment and recycling

Housing

Jobs and careers

Lifelong learning

Planning and building standards

Education and learning

Social care and health

Tourism and visitor attractions

Transport and roads

Employee information

Please click on the publications at the end of this page for information on the broader range of performance indicators.

Click on the headings below to view performance information and reports:

SPI 2 - Service

Benefits Administration

Community Care

Criminal Justice

Cultural and Community Services

Planning

Education

Child Protection/Children's Social Work

Housing and Homelessness

Protective Services

Roads and Lighting

Waste Management Services

For more information contact
Planning, Performance & Diagnostics
Tel: 03451 55 55 55 44 09 87 Fax: 01592 583527 [Contact Planning, Performance & Diagnostics online](#)

Effective use of customer satisfaction information

West Dunbartonshire Council publishes the Citizens' Panel annual newsletter to inform the public on how services are using the feedback members of the public have provided in surveys and focus groups to improve levels of customer satisfaction. This allows the public to see what the council is doing in response to the feedback.

Feedback

West Dunbartonshire Citizens' Panel
Annual Newsletter Summer 14

COMMUNITY PLANNING
WEST DUNBARTONSHIRE

West
Dunbartonshire
COUNCIL

CITIZENS' PANEL ANNUAL UPDATE

This annual newsletter tells you how services are using the feedback you have provided in surveys and focus groups over the last year and some of the changes made, based on what you've told us.

As usual, most surveys cover more than one subject. During 2013-14, we have sent you surveys on a range of topics including:

- **Community Safety Survey/Town Centres/Alcohol and Substance Misuse:** Community Safety and related topics.
- **Older People's Services/Measures of Satisfaction/Panel Feedback/Levensgrove Park:** A range of services for older people; some key measures of satisfaction on aspects of services; your views on how the Citizens' Panel is working and Levensgrove Park.
- **Health and Wellbeing and Libraries and Cultural Services:** Improving the health and wellbeing of all our citizens - a range of lifestyle factors from physical activity to what you eat and drink and libraries and cultural services.
- **Council Services, Equalities, Scottish Welfare Fund and the Community Health and Care Partnership:** Roads maintenance services, your journeys, grounds maintenance, parks and waste services; equalities issues; awareness of the Scottish Welfare Fund and the Community Health and Care Partnership.

Contents

Feedback on Citizens Panel	p3
Community Safety Survey/ Town Centres/ Alcohol and Substance Misuse	p3-4
Older People's Services/Measures of Satisfaction/Panel Feedback/Levensgrove Park.....	p5-7
Health and Wellbeing and Libraries and Cultural Services	p8-9
Council Services, Equalities, Scottish Welfare Fund and the Community Health and Care Partnership ...	p10-13
Equality and Fairness and the Council's Legal Compliance.....	p14-15
Contact details.....	p16

Thank You!

Continued on Page 2

South Ayrshire Council produces the Housing Newsletter which follows a user friendly format and includes key facts about the council's progress, satisfaction and feedback information, as well as the council's actions and priorities using the 'You Said, We Did' format. The information is presented using interesting infographics like charts and tables.

Satisfaction & feedback

We use Satisfaction Surveys to gather feedback from our customers and this helps us to improve and develop services for the future. These surveys were developed in consultation with tenants and give you the opportunity to tell us how well we are doing as your landlord and whether there are things that we could do better. It is important to us that we hear from as many of our customers as possible and we would encourage you to take the time to complete our surveys.

Throughout last year we issued tracker surveys to gather your feedback on key elements of service. We have discussed the feedback received at events with tenant representatives, we have included some examples of changes we have already made to how we deliver services.

In early 2014, we conducted a full comprehensive satisfaction survey by post to all tenants, 1388 tenants returned the survey, which was a response rate of 17.75%. The overall results from the survey are as follows:

Satisfaction with the overall service provided by the Council as a Landlord

- 70.7% of tenants were satisfied, compared to the Scottish average of 87.8%
- 11.9% of tenants were neither satisfied nor dissatisfied
- 16.9% of tenants were dissatisfied
- 0.5% of tenants had no opinion

How good did tenants feel we were as a Landlord, at keeping them informed about our services and decisions?

- 63.1% of tenants felt we were good, compared to the Scottish average of 88.9%
- 23.1% of tenants felt we were neither good nor poor at keeping them informed
- 13.8% of tenants felt we were poor at keeping them informed

Satisfaction with the opportunities we gave tenants to participate in our decision making processes

- 52.1% of tenants were satisfied, compared to the Scottish average of 78.4%
- 37.4% of tenants were neither satisfied nor dissatisfied
- 10.5% of tenants were dissatisfied



71.53% of tenants were satisfied with the quality of their home.



YOU SAID

Some tenants expressed concern that they did not receive enough contact from a Housing Officer during the time their home was being Modernised.

The ability to visualise a new kitchen layout and design was difficult.

The condition of gardens when properties are allocated was unacceptable.

That on occasions the wrong tradesman was sent to a repair that was reported for a shower.

You would like future repairs surveys to be analysed by town/village in order to identify any trends/issues arising by area.

You would like calling cards to be left when external repairs have been carried out and the tenant is not at home.



WE DID

We reviewed our procedures and Housing Officers will now make weekly contact with tenants, during the period that work is taking place in their home.

We have spoken with our contractor and have reached an agreement that tenants will be provided with a 3D drawing of their new kitchen layout.

We have reviewed our procedures and gardens are now inspected by the Housing Officer during the new tenancy visits. Gardens are also monitored on a regular basis by Housing Officers when they are carrying out visits within our neighbourhoods.

We have undertaken training with some of our Electricians and Plumbers in order for them to be multi-skilled when dealing with shower repairs.

We have agreed that future surveys will be analysed and reported by area, to future tenant scrutiny meetings.

We have reviewed our procedures. Trades Operatives will now leave a calling card to advise tenants that external repairs have been carried out while they were not at home.

Balanced picture of performance highlighting strengths and areas for improvement

East Renfrewshire Council recognises the importance of reporting on both good and not-so-good performance. Traffic light system is used in the Annual Performance report to indicate good performance as well as areas for improvement.

People

Our employees are skilled, and supported to achieve our outcomes.

We believe that our employees are our greatest asset. In order to achieve our goal of being the best we can be, we recognise the need to invest in our people to ensure they are able to do their jobs well. This enables us to provide a more efficient service to local residents and more effectively meet our outcomes for the local area. We consult our employees annually and have in place an Employee Survey to gather feedback on working for the Council, and to identify areas staff could be better supported to improve the services they provide.



Training and Development

- **1,526 people attending corporate training courses such as customer care courses in 2013-14.**
- **870 online e-learning courses were completed by employees in 2013-14, an 11% increase from 2012-13.**
- **Employees who began the accredited Professional Development Award in Project Management have almost completed the qualification. Eight more staff began the accreditation in late 2013.**
- **The percentage of staff with a Performance Review and Development plan in place has improved from 77% in 2012-13 to 81% in 2013-14 though we are not yet meeting our target of 100%.**



Absence

- **We are not meeting our target for absence and the current rate is 10.4 days per employee per year, against a target of 8.5 days. This is a decline in performance from 9.5 at year end 2012-13. We are working to address this and have developed a new absence management strategy as well as offering free health checks to all staff.**



Employee Survey

- **Survey response rate was 47.4%, a slight increase since 2012-13.**
- **There has been a reduction in staff who would recommend the Council as a good place to work and who know how their job contributes to the Council's objectives, largely accounted for by an increase in neither/nor responses as opposed to staff disagreeing with this. Employee survey figures will be monitored and more detailed data considered by managers to highlight and address any issues over 2014-15.**

Annual Performance Report - Page 30

South Lanarkshire Council's Annual Performance Report highlights areas of achievement, areas for improvement and the council's next steps in regards to improving performance.

In addition, the 'More Choices, More Chances' and the '16+ Learning Choices' agendas will continue to be pursued as models for assisting young people to stay in learning after their 16th birthdays in order to secure long term employability prospects and prevent youth unemployment.

Achievements for 2013-14



- Over 16,000 adults were supported to engage in a range of adult learning programmes.
- The number of participants engaging in programmes of learning increased by 5%.
- **South Lanarkshire Youth Council** members won the Scottish final of the **Money for Life Challenge** with their project looking at financial literacy and numeracy.
- Over 1,100 parents have been supported to improve their literacy and numeracy skills through their participation in a range of opportunities provided by the **Community Learning and Home School Partnership Teams**.

Areas for improvement and action



- We will deliver services and programmes through the **Community Learning and Development Partnership** to further improve literacy and numeracy skills among young people and adults.

Next steps



In facing the key challenges involved in increasing involvement in lifelong learning we will:

- Increase levels of achievement through learning for young people.
- Increase levels of achievement through learning for adults: **adult literacy and numeracy**.
- Increase levels of achievement through 'community capacity building' which means adopting methods that will strengthen the combined skills of the community.

Link to [Education of children performance at a glance report](#)

A further **374 young people** have benefitted from participation in **18 literacy and numeracy programmes**



Annual Performance Report

Good use of comparators

Edinburgh City Council includes the Scottish comparative statistics in the Key Fact and Figures Booklet on the performance web page.

SCOTTISH COMPARATIVE STATISTICS

Net Expenditure

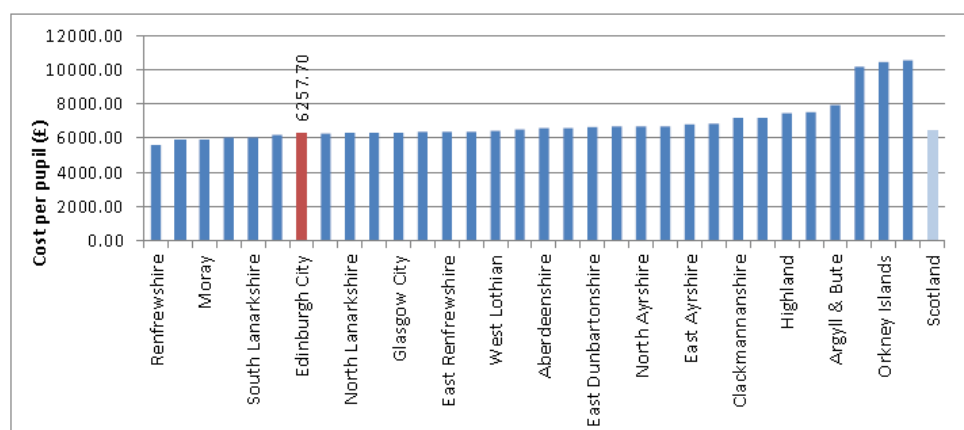
	2013-2014		2012-2013	
	Total £'000	Per head of Population £	Total £'000	Per head of Population £
Aberdeen	421,114	1,910	451,600	2,080
Dundee	331,458	2,277	374,863	2,598
Edinburgh	960,040	1,938	1,047,380	2,155
Glasgow	1,493,627	2,494	1,555,220	2,623
	<u>3,206,239</u>	<u>2,196</u>	<u>3,429,063</u>	<u>2,381</u>

Total Revenue Funding from Scottish Government

	2013-2014		2012-2013	
	Total £'000	Per head of Population £	Total £'000	Per head of Population £
Aberdeen	320,420	1,454	365,674	1,684
Dundee	285,017	1,958	316,396	2,193
Edinburgh	731,242	1,476	818,726	1,684
Glasgow	1,240,022	2,071	1,386,067	2,338
	<u>2,576,701</u>	<u>1,765</u>	<u>2,886,863</u>	<u>2,004</u>

Moreover, **Edinburgh City Council's** LGBF Children's services report includes meaningful comparisons with other councils and the Scottish average. These are supported with contextual narrative.

How much does my Council spend on secondary pupils?

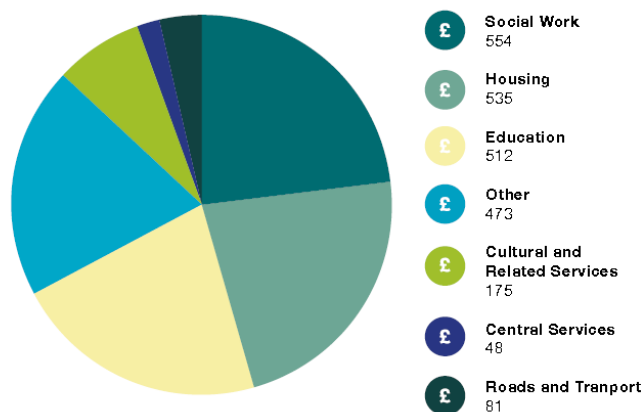


Source: Improvement Service, Local Government Benchmarking Framework 2013/14

Effective use of financial and cost information

Glasgow City Council's Annual Performance Report has a breakdown of spend by service and how each £1 of Council Tax is spent.

TOTAL SPEND BY SERVICE
£ millions

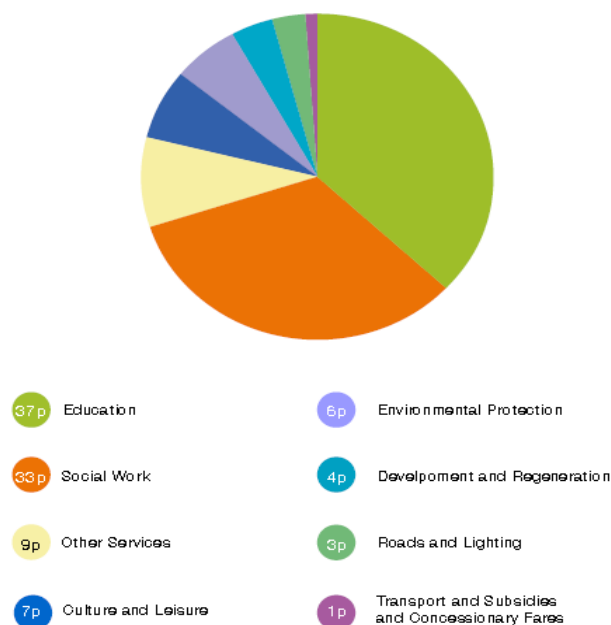


To deliver these services, we spent the following:

Employee costs	£679 million	28%
Financing Costs	£101 million	4%
Third-party payments	£632 million	26%
Transfer payments	£505 million	23%
Premises	£87 million	4%
Supplies	£218 million	9%
Transport	£70 million	3%
Other	£86 million	4%

This diagram shows how we spent the money we collected from Council Tax in 2013/14. Some services we pay for are provided by other organisations, such as Police Scotland and Scottish Fire and Rescue.

WE SPEND EACH £1 OF COUNCIL TAX ON



Dialogue with the public

Aberdeen City Council uses an online questionnaire to ask the public for their views on the council's approach to public performance reporting.

Tell us what you think - Performance Report form

We would like to hear your views on our performance report. This short questionnaire gives you an opportunity to tell us what you think. We would be grateful if you could take some time to complete:

* Indicates required information

Did you...

- find Aberdeen Performs easy to navigate?

☐ Yes ☐ No

- understand the information?

☐ Yes ☐ No

- feel the site offers the information about our services and functions which you are interested in?

☐ Yes ☐ No

- get a clear picture of our performance?

☐ Yes ☐ No

If you answered 'No' to any of the above, please tell us why:



Perth and Kinross Council uses social media, e.g. Twitter, for public performance reporting by publishing statistics under a dedicated hashtag #pkperforms.



Perth&KinrossCouncil @PerthandKinross · Apr 8
Our recycling & composting rates remain amongst Scotland's highest, with overall recycling in 2013/14 reaching 52% [#pkperforms](#)

← ↻ ★ 1 ⋮



Perth&KinrossCouncil @PerthandKinross · Apr 2
Our prevention focus has reduced homeless applications from households by 16% and from young people by 16% over the past 3 years [#pkperforms](#)

RETWEETS	FAVOURITES
2	2



11:52 am - 2 Apr 2015 · Details

← ↻ ★ ⋮



Perth&KinrossCouncil @PerthandKinross · Mar 25
pkc.gov.uk/businesssupport with our support 314 new businesses started in 2013/14 and 541 jobs were created. [#pkperforms](#)

← ↻ ★ ⋮

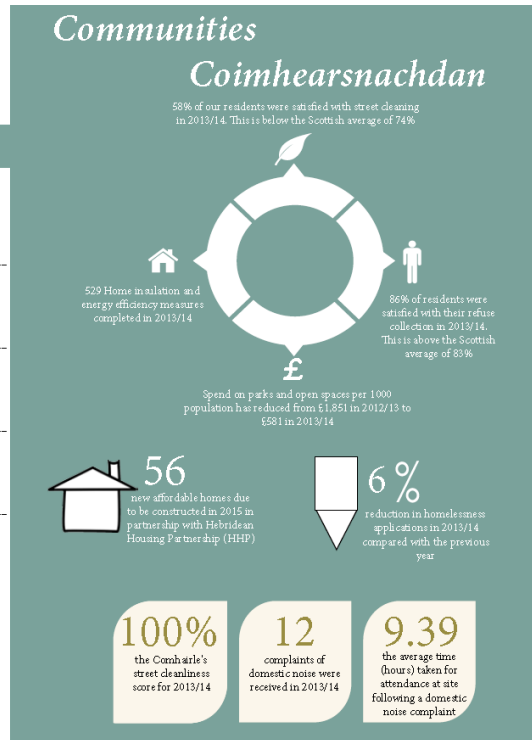
Accessibility

Eilean Siar uses infographics in the Public Performance Calendar, which makes complex information engaging and accessible.

Local Outcome 5: The communities of the Outer Hebrides are stronger and more able to identify, articulate and take action and responsibility regarding their needs and aspirations

Sun	Mon	Tue	Wed	Thu	Fri	Sat
30	31					1
2	3 <small>Hol (L, H, D)</small>	4	5	6	7	8
9	10	11	12	13 <small>School Op</small>	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

For more information on the Comhairle's performance please visit the public performance reporting pages on our website:
<http://www.cne-siar.gov.uk/>



Argyll and Bute Council produces the Annual Performance report which is available in different formats and languages on request.

If you would like this document in another language, Braille or easy-read format, or if you require the services of an interpreter, please contact us.

Ma tha sibh ag iarraidh an sgrìobhainn seo ann an cànan no riochd eile, no ma tha sibh a' feumachdainn seirbheis eadar, feuch gun leig sibh fios thugainn.

Jezeli chcieliby Państwo otrzymaO ten dokument w innym języku lub w innym formacie albo jeeli potrzebna jest pomoc Uumacza, to prosimy o kontakt z nami.

यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको आनुवाद-सेवाओं की आवश्यकता हो तो हमसे संपर्क करें

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو براۓ مہربانی ہم سے رابطہ کیجئے۔
ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਸਿੱਟਰਪੈਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

SHETLAND ISLANDS COUNCIL

ASSESSMENT OF THE COUNCIL'S PUBLIC PERFORMANCE REPORTING FOR 2013/14

Organisation	Roles	Name, title	Email	Telephone
Audi Scotland	Auditor	Douglas Black, Audit Manager	SPIquery@audit-scotland.gov.uk	0131 625 1856
Audit Scotland	Appointed auditor	Dave McConnell, Assistant Director	dmcconnell@audit-scotland.gov.uk	0131 625 1769
Audit Scotland	Audit manager	Peter Lindsay, Manager	plindsay@audit-scotland.gov.uk	0131 625 1934
Shetland Islands	Council contact	Melissa Mullay, Performance and Improvement Officer	melissa.mullay@shetland.gov.uk	01595 744 598
Shetland Islands	Council contact	Jim MacLeod, Performance and Improvement Adviser	james.macleod@shetland.gov.uk	01595 744 672

Key links – if a link does not open the web page/document you seek, please copy and paste the link into your web browser. Links valid as at April 2015.

SPI1. Corporate management

www.shetland.gov.uk > [Our performance matters](#) – which has links to:

- [Our Corporate Plan 2013-17](#) – this document sets out how the council (corporate) plans for this period
- [Our Performance Matters 2013/14](#) – this document provides a Corporate performance summary
- [Performance indicators](#) – this web page links to reports on council performance by SPI theme

SPI2. Service performance

Reports for service, for each quarter in 2013/14, via [Home > Our performance](#) – with end-of-year reports.

- [Corporate and Executive Services](#), [Community Health & Social Care](#), [Children's Services](#), [Infrastructure Services](#), [Development Services](#),

SPI3

- <http://scotland.mylowcouncil.info/>

Links to SPIs / summary of ratings

SPI1. Corporate management	Rating	SPI 2. Service performance	Rating	SPI 3. LGBF	Rating	4. Overall aspects	Rating
1.1 Responsiveness to communities	YES	2.1 Benefits administration	AFI	3.1 LGBF	YES	4.1 Structured approach	AFI
1.2 Revenues & service costs	AFI	2.2 Community care	YES			4.2 Customer satisfaction	AFI
1.3 Employees	AFI	2.3 Criminal justice social work	AFI			4.3 Balanced picture	YES
1.4 Assets	YES	2.4 Cultural & community services	AFI			4.4 Comparators	AFI
1.5 Procurement	YES	2.5 Planning	YES			4.5 Financial & cost information	AFI
1.6 Sustainable development	AFI	2.6 Education of children	AFI			4.6 Dialogue with public	YES
1.7 Equalities & diversity	YES	2.7 Child protection/social work	YES			4.7 Accessibility	AFI
		2.8 Housing & homelessness	YES				
		2.9 Protective services	YES				
		2.10 Roads & lighting	AFI				
		2.11 Waste management	AFI				
Number of YES	4		5		1		2
Number of AFI	3		6		-		5

SHETLAND ISLANDS COUNCIL

Assessment detail

The summary **Rating** should be noted as **Yes** (fully meets requirements) or **AFI** (area for improvement). **Key to other terms:** **CPO** = Community Payback Order. **CPP** = Community Planning Partnership. **FOI** = Freedom of Information. **LGBF** = Local Government Benchmarking Framework. **PI** = performance indicator. **PPR** = Public Performance reporting. **RAG** = Red, Amber, Green. **SOA** = Single Outcome Agreement. **SPI** = Statutory Performance Indicator.

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
SPI1. CORPORATE MANAGEMENT – Each council should report a range of information sufficient to demonstrate that it is securing Best Value in relation to:				
1.1 Responsiveness to communities <ul style="list-style-type: none"> Engagement Customer feedback Satisfaction survey Consultation Citizen panel Customer care Complaints FOI requests Contact centre 	1.1.a. A range of PPR info gives a broad overview of performance.	<p>Performance reports, including the Our Performance Matters 2013/14 (the council's annual performance report), are available by following the route Home > Our performance > Performance reports.</p> <p>A dedicated section on Responsiveness to communities can be found from Home > Our performance > Performance indicators.</p>	<p>The council provides a range of ways in which the public can give feedback or make complaints. There is also good performance information that can be found easily. However, there is a lack of trend data in areas such as comments and complaints, some information is out of date, and the council could make the system more user-friendly.</p>	YES
	1.1.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> how well the council meets the needs of specific communities data from its surveys and consultations how it has reacted to feedback how it has improved services. 	<p>Each directorate produces its own year-end report. These are available on the Performance reports' web page, which can be accessed as noted at 1.1.a. Performance data are included in an appendix that can be accessed through a different link.</p> <p>A web page dedicated to community consultation and involvement can be accessed by searching the council's web page for 'citizen's panel'. The link for Current consultations does not work, so there is no opportunity for the public to access this information easily. This could be due to the fact that the Council cancelled its schools closure consultation exercise.</p> <p>On the Performance indicators web page (see 1.1.a), impact assessments, satisfaction & evaluation surveys and consultation information, can all be accessed. For example, there is a link to the Shetland library satisfaction survey which provides contextual information to together with numerical data, achievements and actions to be taken over the coming year.</p> <p>Reference to the Customer Satisfaction Survey 2013 is made in Our Performance Matters 2013/14 but no further detail can be found when searching the council's website.</p>		
	1.1.c. The council actively seeks feedback on corporate and service issues.	<p>Your Voice was the council's citizen's panel but is now no longer used. It consisted of approximately 600 people agreed to answer two surveys a year about services provided by the council. A link to this is available on the web page mentioned above at 1.1.b.</p> <p>Your Voice is no longer used and instead the council uses Survey Monkey software for online surveys. The council recognises it needs to find a way of making survey information more accessible to the public.</p>		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	1.1.d. Complaints data are reported for all services.	<p>Comments and complaints information can be found at Home page > About the council > Comments and complaints. This dedicated comments and complaints web page provides links to complaints reports produced by the council.</p> <p>The year-end Complaints monitoring report 2013/14 includes case studies in which individual issues, actions taken by the council and the outcomes achieved are summarised. Performance information is reported for all services, but it is very limited. For example, data relating to the comparison between the council's performance and the Scottish average is reported for all services but this is restricted to one indicator – customer satisfaction. There is also limited narrative and no trend information available.</p>		
	1.1.e. It is easy to make a complaint or a FOI request.	<p>The Home page's A-Z menu does not have entries for Complaints or Comments. A link at the top right hand corner of the Home page, labelled Feedback, leads to an option for the public to leave comments and feedback online, but it is unclear if this can also be used for complaints.</p> <p>The Comments and complaints web page provides links to a Word document for the public to use in making complaints – but this needs to be printed by the public and posted to the council.</p> <p>On the lead page for performance information, headed Performance Matters, there is a link to a Customer assurance document which explains how the council handles</p> <p>Appendix 4 of the Council's Complaints Handling Procedures lists email as an option for submitting complaints. Also, there is a 'Submit by E-mail' button on the final page of the Complaints Form (pdf version).</p> <p>A dedicated FOI web page is at Home > About the council > Freedom of Information. There is no online system available to the public for making an FOI request – but contact details for the Executive Manager responsible for governance and law, including an email address, are provided at the bottom of the web page.</p>		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
1.2 Revenues & service costs <ul style="list-style-type: none"> Budget Revenue Expenditure Income Service cost Council tax 	1.2.a. A range of PPR information gives a broad overview of performance.	Information on revenue and service costs can be found at Home > Our performance > Performance indicators. This web page provides links to information on revenues and benefits performance reporting.	The performance information published by the council is not comprehensive and the council could benefit from reporting on a broader range of indicators.	AFI
	1.2.b. PPR includes local indicators giving a full picture, eg on: <ul style="list-style-type: none"> unit costs/service expenditure efficiency targets. 	<p>Performance information on how the council compares with other councils (and the Scottish average) is available for indicators including:</p> <ul style="list-style-type: none"> How much does my council spend on collecting Council Tax? How efficient is my council at collecting Council Tax? <p>Graphics (including trend analyses) are provided for this information but no contextual information is available.</p> <p>No performance information on income and expenditure for services can be located. But some additional financial information is available – please refer to 2.1</p>		
1.3 Employees <ul style="list-style-type: none"> Sickness absence Staff survey Staff engagement Staff feedback Staff turnover Staff satisfaction Staff training 	1.3.a. A range of PPR information gives a broad overview of performance.	Performance information is available in Our Performance Matters 2013/14.	The performance information published by the council is not comprehensive and the council could benefit from reporting on a broader range of indicators.	AFI
	1.3.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> wider performance measures such as job satisfaction the cost of the HR function staff engagement workforce changes, eg staffing reductions through voluntary severance or redundancy senior management restructuring. 	<p>Limited information is available in Our Performance Matters 2013/14. One graphical representation is available, about sickness- absence levels. Comparative information is included – the council's performance in comparison to the Scottish average – but there is no narrative or trend analysis. Narrative around workforce changes, eg, the staff reduction percentage, is included but without infographics.</p> <p>A link to Performance information related to our employees is available on the performance indicators web page (see 1.1.a). This two-page document provides information on productivity and performance in relation to employees. Eg, it includes information on numbers of voluntary exits, and to employee review and development meetings. Although there is plenty of narrative, no trend analysis is included and no areas for improvement have been reported.</p> <p>No evidence could be found on staff surveys or staff training, at the time of the assessment.</p>		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
1.4 Assets <ul style="list-style-type: none"> Asset management Property maintenance Property repairs Buildings Vehicles Equipment 	1.4.a. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> corporate asset management plan key projects (eg new HQ) property repairs property maintenance spend work with partners to best use joint assets. 	A link to information on assets is on the performance indicators' web page (see in 1.1.a). Here, there are links to finances and asset investment plans including the Asset Strategy 2014-16 . The LGBF has relevant performance indicators, eg : <ul style="list-style-type: none"> How many council buildings are suitable for their current use? How many council buildings are in a satisfactory condition? 	The council has published an adequate range of information.	YES
1.5 Procurement <ul style="list-style-type: none"> Procurement Procurement Capability Assessment (PCA) 	1.5.a. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> e-procurement. PCA score Improvements from joint spend with partner bodies 	A link to information on procurement can be found on the performance indicators web page (see 1.1.a). This link takes the public to the How we buy goods, works and services (procurement) web page, where links to various documents can be found including the Procurement strategy 2012-15 and the Procurement action plan . A link to Statutory Performance Indicators information is on the aforementioned web page, and the indicators include the council's PCA score. Trend information and RAG statuses are given but there is no narrative. An explanation of the purpose of PCA is provided, and data for 2013 and 2014 are given. However, there is no supplementary information, so the public have no way of understanding what criteria each of the scores relate to.	A good range of performance information is available. However, the lack of narrative and supplementary information makes it difficult for the customer to gain an understanding of how the council is performing.	YES
1.6 Sustainable development (Focusing on environmental aspects) <ul style="list-style-type: none"> Sustainability Environmental Green, Ecology Street cleaning Carbon emissions Energy efficiency Biodiversity 	1.6.a. A range of PPR information gives a broad overview of performance. 1.6.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> biodiversity actions and targets energy consumption vehicle fleet CO₂ emissions derelict land parks and outdoor spaces. 	A link to information on Sustainable development can be found on the performance indicators web page (see 1.1.a). Despite the link in 1.6.a being located on the performance indicators web page, no performance information on sustainable development is provided upon clicking this link and accessing the web page. Reference is made to mylocalcouncil for environmental performance information. However, the LGBF has only one relevant performance indicator – on 'How many unemployed people have been assisted into work by my council?'	The council has published an inadequate range of information.	AFI

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
1.7 Equalities & diversity <ul style="list-style-type: none">• Equality• Diversity• Female employees• Disability• Ethnic minority	1.7.a. A range of PPR information gives a broad overview of performance.	A link to information on Equality and diversity is on the performance indicators web page (see route outlined at 1.1.a). Here, the council's Mainstreaming report end equality outcomes 2013-17 report, published in April 2013, can be found.	Comprehensive and relevant performance information is reported by the council.	YES
	1.7.b. PPR recognises equalities & diversity in its broader sense, and covers how well the council is tackling inequality.	The report noted in 1.7.a refers to steps that the council is making to address inequality through various activities and outputs. These are summarised in Appendix 1 of the report, which focuses on the equalities outcomes implementation plan.	Going forward, the council could also consider reporting some trend analysis for certain indicators, and ensuring all performance information is up to date.	
	1.7.c. PPR includes commentary on the council's response to its statutory duties on diversity and equality.	As above.		
	1.7.d. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none">• complaints by ethnic minorities• user satisfaction with services.	Information relating to the gender split as a percentage of council employees' grade and pay is available. Furthermore, age ranges, disability and ethnicity information is available for issues such as the workforce, training applications and promotions. Graphics and narrative are also included, but without trend information. Data are out of date and should be updated accordingly.		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
SPI2. SERVICE PERFORMANCE - Each council will report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate)				
2.1 Benefits administration <ul style="list-style-type: none"> • Benefit • Benefit fraud • Welfare reform 	2.1.a. A range of PPR information gives a broad overview of performance.	A link to information on Benefits administration can be found on the performance indicators web page (see route outlined at 1.1.a).	<p>A broad range of indicators available on benefits administration but the lack of contextual information and infographics make it difficult for the public to grasp how well the council performs.</p> <p>It would be helpful for performance information to feature in performance reports rather than service plans.</p> <p>The council could benefit from explaining how it is measuring performance in relation to welfare reform, and issues that it aims to improve upon.</p>	AFI
	2.1.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • how well the council has responded to welfare reforms • service impacts as a result. 	<p>Clicking on the link in 2.1.a leads to a page titled Revenues and benefits performance reporting. This information on the page is the same as for theme 1.2.</p> <p>The Benefits Service Plan 2014-15 uses general indicators to measure performance. These include:</p> <ul style="list-style-type: none"> • Average time to process new claims (calendar days). • Average time for processing changes in details (calendar days). <p>Trend information is tabulated and there is a reference to the Scottish average, but there is no graphical representation of the data.</p> <p>The council states in its Benefits Service Plan 2014-15 that no specific fraud targets are in place, but monitoring of fraud performance is handled by measuring changes in:</p> <ul style="list-style-type: none"> • Sanctions achieved. • Housing benefit fraud detected. • Council tax benefit fraud detected. <p>Comparative data for 2013/13 and 2013/14 are reported. However, there is limited narrative and no graphical representations.</p> <p>Financial information relating to benefits administration is available in an extract from the one-page Financial service action plan 2013-14. There is no information relating to welfare reform.</p>		
	2.1.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy.	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14 . This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
2.2 Community care <ul style="list-style-type: none"> Community care Delayed discharge Respite care Care satisfaction Waiting times Service user survey Telecare Care staff training Personal care 	2.2.a. A range of PPR information gives a broad overview of performance.	A link to Community care is on the performance indicators web page (see route noted at 1.1.a), where quarterly reports are hosted.	<p>Comprehensive and relevant performance information is reported by the council. However, the council should aim to be more consistent with its approach to reporting trend information.</p> <p>The council would benefit from clarifying which local indicators it uses to measure performance and giving a comparison with the Scottish average throughout.</p>	YES
	2.2.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> service user satisfaction no. of people waiting longer than target time for service percentage of personal carers qualified to Scottish Social Services Council standard. the integration of adult health and social care and other relevant policy developments, eg Self-Directed Support. 	<p>Information on a range of indicators includes:</p> <ul style="list-style-type: none"> Number of people over 65 receiving ten or more hours home care per week. Percentage of people who live in housing rather than a hospital or care setting. Accumulated bed days for people delayed from hospital discharge. Proportion of people 75 and over with a Telecare package. <p>Progress comments, infographics, the council's current position and its plans for improvement are all included. Trend information is available but the timespan over which trend are reported is inconsistent.</p> <p>Further contextual and improvement plan information is available in the Community Care Directorate Plan 2014/15.</p>		
	2.2.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to 'Our Single Outcome Agreement 2014' and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.3 Criminal justice social work <ul style="list-style-type: none"> Criminal justice Community payback orders Reconviction rates Child reporting Young offenders Probation orders 	2.3.a. A range of PPR information gives a broad overview of performance.	A link to Criminal justice social work can be found on the performance indicators web page (see route noted at 1.1.a).	<p>The performance information published by the council is not comprehensive and so, the council could benefit from reporting on a broader range of indicators.</p>	AFI
	2.3.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> no. of community payback orders started <7 working days percentage of community payback orders successfully completed reconviction rates. 	<p>The link in 2.4.a does not link to any performance information.</p> <p>The Chief Social Worker's Annual Report 2013/14 includes information relating to community payback orders – trend information supported by narrative is available.</p>		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
<ul style="list-style-type: none"> • Payback orders 	2.3.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to 'Our Single Outcome Agreement 2014' and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.4 Cultural & community services <ul style="list-style-type: none"> • Community access • Satisfaction survey • Cultural heritage • Learning centres 	2.4.a. A range of PPR information gives a broad overview of performance.	Performance information relating to cultural and community services is not located in one area. Please refer to 2.5.b.	The performance information published by the council is not comprehensive, and so the public could benefit from broader range of indicators with supplementary information, using updated data.	AFI
	2.4.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> • cost per attendance at a sport/leisure facility • service user satisfaction • specific improvement commitments/ actions. 	<p>A Sport and leisure services service plan 2014/15 is available. This was published by the council's children's service department. Data for key service indicators (in part seven) are out of date.</p> <p>Quarterly reports by the children's service department include progress comments, infographics, the council's current position and its plans for improving sport & leisure and library & information services.</p> <p>The Our Performance Matters 2013/14 report has performance information on library services but no trend information or infographics are available.</p> <p>However, Shetland Museum is part-funded by SIC, but it is not part of the council. Shetland Amenity Trust own The Arts facilities. Therefore the council only has direct control of information on Sport/Leisure and Library services.</p>		
	2.4.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy.	Links at the bottom of the Performance Indicators webpage lead to 'Our Single Outcome Agreement 2014' and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		

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Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
2.5 Planning <ul style="list-style-type: none"> Planning applications Building warrants Use of land Building standards 	2.5.a. A range of PPR information gives a broad overview of performance.	A link to information on Planning can be found on the performance indicators web page (see route outlined in 1.1.a)	A broad range of indicators published by the council. Nonetheless, the council and the public could benefit from the inclusion of infographics.	YES
	2.5.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> the council's aims service costs customer satisfaction. 	A planning section in Our Performance Matters 2013/14 highlights a few planning statistics, for example, average decision making timescale on major developments (and the comparison to the Scottish average). The Planning performance framework 2013/14 includes performance indicators with a RAG status and narrative for various indicators. This information is supported by a guidance document which provides trend information for 2012/13 and 2013/14. Results of a customer satisfaction survey are published on the web page noted in 2.8.a but it not clear which year this relates to.		
	2.5.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.6 Education of children <ul style="list-style-type: none"> Young people Attainment School inspections School leaver Education cost School survey Exclusion Attendance +ve destinations School meals Eco schools Special education 	2.6.a. A range of PPR information gives a broad overview of performance.	The Education of children link is on the performance indicators web page (see route outlined in 1.1.a) but this link directs the public to the Children's services performance web page.	A broad range of indicators is published by the council but the public could benefit from more comprehensive performance information, including more narrative and the inclusion of the national average consistently for all indicators. Furthermore, the council should ensure that all performance information is updated with 2013/14 data, and that web links work reliably.	AFI
	2.6.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> Education Scotland inspection results and satisfaction information SQA/SCQF attainment levels. 	Information on a range of indicators including: <ul style="list-style-type: none"> Exclusion rates for primary and secondary pupils. Positive destinations for school leavers. Progress comments, infographics, the council's current position and its plans for improvement are all included. Some information requires updating, eg 2013/14 data are not reported for the number of pupils achieving 5 or more qualifications at SCQF <i>Level 5</i> or higher at end of S4.		
	2.6.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		

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Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
2.7 Child protection & children's social work <ul style="list-style-type: none"> Child protection Children looked after at home Child care Foster care Supervision order 	2.7.a. A range of PPR information gives a broad overview of performance.	A link to Children's services is on the performance indicators web page (see route noted at 1.1.a), where quarterly reports are hosted.	Comprehensive and relevant performance information is reported by the council However, the council should aim to be more consistent with its approach to reporting trends. The council would benefit from clarifying which local indicators it uses to measure performance and providing comparative data to the Scottish average throughout. Furthermore, additional contextual information would be beneficial.	YES
	2.7.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> placement of looked after children percentage of children seen by a supervisor officer < 15 days children on the child protection register. 	Information on a range of indicators is available in quarterly reports. It includes: <ul style="list-style-type: none"> Number of children involved in child protection investigations. Number of respite day hours. Number of fostering nights. Progress comments, infographics, the council's current position and its plans for improvement are all included. Trend information is available but the time span over which trend information is reported is inconsistent. Further contextual and improvement plan information is available in the Children's Services Directorate Plan 2014/15 .		
	2.7.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview document links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.8 Housing & homelessness <ul style="list-style-type: none"> Homeless House repair Domestic noise House building Affordable homes Rent arrears Scottish Housing Quality Survey Building investment 	2.8.a. A range of PPR information gives a broad overview of performance.	A link to information on Housing and homelessness is on the performance indicators web page (see route outlined in 1.1.a) but when accessing the link, no performance information is found.	PPR on housing and homelessness requires more performance-related information. For example RAG status and trend information would be helpful since the level of performance is unclear to the public.	YES
	2.8.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> rent arrears energy efficiency house building rates affordable homes homelessness tenant engagement. 	There is a 'Did you know?' section on housing in Our Performance Matters 2013/14. A wide range of information includes homeless figures, emergency repair times and satisfaction survey results. Narrative and infographics are available but there is a lack of trend information.		

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Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
<ul style="list-style-type: none"> Energy efficiency 	2.8.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014' and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.9 Protective services <ul style="list-style-type: none"> Protective services Environment Trading Standards Food safety Pest control Food hygiene Noise complaints Flood alleviation 	2.9.a. A range of PPR information gives a broad overview of performance.	A link to information on Environmental health and Trading standards is on the performance indicators web page (see the pathway at 1.1.a).	A broad range of indicators are published by the council	YES
	2.9.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> food safety pest control flood alleviation customer satisfaction. 	<p>A high-level summary together with further detailed information are available on the Trading standards performance information page (see link in 2.9.a). Trend information and infographics for local indicators are available but only limited narrative is provided.</p> <p>With regards to environmental health (refer to link in 2.9.a), graphics, trend information and limited narrative are available for numerous indicators including pest control, noise complaints and dog fouling.</p>	However, there would be benefit to the council and the public if a RAG status and more narrative were included. This would allow the public to understand the council's performance more easily.	
	2.9.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014' and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.10 Roads & lighting <ul style="list-style-type: none"> Roads Lighting Cost of repairs Road resurfacing Road satisfaction 	2.10.a. A range of PPR information gives a broad overview of performance.	A link to information on Roads and lighting is on the performance indicators web page (see route outlined in 1.1.a).	The performance information published by the council is not comprehensive.	AFI
	2.10.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none"> traffic light failure repairs winter maintenance works completed in target time period percentage of road network resurfaced. 	<p>The Road service action plan 2014 is available on the council's website. It includes the business activity, the council's objectives, improvement/ change action, target outcomes, timescales and progress (shown using a RAG status).</p> <p>No measureable performance indicators, with narrative and/or trend analysis, are available.</p>	The council could benefit from reporting on a broader range of indicators, supported by explanatory narrative and infographics.	

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	2.10.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
2.11 Waste management <ul style="list-style-type: none">• Waste collection• Waste recycling• Missed collections• Landfill• Satisfaction survey• Complaints	2.11.a. A range of PPR information gives a broad overview of performance.	A link to information on Waste management is on the performance indicators web page (see route outlined in 1.1.a).	The performance information published by the council is not comprehensive.	AFI
	2.11.b. PPR includes local indicators that give a full picture, eg on: <ul style="list-style-type: none">• refuse bin collection rates.	Service plan statistics for 2013/14 are available but there is no trend information, no narrative and no infographics	The council could benefit from reporting on a broader range of indicators, supported by supplementary narrative and infographics.	
	2.11.c. PPR has clear links to higher-level strategic themes in the SOA and/or CPP plan/strategy	Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
SPI3. Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)				
3.1 LGBF <ul style="list-style-type: none">• Framework• Benchmarking• Service• Performance	3.1.a. The council reports its performance against the performance indicators in the LGBF.	Information on mylocalcouncil is found via: Home > Our performance > My local council .	The council reports its performance via the LGBF.	YES
	3.1.b. The council reports its performance at mylocalcouncil	The council has found software compatibility issues in applying a web design tool made available by the Improvement Service – the 'iframe'.		
4. OVERALL				
4.1 Structured approach to PPR, with clear presentation of information	4.1.a. PPR information is linked directly from the website's Home page.	There is a clear link to the main Performance web page from the council's Home page.	There is inconsistent use of narrative, trend data, comparisons to Scottish average and description of areas for improvement. Some web pages do not contain information the public would expect to see.	AFI
	4.1.b. There is a coherent look & feel to how information is presented and structured.	Several links on the Performance indicators web page do not link to performance information, but information more related to non-performance aspects. Eg, the Housing and homelessness page offers information on how to request repairs rather than the responsiveness of the repairs service.		
	4.1.c. There is a high-level summary on the council's overall performance.	A poster which gives a high-level summary of the council's performance is available.	Relevant performance information should	

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	4.1.d. There is clear layering and signposting of information, which is easy for the reader to navigate.	There is clear layering and signposting. However, the comment in 4.1.b applies.	reliably be available on individual web pages. The public council benefit from the council adopting a more consistent in its approach to PPR, where appropriate.	
	4.1.e. There is relevant explanatory narrative – which is in plain language.	Various examples in this assessment highlight the lack comprehensive narrative within the council's PPR.		
	4.1.f. There are supporting, informative graphics, eg charts, tables, and diagrams.	Some infographics enable the public to see data trends easily, but there is inconsistent use of infographics throughout the council's PPR.		
	4.1.g. Web links to other PPR information work.	The links work. Links at the bottom of the Performance Indicators webpage lead to Our Single Outcome Agreement 2014 and the SOA Performance Overview 2013/14. This overview links the contribution of performance on a wide range of indicators to the council's corporate objectives. Progress against actions is reviewed every three months by the Shetland Partnership Performance Group.		
	4.1.h The council reports on additional indicators that contribute to an overall view of their performance.	Directorate Plans are on the web page for Our Performance Matters, and contain additional indicators. Service plans also contain additional indicators and can be found on some individual webpages.		
4.2 Effective use of customer satisfaction information	4.2.a. PPR explains consultations and/or satisfaction surveys carried out, and specify the findings.	'Your voice' allows people to participate in surveys, but information on survey results is out of date and the link to Current consultations does not work.	The council would benefit from making it easier for the public to respond to consultations. Publishing analyses of all survey responses would also be beneficial.	AFI
	4.2.b. PPR explains what the council is doing as a result of feedback.	It is not always clear what actions the council is taking in response to the feedback it has received.		
4.3 Balanced picture of performance	4.3.a. The council presents a balanced picture of performance.	Both good and weak performance are reported by the council.	PPR give a balanced picture of performance but a RAG status symbol could be used for all indicators.	YES
	4.3.b. Traffic light-style colours or symbols give a helpful overview.	There is some use of RAG status symbols for specific performance indicators.		
	4.3.c. Priorities for improvement by the council is clear to the reader.	Areas for improvement are commented on by the council.		
4.4 Good use of comparators	4.4.a. Performance is set in context using comparators and trends.	There is inconsistency in terms of the trends published and the comparators used throughout the council's PPR.	As mentioned in 4.1, the council would benefit from adopting a more consistent approach, where appropriate.	AFI
	4.4.b. Trends are included for all council areas and indicators, as appropriate.	As above.		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
	4.4.c. There are meaningful comparisons with other councils, eg in family groups, and overall.	The council reports through the LGBF and this includes a comparison against the Scottish average for those indicators.		
4.5 Good use of financial & cost information	4.5.a. PPR features the costs and other financial aspects of service delivery.	Annual financial statements are published on the council's website. On the Home page, a menu bar on the left hand side of the screen has a link to Finances and asset management plan . This page has links to a range of documents including the council's report on its Audited statement of accounts 2013/14 . The report contains a large amount of financial information, a helpful explanatory introduction; and covers challenges and financial pressures facing the council.	The council has produced comprehensive financial information along with its audited accounts. However, many members of the public likely to find a set of lengthy accounts difficult to understand. The council's PPR could therefore benefit from including a simpler summary with the overall corporate position; high-level coverage of the various major services; and more use of supporting infographics.	AFI
	4.5.b. Financial information is well structured and clearly presented.	As above.		
	4.5.c. There is information on services' unit costs, eg £ per primary school pupil.	As above.		
	4.5.d. PPR includes information on the council's budgets for major services.	As above.		
	4.5.e. Plain language explains the figures.	As above.		
4.6 Dialogue with the public	4.6.a. The council has consulted the public on what it wants from PPR.	There is a 'Contact us' section at the bottom of the web page; and contact information is available on the performance web page. The council has a web page that explains its performance information to the public and invites comments/feedback. The Customer Feedback Framework document shows ways in which services actively go out to the community and request feedback on how well the council is performing.	There is limited evidence to suggest that the council has meaningful dialogue with the public about PPR.	YES
	4.6.b. The council uses social media to engage the public and have a dialogue on performance.	A link to Twitter is available at the top of the Home page, but this is not completely obvious.		

SHETLAND ISLANDS COUNCIL

Theme	Characteristics include...	Evidence (key facts / links to web pages)	Summary judgement	Rating
4.7 Accessibility	4.7.a. PPR features a range of outputs that target specific audiences.	The council publishes a range of reports, but all primarily use narrative coverage of performance. On the Home page, there is contact information for the council and the opportunity to increase or decrease the on-screen font size.	The council could do more to improve the accessibility of its PPR.	AFI
	4.7.b. Information is available in different languages, on request.	No evidence of PPR being available in different languages.		
	4.7.c. Printed information is available on request.	No evidence of printed PPR information being available on request.		



**Audit Committee
Pension Fund Committee**

**22 September 2015
22 September 2015**

Shetland Islands Council Pension Fund - Annual Audit Report on the 2014/15 Audit	
F-048-F	
Report Presented by Executive Manager – Finance	Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to receive Audit Scotland's Annual Audit Report on the 2014/15 Audit.

2.0 Decision Required

- 2.1 That the Audit Committee RESOLVE to:
- a) NOTE Audit Scotland's Annual Audit Report on the 2014/15 Audit.
- 2.2 That Shetland Islands Council Pension Fund Committee RESOLVE to:
- a) NOTE Audit Scotland's Annual Audit Report on the 2014/15 Audit.
 - b) APPROVE the Action Plan.

3.0 Detail

- 3.1 The Pension Fund is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Pension Fund's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of the Annual Accounts.
- 3.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit

- significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 3.4 Audit Scotland's ISA 260 Report is included at Appendix 1 to this Report. This confirms that Audit Scotland will be certifying the accounts as being a true and fair statement of the Pension Fund's financial position at 31 March 2015.
- 3.5 The 2014/15 Annual Audit Report is included at Appendix 2 and this contains a number of risks that require to be addressed by the Pension Fund. An Action Plan to address these issues has been drawn up and is included as Appendix B: Action Plan (part of Appendix 2). The Action Plan is realistic and achievable within the timescales identified.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The preparation and presentation of the Accounts is a key element of the Pension Fund'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 financial performance as contained in the Annual Report. The Pension Fund Committee oversees the administration of the Shetland Islands Council Pension Fund in accordance with the Local Government (Scotland) Act 1994, the Superannuation Act 1972, the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.
- 4.4 Risk Management – The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
- 4.5 Equalities, Health And Human Rights – NONE.
- 4.6 Environmental – NONE.

Resources

- 4.7 Financial – 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 Audit Scotland has provided an Annual Audit Report on the 2014/15 audit.
- 5.2 Audit Scotland will be certifying the accounts as being a true and fair statement of the Pension Fund's financial position at 31 March 2015.
- 5.3 Areas of risk have been identified in the Annual Audit Report which officers are required to address. An Action Plan has been agreed to ensure that those risks are well managed and resolved, within a reasonable timeframe.

For further information please contact:

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Executive Manager - Finance

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List of Appendices

Appendix 1: Audit Scotland ISA 260 Report 2014/15

Appendix 2: Audit Scotland Annual Audit Report 2014/15.

Background documents:

NONE

END

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8 Nelson Mandela Place
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Telephone:

0131 625 1500

Email:

info@audit-scotland.gov.uk

Website:

www.audit-scotland.gov.uk

The Audit Committee and Members of Shetland Islands
Council Pension Fund
Shetland Islands Council

22 September 2015

Shetland Islands Council Pension Fund Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report on 24 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the independent auditor's report.
3. In presenting this report to the audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Executive Manager - Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Executive Manager - Finance with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of Shetland Islands Council Pension Fund for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

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

Respective responsibilities of the Executive Manager - Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

In my opinion the information given in the Management Commentary and Investment Policy and Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government.

I have nothing to report in respect of these matters.

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

24 September 2015

Appendix B: ISA 580 - Letter of Representation

David McConnell
Assistant Director

22 September 2015

Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Building
Glasgow
G2 1BT

Dear David

Shetland Islands Council Pension Fund

Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of the Shetland Islands Council Pension Fund for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Shetland Pension Fund for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of the Shetland Islands Council Pension Fund for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the fund have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including Management Commentary and Investment Policy and Performance Report, presents a balanced picture of the Shetland Islands Council Pension Fund and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the fund for the year ended 31 March 2015.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Summary of Significant Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Actuarial Assumptions

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

Fraud

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

Corporate Governance

12. I acknowledge, as the officer with responsibility for the proper administration of the fund's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with Delivering Good Governance in Local Government. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015 which require disclosure.

Related Party Transactions

13. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Investment Assets and Current Assets

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

Investment Liabilities and Current Liabilities

15. All liabilities have been provided for in the books of account as at 31 March 2015.

Employer / Employee Contributions

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

Events Subsequent to the Date of the Net Asset Statement

17. There have been no material events since the date of the net asset statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
18. Since the date of the net asset statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Steven Whyte, Executive Manager - Finance

Section 95 Officer

Shetland Islands Council Pension Fund

2014/15 annual audit
report to Members and
the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed David McConnell as the external auditor of Shetland Islands Council Pension Fund for the period 2011/12 to 2015/16.

This report has been prepared for the use of Shetland Islands Council as pension fund administrator and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

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Graeme Samson, Senior Auditor
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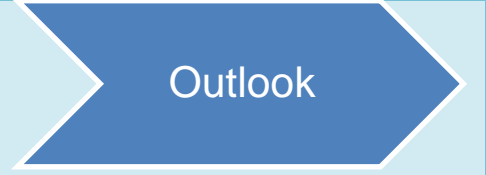
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Key messages

	<ul style="list-style-type: none"> • Unqualified auditor's report on the 2014/15 financial statements. • No adjustments required to the fund's financial statements.
	<ul style="list-style-type: none"> • The actuary completed the 2014 triennial valuation, and reported that the fund's assets were sufficient to meet 92% of its liabilities. The scheme is in deficit. • Net assets increased by 10.5% to £367.8m, due mainly to the performance of the investments. • Overall, satisfactory financial management arrangements in place.
	<ul style="list-style-type: none"> • The Pension Fund Consultative Panel has become the Pension Board for the purposes of pension fund business and includes councillor, trade union and admitted body representatives. • A Pension Fund Committee has been established. The remit of the committee gives it delegated authority over all pension fund business. • System of internal control operated effectively.
	<ul style="list-style-type: none"> • The fund has a ratio of management expenses to net assets (total expense ratio) of 0.36%, which compares very well with other funds. • Investment returns were slightly below the benchmark target for 2014/15 and the 3 and 5 year benchmarks. • The fund issued annual benefit statements to its members.
	<ul style="list-style-type: none"> • From the start of 2015/16, the fund will provide benefits on a "career average" basis. This change will increase the complexity and workload of fund administration. • The global investment outlook is marred by political and economic challenges.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Shetland Islands Council Pension Fund (the fund). The report is divided into sections which reflect our public sector audit model.
2. The management of Shetland Islands Council (the council) as administering body, is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of the fund's affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the fund, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of local audit reports have been issued by Audit Scotland during the course of the year. These reports, summarised at **Appendix II**, include recommendations for improvement.
6. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Shetland Islands Council as administering body understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none">• The financial statements of the pension fund have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the pension fund's ability to continue as a going concern.
Other information	<ul style="list-style-type: none">• We review and report on other information published with the financial statements, including the management commentary, investment policy and performance report and annual governance statement. We have nothing to report in respect of these statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 29 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted in the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit,

were outlined in our Annual Audit Plan presented to the Audit Committee on 24 February 2015.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy,

resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Shetland Islands Council Pension Fund, we set our planning materiality at £1.66 million (0.5% of net assets).
17. We report all misstatements greater than £17,000. Performance materiality was calculated at £1.16 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting

policies, accounting estimates and financial statement disclosures

- significant difficulties encountered during the audit
- significant matters arising from the audit that were discussed, or subject to correspondence with management
- written representations requested by the auditor
- other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

21. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to your attention.

Recent developments

Public Services Pensions Act 2013

22. The 2013 Act brings a number of significant changes to the Local Government Pension Scheme (LGPS) (Scotland) that apply from 1 April 2015. Some of the main changes are

illustrated below:

Benefits from 1 April 2015 will build up on a career average basis at the rate of 1/49th of annual pensionable earnings

Normal Pension Age will be aligned with each member's own State Pension Age

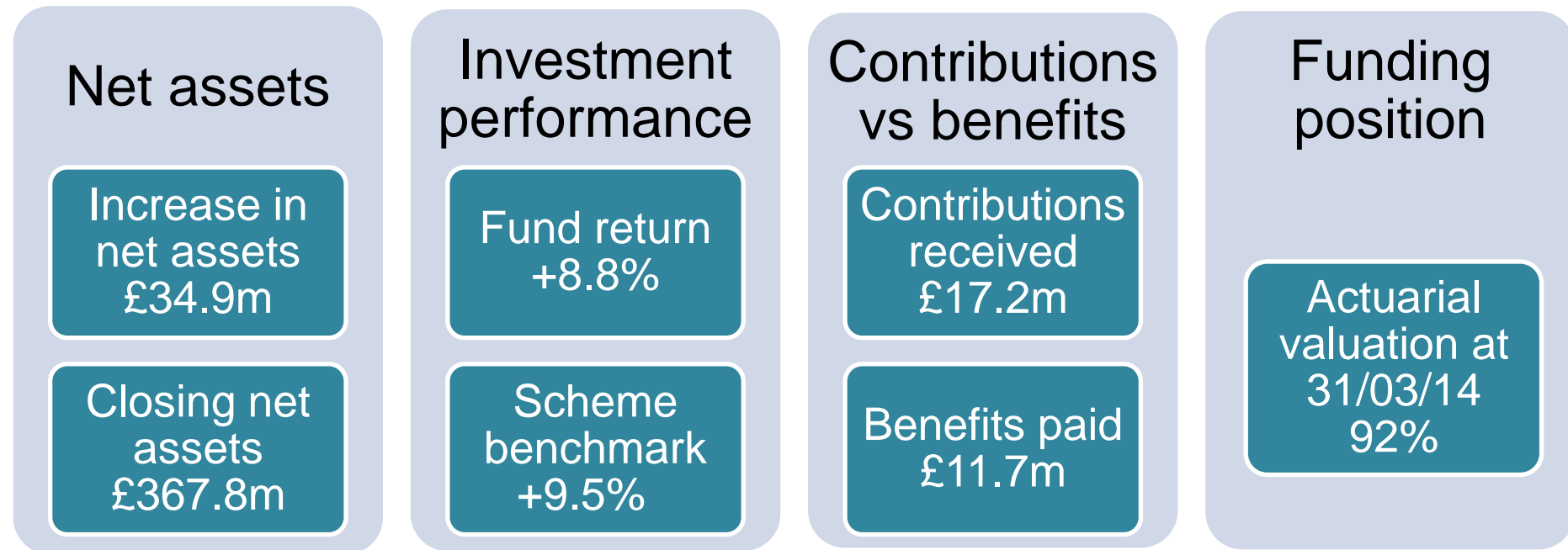
The LGPS will have a national Advisory Board and local pension boards

Revised governance arrangements

23. The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (SSI 2015-60) set out the new governance arrangements required from 1 April 2015.
24. At a national level the new arrangements include the establishment of a Scheme Advisory Board. Its role is to:

- provide advice to Scottish Ministers on proposed changes to the LGPS (Scotland)
 - provide advice to scheme managers or the scheme's pension boards on the effective and efficient administration of the scheme and any funds within the scheme.
25. The act also extends the powers of the Pensions Regulator to cover standards of governance and administration of the LGPS (Scotland).
26. At the local level, another key feature is the requirement for a Pension Board to be established from 1 April 2015 to assist the scheme manager (the council) in securing compliance with the scheme rules and with the Pension Regulator's codes of practice. The council formed a Pension Board in May 2015 which will meet for the first time in September 2015.

Financial management and sustainability



Financial management

27. In this section we comment on the fund's financial outcomes and assess its financial management arrangements.
28. Pension fund finances are independently assessed every three years by the fund's actuary. Employer contribution rates are determined by the actuary and used by the council as administering body to set an annual budget for the pension fund's expenditure and income. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

29. Overall the council as administering body reported an increase in net assets of £34.9 million (10.5%). This relates mainly to £20.4 million of increases in investment market values and £2.4 million of investment income, which is higher than last year's figure of £0.9 million, reflecting improvement in the world economy.
30. There was also a surplus of contribution income over the cost of pensions, and the net increase in the fund from dealings with members was £5.5 million, against £6.8 million last year. The decrease was due to variation in the value of transfers in and out, with less received from transfers in, increased administrative expenses and a higher cost of members leaving the scheme.

Financial management arrangements

31. As auditors, we consider whether pension funds have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
32. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
33. We reviewed the council's financial regulations, which are revised annually, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
34. Quarterly financial monitoring and a mid-year review is reported to the council's Policy & Resources Committee and the Pension Fund Consultative Panel to monitor the financial performance of the

Pension Fund to ensure that expenditure incurred and income generated has been delivered within the approved budget.

Conclusion on financial management

35. We have concluded that the council's financial management arrangements are satisfactory.

Financial sustainability

36. The fund gives its members a guarantee that in exchange for contributions during their employment, the fund will pay a pension until the end of each member's life. There is a timing difference of many years between the receipt of contributions and the payment of pensions. Financial sustainability means that the fund maintains the capacity to meet the current and future needs of its members, despite changes of investment performance and life expectancy.
37. In assessing financial sustainability we are concerned with whether:
- the fund's liabilities are greater or smaller than the fund's assets (the actuarial position)
 - contribution rates strike an appropriate balance between the needs of the scheme and the needs of employers
 - where there is a deficit, long term recovery measures are in place
 - the fund's investments have a profile of risk that is consistent with expected cash flows.

38. Effective investment strategy, investment management and regular actuarial review are crucial to sustainability.

Funding position

39. The last two actuarial reviews showed the fund in a position of deficit, with liabilities exceeding assets (see Exhibit 1 below). The employer contribution rates over the three year period 2015/16 to 2017/18 will be 18.7%, 19.8% and 20.8% respectively. The council will also make a payment of £1.6 million in 2015/16 to meet a funding shortfall arising from the transfer of pension benefits associated with former Shetland Towage employees.

Exhibit 1: Funding valuations 2011 to 2014

Description	31 March 2011 £ million	31 March 2014 £ million
Assets	251	333
Liabilities	(276)	(363)
Net Liability	(25)	(30)
Funding level	91%	92%

Source: Shetland Islands Council Pension Fund 2014/15 financial statements

Financial planning

40. The financial plans of pension funds have a horizon determined by the expected longevity of their members, and by assumptions about investment returns and the benefits payable in the future. Every

three years, following the triennial review, the administering authority updates the Funding Strategy Statement.

41. Fund membership increased during the financial year by 417 to 6,222 and is likely to increase further as other employers progress through the auto-enrolment process. This is an area for management to monitor closely to ensure the fund remains sustainable.
42. At present the fund's strategy is for 10% of investment assets to be held in the least volatile income-returning class of bonds and index linked securities and actually holds 9.3% in this class.
43. The Pension Fund Investment Strategy 2014-2027 which was approved by the Council in March 2014 proposes that 38% of the pension fund will be managed passively (in UK and Overseas Equities) with 62% managed actively (in Bonds, Property, Diversified Growth Fund and Global Equities). Although the proposed investment strategy will increase fund manager fees paid by approximately £0.8 million per annum, these costs will be outweighed by the higher investment returns in the long term in order to ensure the pension fund is fully funded by 2027. The actuarial advice from the funds actuary Hymans Robertson was that if the council continued with its passive management strategy, there was a significant risk that the pension fund would fail to become fully funded by 2027.

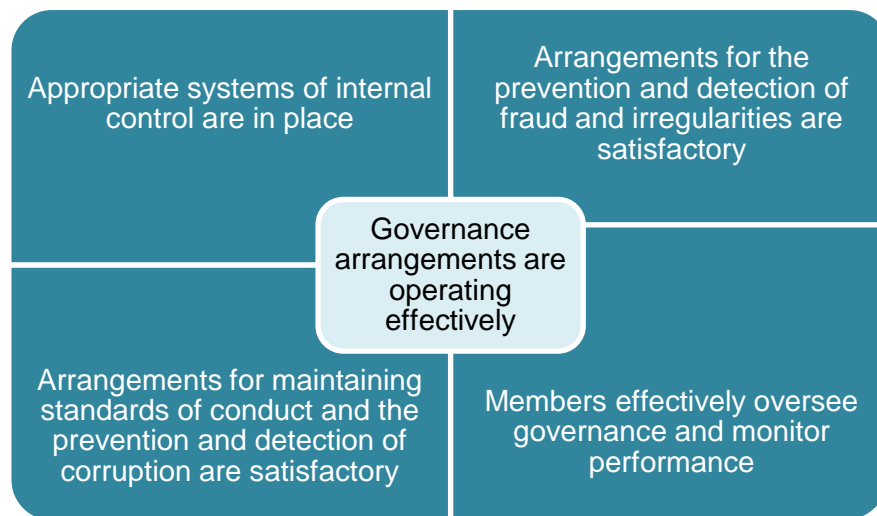
Conclusion on financial sustainability

44. We conclude that the fund is in a stable position with regard to financial sustainability.

Outlook

45. While the fund is currently in a stable position, it is clear that the outlook for public spending remains very challenging and the need for spending constraints and budget reductions will continue. Any further staff reduction schemes introduced by employers will place pressure on the fund, arising from lower member contribution levels and increased administration workloads.
46. The Public Service Pensions Act 2013 is designed to ensure the continued sustainability of the LGPS. In particular, the introduction of the 'employer cost cap' which will shift some of the risk of future rises in scheme costs onto members.
47. The Scottish LGPS Advisory Board is being formed with effect from 1 April 2015 under section 7 of the Public Service Pensions Act 2013. It is expected to operate at national level and will have members drawn from employers, trade unions, professional advisors and bodies such as the Pensions Regulator and the National Association of Pension Funds.
48. It may publish guidance for funds, for example on the operation of their local Pension Boards, and provide a forum for discussion of the future structure of the LGPS.

Governance and transparency



49. Members of the council and the Proper Officer are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective over-arching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
50. Members of the pension fund should be able to hold the fund to account about the services it provides. Transparency means that

fund members have access to understandable, relevant and timely information about how the fund is taking decisions and how it is using its resources.

Corporate governance

51. The council acts as the administering authority for the fund. It is responsible for managing and administering the scheme for scheduled and admitted bodies.
52. The current arrangements are that all pension fund issues are reviewed by the full council. The Policy and Resources Committee has the responsibility of reviewing the performance of the pension fund. In addition, there is a Pension Fund Consultative Panel in place which meets approximately twice per year. The role of this panel is to involve a wider range of stakeholders in overseeing the pension fund.
53. The governance structure was revised during 2015/16 as follows:
 - In May 2015, the Council agreed that a Pension Fund Committee would be formed. The remit of this committee gives it delegated authority over all pension fund business.
 - At the same time, a Pension Board was set up, with separate membership, consisting of employer members and trade union representatives.
54. These new governance arrangements came into force on 1 April 2015 (see paragraph 26). These were discussed and approved by the Council on 27 May 2015.

55. The main change is the formation of the new Pension Board, in compliance with the Public Service Pensions Act 2013. The Board's role is to assist the Scheme Manager, the council, in ensuring compliance with the rules relating to scheme governance and administration.

Internal control

56. The fund's main financial systems run alongside those of the administering authority, the council, and the fund uses the council's financial ledger and payroll system to process transactions. The fund also has specific systems in place for pension administration and investments.
57. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the fund's financial statements.
58. We reported our findings to the council's Audit Committee in May 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

59. The internal audit service is provided by the council. Our review of internal audit concluded that it complies with the main requirements

of the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

60. Internal audit did not carry out any specific work on the fund this year. We would like to see more explicit coverage of pension fund systems, perhaps linked to work on council systems.

Recommendation 1

Arrangements for the prevention and detection of fraud

61. The pension fund complies with the relevant fraud and irregularity policies of the council and these have been reviewed as part of the council wide audit. No issues have been identified by us for inclusion in this report.

National Fraud Initiative in Scotland

62. The National Fraud Initiative (NFI) in Scotland brings together data from councils and other agencies to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
63. Overall, we concluded that the council's arrangements in place for investigating and reporting data matches identified by the NFI need

to be reviewed as progress has been slower than expected. We have made a recommendation in relation to this area within our 2014/15 annual audit report on Shetlands Islands Council, as the administering authority.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

64. The arrangements for the prevention and detection of corruption in the fund are satisfactory and we are not aware of any specific issues that we need to record.

Transparency

65. Financial monitoring reports were provided to attendees at the Pension Fund Consultative Panel and the Policy & Resources Committee.
66. Information regarding the fund is published on the council's website. However, documents are currently dispersed across several areas, including committee papers, and it would improve transparency to group them under one dedicated home-page area within the council website. It would also help to include the names and register of interests of the members of the Pension Board and Pension Fund Committee in the same place, for ease of reference.

Recommendation 2

Risk Register

67. Our 2014/15 Annual Audit Plan highlighted that the fund did not currently have its own risk register in place and there was a risk that issues specific to the fund are not identified and addressed. We noted that a risk register which is specific to the fund has yet to be produced.

Recommendation 3

Outlook

68. The introduction of career average pensions will not only increase administrative workloads initially but could generate more enquiries from fund members seeking clarification of their benefits on an ongoing basis. It will also increase the complexity of pension calculations significantly.

Best Value

70. The fund has a duty to ensure Best Value in the provision of services and to report performance publicly so that fund members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.
71. The fund has not been subject to a Best Value review however, it is covered by the overall Best Value arrangements of the council as the administering authority.

Performance management

72. The fund has service standards for administration and recently started to report its performance. Performance has been reported within the management commentary section of the 2014/15 fund annual report and accounts.

Investment performance

73. The main mechanism for measuring investment performance is through an analysis of the returns achieved by each of the fund's external fund managers. The managers' performance, in terms of achieving benchmarks, is subject to independent verification by an independent investment adviser (State Street). Mid year and year end performance is reported to the Policy & Resources Committee and the Pension Fund Consultative Panel.

74. Over the long term, the overall level of investment return achieved by the fund is expected to exceed the rate of return assumed by the actuary in valuing the fund. Investment returns of Shetland Islands Council Pension Fund were slightly below the benchmark target for 2014/15 and the 3 and 5 year benchmarks. It should be noted that there were additional costs incurred in 2014/15 to implement the change in investment strategy which had an impact on the costs for the Fund, and as such there was an additional one-off cost. Recent investment performance of the fund is highlighted in Exhibit 2 below:

Exhibit 2: Fund Investment Performance

Description	2014/15 %	3 Year %	5 Year %
Fund Return	8.8	10	7.4
Benchmark	9.5	10.2	7.8
Performance	-0.7	-0.2	-0.4

Source: Shetland Islands Council Pension Fund 2014/15 financial statements

75. Given the performance figures in the table above, fund manager performance should continue to be closely monitored in the future to help ensure that benchmark returns are achieved.

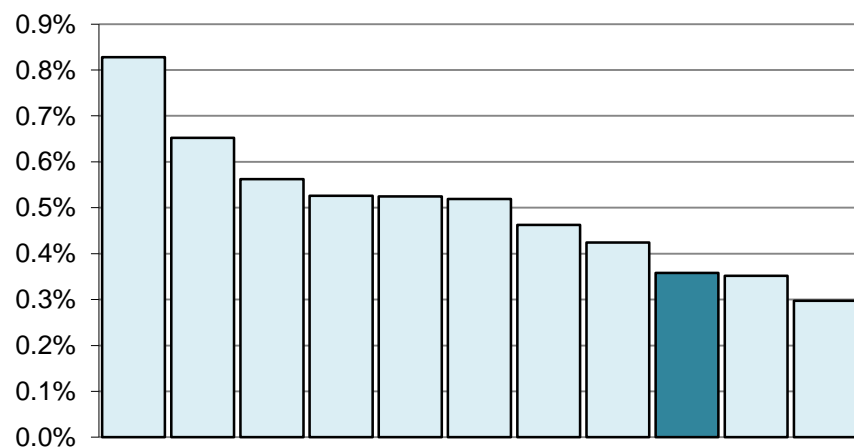
Management expenses

76. There are three main categories of management expense, with the largest being investment management costs. There is also the cost

of the administration services provided by the council and the governance fees for actuarial and audit services.

77. This year investment management costs rose from £462,000 to £871,000. At 0.2% of assets under management, the fee agreement with fund managers remains good value for the council.
78. Exhibit 3 shows provisional figures for total management costs as a percentage of net assets, with Shetland Islands Pension Fund highlighted separately.

Exhibit 3: Management costs as percentage of net assets of Scottish LGPS funds



Source: Draft financial statements published for 2014/15

79. At 0.36%, the fund's management costs are comparatively low, which contributes to long term asset growth. However, as noted in

paragraph 43, fund manager fees will increase by approximately £0.8 million per annum as a result of the updated Pension Fund Investment Strategy.

National performance audit reports

80. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, no reports were issued which directly related to pension funds.
81. A number of local government reports were issued during the year and some of the topics covered may be of interest to members. These include:
 - Scotland's public finances – a follow up: Progress in meeting the challenges (June 2014)
 - Update on developing financial reporting (March 2015)
 - An overview of local government in Scotland (March 2015).
82. These and other Audit Scotland reports are available on Audit Scotland's website (www.audit-scotland.gov.uk).

Outlook

83. Low interest rates and relaxed monetary policy have resulted in high equity valuations and low yields on fixed interest securities. Against this background, investment managers may find it difficult to achieve positive returns in 2015/16.

84. Continued global turmoil and persistent weaknesses in the Eurozone economies has created uncertainty in the financial markets. The UK government's commitment to hold a referendum on continued membership of the European Union is adding to this uncertainty. There is a risk that these factors could have a negative impact on asset valuations.

Appendix I – Significant audit risks

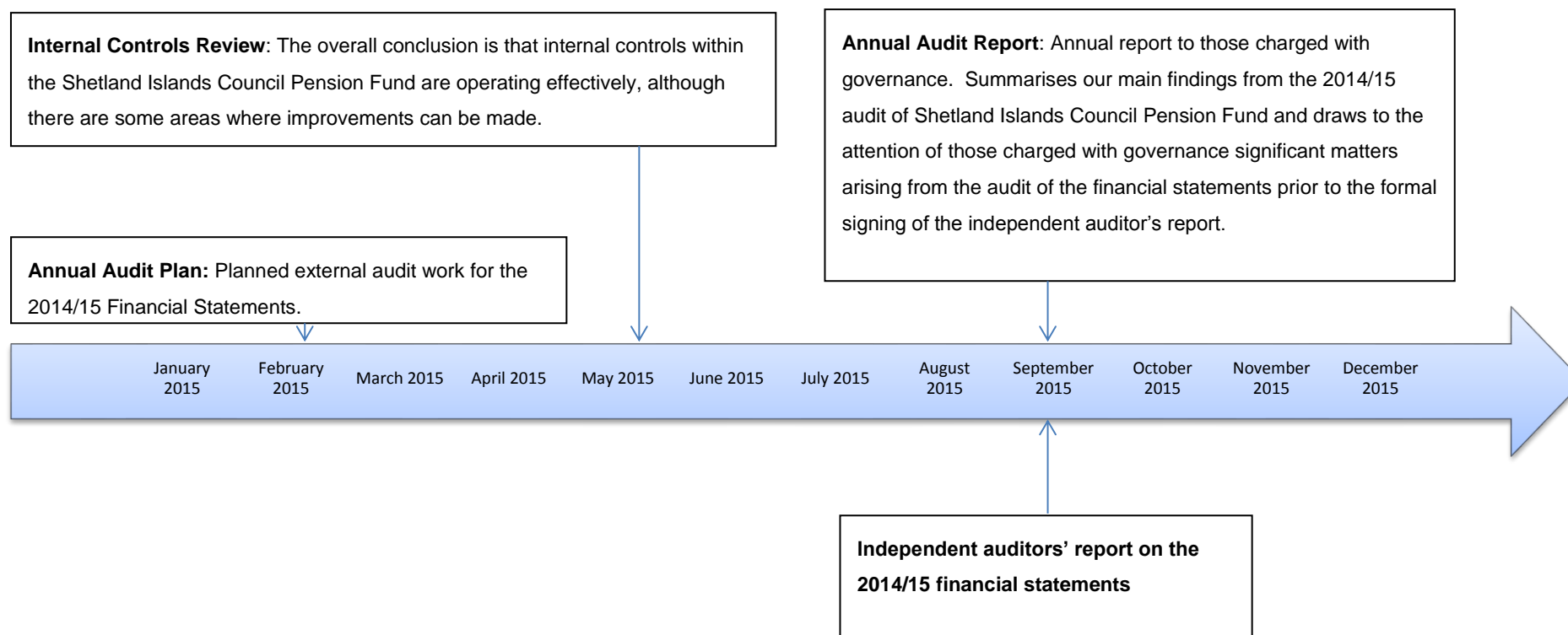
The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates for bias. Focused testing of accruals and prepayments. Evaluating significant transactions that are outside the normal course of business.	We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.
Executive Manager – Finance (Section 95 Officer) Changes in the finance function may impact upon the operation of financial management and accounting arrangements.	Audit of financial statements to ensure compliance with the Code. Provide an update in the annual audit report. Ongoing liaison with finance staff to ensure that the unaudited financial statements are prepared in line with the Code.	We liaised with finance staff throughout the year and reviewed the financial statements to ensure compliance with the Code. No issues were identified in respect of financial management and accounting arrangements.

Audit Risk	Assurance procedure	Results and conclusions
<p>Pension Fund System</p> <p>There is a risk that the new Pension Administration system is not operating effectively.</p>	<p>Undertake controls testing on new system.</p> <p>Ongoing liaison with finance staff to ensure that system is operating effectively.</p>	<p>We undertook controls testing on the new system and liaised with finance staff throughout the year in relation to the operation of the system.</p> <p>No issues were identified with regard to the new pension fund system.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Risk Register</p> <p>In the absence of a risk register, there is a risk that specific issues relating to the fund are not identified.</p>	<p>Monitor progress throughout the year.</p> <p>Provide an update in the annual audit report.</p>	<p>The Pension Fund does not currently have its own risk register in place and there is a risk that issues specific to the fund are not identified and addressed.</p>

Appendix II – Summary of local audit reports 2014/15

Summary of Shetland Islands Council Pension Fund local audit reports 2014/15



Appendix III – Action plan

Action plan

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
1 15/60	<p>Internal audit</p> <p>Internal audit did not carry out any specific work on the fund this year.</p> <p>Risk</p> <p>With limited coverage, it is difficult to fulfil assurance requirements over systems of internal control.</p> <p>Recommendation</p> <p>In the future, we would like to see more explicit coverage of pension fund systems, perhaps linked to work on council systems.</p>	While no specific audits were carried out in relation to the pension fund, controls were tested as part of the pension fund's interrelationship with the Council systems and processes. A more robust approach to satisfy this recommendation will be sought during the year.	Executive Manager – Finance in conjunction with the Executive Manager – Audit, Risk & Improvement	31 March 2016

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
2 16/66	<p>Website</p> <p>Information about the pension fund is currently found on a number of pages of the council's site.</p> <p>Risk</p> <p>Scheme members may find it difficult to locate information on the fund, how it is governed and their benefits.</p> <p>Recommendation</p> <p>The council should consider putting all pension fund material including that relating to the sub-committee and board under a single home page located within the council's web-site.</p>	The use of an up to date and relevant website is an important means of communicating with members and employers alike and is an initiative to be implemented. Limited staff resources have meant that this has not been possible. To take this forward the pension fund is now working with another pension fund to deliver information and relevant material through a website.	Executive Manager - Finance	30 June 2016
3 16/67	<p>Risk Register</p> <p>The fund does not currently have its own risk register in place.</p> <p>Risk</p> <p>Issues specific to the fund are not identified and addressed.</p> <p>Recommendation</p> <p>A risk register which is specific to the fund should be developed and approved by the Pension Board.</p>	A risk register for the Pension Fund is currently being prepared and will be presented to the next meeting of the Pensions Committee.	Executive Manager - Finance	31 December 2015



**Audit Committee
Pension Fund Committee**

**22 September 2015
22 September 2015**

Shetland Islands Council Pension Fund - Final Audited Accounts 2014/15

F-049-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 audited Annual Accounts for approval.

2.0 Decision Required

- 2.1 That the Audit Committee RESOLVE to:
- a) CONSIDER the Shetland Islands Council Pension Fund audited Annual Accounts for 2014/15 (Appendix 1); and
- 2.2 That the Pension Fund Committee RESOLVE to:
- a) APPROVE the Shetland Islands Council Pension Fund audited Annual Accounts for 2014/15 for signature (Appendix 1).

3.0 Detail

- 3.1 The Pension Fund is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Pension Fund's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected Members to consider the audited annual accounts and approve them for signature by 30 September 2015, and publish them no later than 31 October 2015.
- 3.3 The regulations also require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of financial statements. This was presented as a separate item on the agenda.

3.4 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2014/15 accounts. The overall conclusion being that the 2014/15 Annual Accounts:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of Shetland Islands Council Pension Fund as at 31 March 2015 and of the income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

4.0 Implications

Strategic

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

4.2 Community /Stakeholder Issues – NONE.

4.3 Policy And/Or Delegated Authority – The Audit Committee remit includes reviewing the annual statement of accounts, specifically to consider whether appropriate Council policies have been followed and whether there are concerns arising from the financial statements that require to be brought to the attention of the Pension Fund Committee.

4.4 Risk Management – There are no significant issues in relation to the audited Annual Accounts. Audit Scotland's Annual Report on the 2014/15 audit was presented as a separate item on the agenda. This contains a number of matters arising. For each matter, a resolution accompanies it to set out how this will or has been addressed.

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, within a set timescale, and elected members are required to approve the accounts for signature by 30 September 2015.
- 5.2 Audit Scotland has confirmed that it anticipates certifying the accounts as being a true and fair statement of the Pension Fund's financial position at 31 March 2015.

For further information please contact:

Jonathan Belford

Executive Manager - Finance

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Telephone: 01595 74 4607

List of Appendices

Appendix 1: Final Audited Annual Accounts 2014/15

Background documents:

NONE

END

Shetland Islands Council



Pension Fund Annual Report and Accounts 2014-15

Securing the Best for Shetland



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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 8.8%, 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
September 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

AVC Providers

Prudential
Equitable Life (closed to new members)

Banker

Bank of Scotland

Investment Advisor

Hymans Robertson

External Auditor

Audit Scotland

Custodian

Northern Trust

Performance Management

State Street

Fund Actuary

Hymans Robertson

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, 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 27 May 2015, 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.

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.

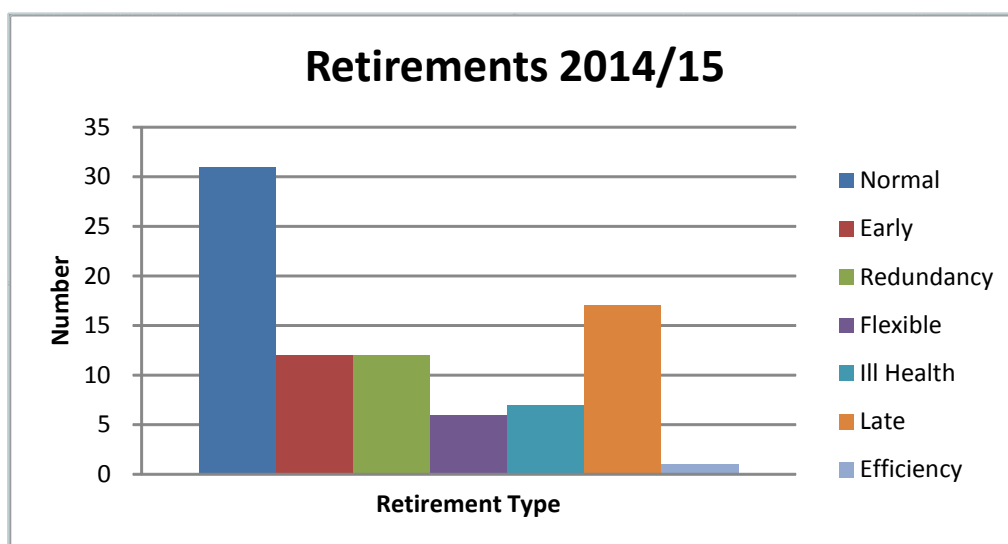
Valuation and Membership

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 Fund Managers 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.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2015. The Annual Accounts are 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.

The two primary statements; the Pension Fund Account and Net Assets Statement as at 31 March 2015 includes a description of its purpose. These 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 primary financial statements.

The Primary Financial Statements and Notes to the Accounts, including the accounting policies, form the relevant Annual Accounts for the purpose of the auditor's certificate and opinion.

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 27 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	2014-15 Draft Outturn	2014-15 Draft Outturn Variance Under/(Over)
	£'000	£'000	£'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.

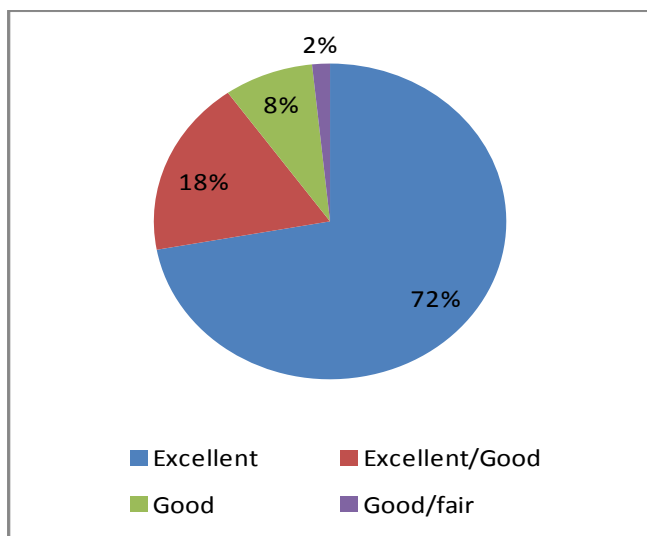
It is vital that employers provide prompt information to the Pension Fund so that timely and accurate information can be provided to the Scheme members. Performance is monitored on a regular basis. The information that the Pension Fund received during the year was delivered in a timely manner by all 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

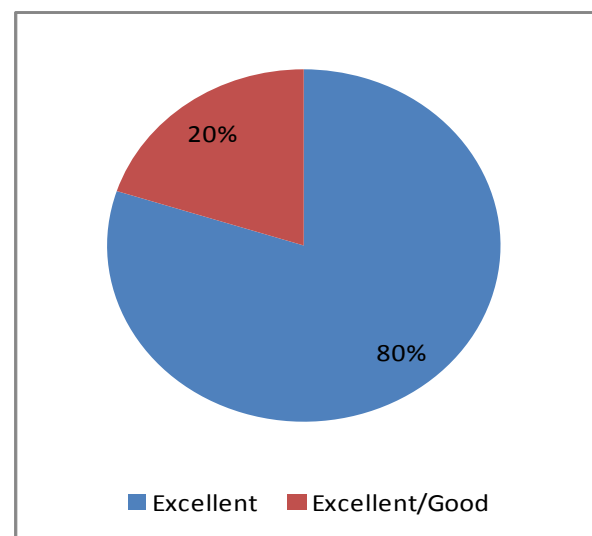
Shetland Islands Council as a Pension Administering Authority, is also committed to providing a high quality pension service to both members and employers and to ensure members receive their correct pension benefit entitlement.

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 reports 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 moved 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.

.....
Gary Robinson
Leader of the Council

.....
Mark Boden
Chief Executive

.....
Steven Whyte, CPFA
Executive Manager – Finance

.....
Date

.....
Date

.....
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 26 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

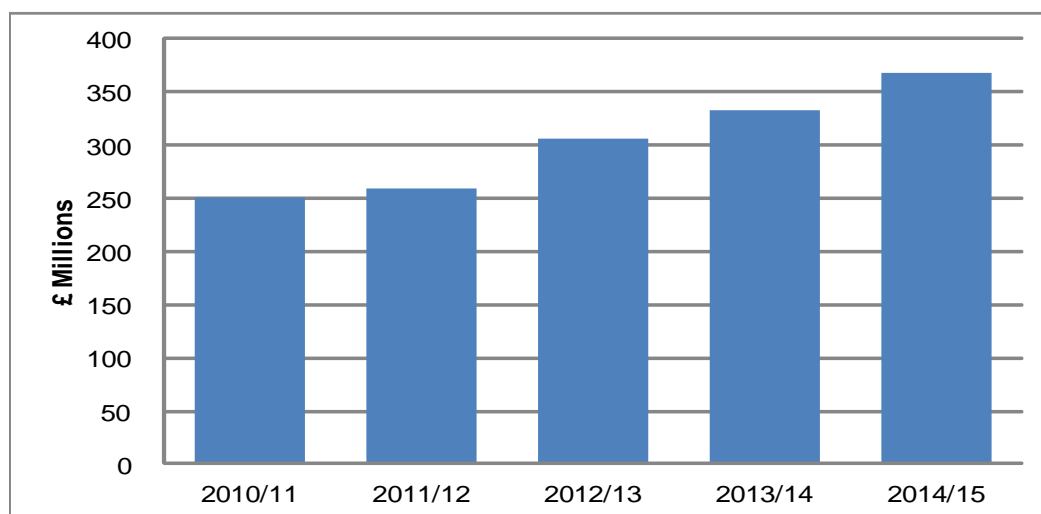
Investment performance is monitored against this benchmark return on a quarterly and annual basis.

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	10.2	7.8
Performance	-0.8	-0.4	0.4	-0.2	-0.7	-0.2	-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, Risk & Improvement 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	
<p>All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> 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
Leader of the Council

.....
Mark Boden
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
Leader of the Council

.....
Date

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.

.....
Steven Whyte, CPFA
Executive Manager – Finance

.....
Date

Pension Fund Account 2014/15

The Pension Fund Account sets out all income and expenditure of the Pension Fund.

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)
Net (increase)/decrease in the net assets available for benefits during the year				
(26,684)				(34,939)

Net Assets Statement as at 31 March 2015

The Net Assets Statement sets out the value, as at the Statement date, of all assets and liabilities of the Pension Fund. The net assets of the Pension Fund (assets less current liabilities) represent the funds available to provide for pension benefits at the statement date.

The financial statements summarise the transactions of the Pension Fund during the year and its net assets at the year end. It should be noted, however, that they do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Pension Fund, which does take account of such obligations, is discussed in the Actuarial Statement. These financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

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

The audited accounts were authorised for issue on 22 September 2015.

.....
Steven Whyte, CPFA
Executive Manager – Finance

.....
Date

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 £56m. 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 cha	130
30	Custody fees	36
48	Performance monitorin	98
3	Actuarial fees - investn	3
29	Consultancy costs	67
462	Total	871

14. Investments

Market Value 31 Mar 2014 £000		Market Value 31 Mar 2015 £000
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
	<u>318,819</u>	<u>259,110</u>	<u>(232,787)</u>	<u>20,360</u>	<u>365,502</u>
Investment Income Due					
Fixed income - income due	0				170
Property income due	21				5
	<u>318,840</u>				<u>365,677</u>
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
	<u>294,634</u>	<u>14,944</u>	<u>(10,166)</u>	<u>19,407</u>	<u>318,819</u>
Property income due	27				21
	<u>294,661</u>				<u>318,840</u>
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 £000	Market value £000	Book value £000	Market value £000
Financial assets			
195,890	318,840	314,903	365,677
195,890	318,840	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 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £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 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £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 £000	Change to net assets available to pay benefits	
		+5.76% £000	-5.76% £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 Change to net assets available to pay at 31 March 2014 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:

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%	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 £11.423m 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

Independent Auditor's Report

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

I certify that I have audited the financial statements of Shetland Islands Council Pension Fund for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

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

Respective responsibilities of the Executive Manager - Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

In my opinion the information given in the Management Commentary and Investment Policy and Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government.

I have nothing to report in respect of these matters.

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

24 September 2015

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



**Audit Committee
Shetland Islands Council**

**22 September 2015
22 September 2015**

Shetland Islands Council - Annual Audit Report on the 2014/15 Audit	
F-046-F	
Report Presented by Executive Manager – Finance	Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to receive Audit Scotland's Annual Audit Report on the 2014/15 Audit.

2.0 Decision Required

- 2.1 That the Audit Committee RESOLVE to:
- a) NOTE Audit Scotland's Annual Audit Report on the 2014/15 Audit.
- 2.2 That Shetland Islands Council RESOLVE to:
- a) NOTE Audit Scotland's Annual Audit Report on the 2014/15 Audit.
 - b) APPROVE the Action Plan.

3.0 Detail

- 3.1 The Council is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Council's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of the Annual Accounts.
- 3.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit

- significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 3.4 Audit Scotland's ISA 260 report is included at Appendix 1 to this Report. This confirms that Audit Scotland will be certifying the accounts as being a true and fair statement of the Council's financial position at 31 March 2015.
- 3.5 The Annual Audit Report is included at Appendix 2 and this contains a number of risks that require to be addressed by the Council. An Action Plan to address these issues has been drawn up and is included as Appendix B: Action Plan (part of Appendix 2). The Action Plan is realistic and achievable within the timescales identified.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The preparation and presentation of the Accounts is a key element of the Council's overall governance and reporting arrangements.
- 4.2 Community /Stakeholder Issues – NONE.
- 4.3 Policy And/Or Delegated Authority – The Audit Committee remit includes consideration of all reports from the external auditors, including the External Auditor's Annual Report and to review the Council's financial performance as contained in the Annual Report. Receiving the audited accounts of the Council and related certificates and reports is a matter reserved by the Council
- 4.4 Risk Management – The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
- 4.5 Equalities, Health And Human Rights – NONE.
- 4.6 Environmental – NONE.

Resources

- 4.7 Financial – 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 Audit Scotland has provided an Annual Audit Report on the 2014/15 audit.
- 5.2 Audit Scotland will be certifying the accounts as being a true and fair statement of the Council's financial position at 31 March 2015.
- 5.3 Areas of risk have been identified in the Annual Audit Report which officers are required to address. An Action Plan has been agreed to ensure that those risks are well managed and resolved, within a reasonable timeframe.

For further information please contact:

Jonathan Belford

Executive Manager - Finance

Email: jonathan.belford@shetland.gov.uk

Telephone: 01595 74 4607

List of Appendices

Appendix 1: Audit Scotland ISA 260 Report 2014/15

Appendix 2: Audit Scotland Annual Audit Report 2014/15.

Background documents:

NONE

END

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Telephone:

0131 625 1500

Email:

info@audit-scotland.gov.uk

Website:

www.audit-scotland.gov.uk

The Audit Committee
Shetland Islands Council

22 September 2015

Shetland Islands Council Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report on 24 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the independent auditor's report.
3. In presenting this report to the audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Executive Manager - Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Executive Manager - Finance with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-Domestic Rate Income Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

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

Respective responsibilities of the Executive Manager - Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA
Assistant Director
Audit Scotland
4th Floor, South Suite
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8 Nelson Mandela Place
GLASGOW
G2 1BT

24 September 2015

Appendix B: ISA 580 - Letter of Representation

David McConnell
Assistant Director
Audit Scotland
4th Floor, South Suite

22 September 2015

The Athenaeum Building
8 Nelson Mandela Building
Glasgow
G2 1BT

Dear David

Shetland Islands Council

Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of Shetland Islands Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Shetland Islands Council, as at 31 March 2015 and its comprehensive income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and the Corporate Management Team, the following representations given to you in connection with your audit of Shetland Islands Council for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of Shetland Islands Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Shetland Islands Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Management Commentary to the financial statements, including the Remuneration Report, presents a balanced picture of Shetland Islands Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Shetland Islands Council and the Group for the year ended 31 March 2015.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

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

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Events Subsequent to the Date of the Balance Sheet

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Executive Manager - Finance my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who

have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2015 were owned by Shetland Islands Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2015.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Yours sincerely

Steven Whyte, Executive Manager - Finance

Section 95 Officer

Shetland Islands Council

2014/15 annual audit
report to Members and
the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed of David McConnell as the external auditor of Shetland Islands Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Shetland Islands Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Unqualified auditor's report on the 2014/15 financial statements of Zetland Educational Trust administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management remains strong with a robust budget setting process in place.• The council is financially sustainable currently and in the foreseeable future although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.• The achievement of the savings set out in the council's Medium Term Financial Plan (MTFP) will be significant in ensuring the council's continued financial sustainability.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council has sound governance arrangements in place.• Systems of internal control operated effectively.• The council has an effective internal audit function and sound anti-fraud arrangements.

 Best Value	<ul style="list-style-type: none">• The council continues to develop its arrangements for monitoring and reporting performance against strategic priorities.• Substantial progress has been made towards delivering the objectives set out in the Corporate Plan.• The council has significantly improved its performance in meeting the requirements of the Public Performance Reporting (PPR) criteria from the previous year.
 Outlook	<ul style="list-style-type: none">• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.• Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Shetland Islands Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Shetland Islands Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Shetland Islands Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvement.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Shetland Islands Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trust have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trust's ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements. We conducted appropriate audit work to ensure that the transfer of all assets and undertakings of the Shetland Development Trust to the council in February 2015 was properly disclosed and accounted for in the financial statements of the council. We have no issues to report in respect of this matter.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2014/15 financial statements of the Zetland Educational Trust administered by Shetland Islands Council and issued an unqualified independent auditor's report for this charitable trust.
Group accounts	<ul style="list-style-type: none"> Shetland Islands Council has accounted for the financial results of the three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £113.8 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This has been audited and the

certified return submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 29 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 24 February 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of charities financial statements

14. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
15. We have given an unqualified opinion on these matters with respect to the 2014/15 financial statements of Zetland Educational Trust.

Group accounts

16. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
17. Shetland Islands Council has accounted for the financial results of three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £113.8 million.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Shetland Islands Council we set our planning materiality for 2014/15 at £1.7 million (1% of gross expenditure). We report all misstatements greater than £0.02 million. Performance materiality was calculated at £0.85 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

22. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to reduce the surplus on the provision of services in the 2014/15 Annual Accounts by £0.525 million.

Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
24. There are no matters, others than those set out elsewhere in this report, to which we wish to draw your attention.

Future accounting and auditing developments

Revisions to the Code of Practice

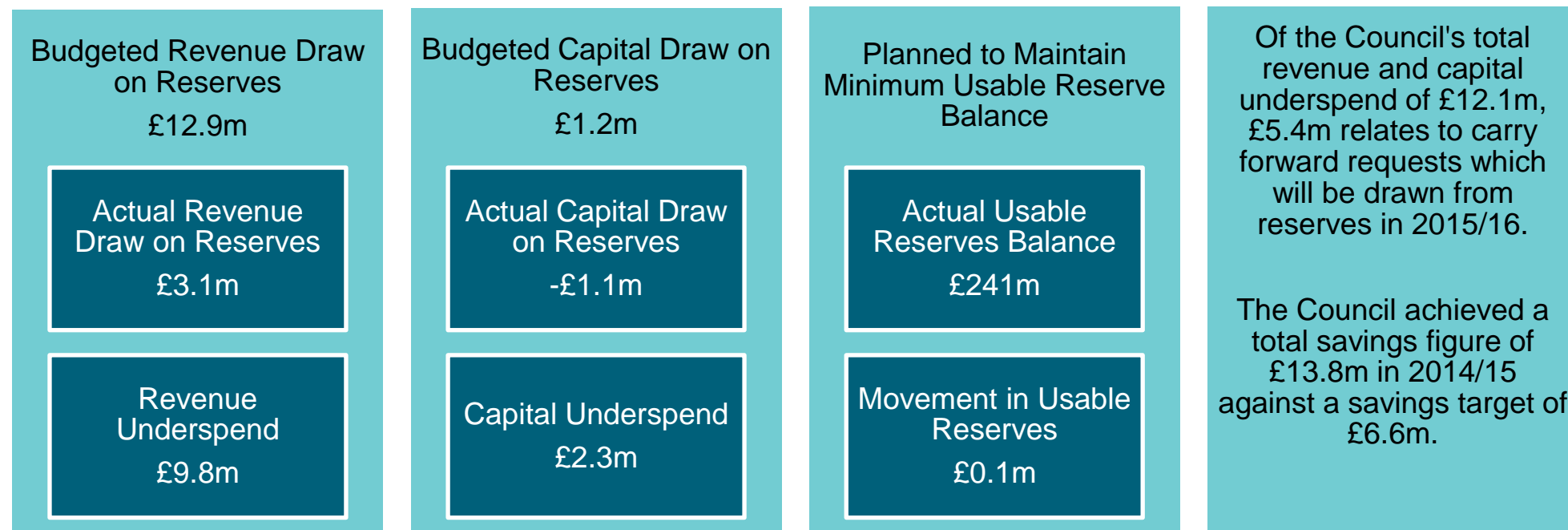
- 25. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
- 26. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
- 27. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability

of complete and accurate management information on highway assets.

Health and Social Care Integration

- 28. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements.

Financial management and sustainability



Financial management

29. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
30. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

31. The council reported a surplus of £0.498 million on the provision of services in the 2014/15 Annual Accounts. Adjusting this balance to remove the accounting entries required by the Code, the council's general fund balance decreased by £0.9 million.
32. The 2014/15 budget, approved by the Council on 11 December 2013, had a planned total draw on reserves of £14.8 million that included £6.6 million of budgeted savings. As the council secured higher than expected levels of savings of £13.8 million, the actual total draw (revenue and capital) on reserves was £2 million.
33. The council's draw on reserves for revenue purposes was £9.8 million less than budgeted. This was as a result of
 - an underspend across services of £7.2 million
 - Housing Revenue Account (HRA) underspend of £0.2 million
 - Harbour Account exceeded surplus of £2.4 million.
34. As a result of slippage in the capital programme, the council's draw on reserves for capital purposes was £2.3 million less than budgeted.
35. Overall, the council reported an underspend of £4.4 million against budgeted general fund services net expenditure of £110.6 million. This was due mainly to underspends in the following services:
 - Children's Services - £1.2 million underspend was due to underspends on energy and maintenance, supplies and services and additional grant income
 - Community Care Services - £1.4 million underspend was due to underspends on employee costs and additional boarding and accommodation income
 - Development Services - £1.3 million underspend was due to underspends on grants, increased income from Shetland Telecom, fishing quota and the European Union.
36. The council is required by legislation to maintain a separate HRA and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA budgeted for a £0.2 million contribution to the Housing Repairs & Renewals Fund in 2014/15 which was exceeded by £0.2 million, giving a total contribution of £0.4 million. However, the financial position of the HRA continues to be a challenge for the council due to the need to invest in the housing stock to meet national housing standards targets by 2015.

Financial management arrangements

37. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
38. The council experienced changes in its Finance personnel during 2014/15, which is often a source of risk for organisations in terms of financial accounting and control. Also, the role of Executive Manager – Finance (Section 95 Officer) was the subject of changed arrangements. This is a key position within the council for ensuring that effective financial planning and management arrangements are in place. The Section 95 officer also has an obligation to ensure that the council's financial statements are prepared in accordance with the Code. The council reached an agreement during 2014/15 with Aberdeen City Council to jointly share the Head of Finance at Aberdeen City Council who will carry overall responsibility for the proper administration of both councils' finances.
39. We note that this is a fixed term arrangement at present, and we will continue to monitor the impact of this new approach on the delivery of the council's financial management objectives.
40. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
41. We reviewed the council's financial regulations and concluded that they are comprehensive. The council's financial regulations are available on the council's website.
42. Financial monitoring reports (both revenue and capital) are submitted to the Council and service committees on a quarterly basis. Reports are comprehensive and well laid out. Service committees also receive directorate performance reports on a quarterly basis.
43. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

44. We have concluded that the council's financial management arrangements are satisfactory with close budget monitoring and regular reporting to members.

Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

47. The overall level of usable reserves held by the council increased by £0.1 million compared to the previous year and totalled £241 million, as shown in Exhibit 1. The closing usable reserve balance at 31 March 2015 is made up of a number of earmarked commitments. The main commitments include:
- Capital Fund of £63.5 million
 - Repairs & Renewals Fund of £44.3 million
 - Harbour Contingency of £42.2 million

Exhibit 1: Usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million
General Fund	13.860	12.998
Capital Grants Unapplied	1.920	0.643
Capital Receipts Reserve	71.783	73.840
Other Revenue/Statutory Funds	153.309	153.474
Total Usable Reserves	240.872	240.955

Source: Shetland Islands Council 2014/15 financial statements

48. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
49. The council's strategic financial management plans require, in the medium and long term, the council to maintain its usable reserve balance at an appropriate level.

Financial planning

50. The council set its 2015/16 budget in December 2014. The 2015/16 budget had a planned total draw on reserves of £6.9 million and assumes savings of £3.3 million. The savings are planned to be

achieved through service efficiencies and by focussing on eradicating historic over-budgeting for risk items.

51. In August 2015 the council's projected 2015/16 outturn position was a total underspend of £3.5 million against the revised budget. This includes underspends of £1.7 million on revenue, £1.5 million on capital and £0.3 million on spend to save initiatives.
52. The council updated its Medium Term Financial Plan (MTFP) in July 2014. The MTFP sets out its plan to deliver a budget with a sustainable draw on reserves and will require
- savings of £15.3 million to be made over the period 2014/15 to 2019/20
 - a possible net draw on reserves of over £8.2 million over the five year period 2014/15 to 2018/19 (total draw of £72.2 million and expected income of £64.0 million).
53. While the council has been proactive in its approach to identify savings opportunities, the achievement of these savings will become progressively more challenging year on year.

Recommendation 1

Capital programme 2014/15

54. The council approved its asset investment plan (capital programme) for 2014/15 in December 2013. Total capital expenditure for 2014/15 was £12.5 million (including housing). The most significant items of capital spend were:
- £1.3 million on the Scalloway School NHS Conversion

- £1.9 million on the new Anderson High School (AHS)
- £1.3 million on Vehicle and Plant Replacement
- £1.5 million on Housing Quality Standards (HRA)

55. The council reported a total underspend of £4.2 million against the planned level of capital expenditure of £16.7 million (25% of the total programme for 2014/15). Although there was an overspend of £1.3 million on the new Anderson High School project due to accelerated spending, this overspend was offset by slippage on the following projects:

- Scalloway School NHS Conversion – £0.636 million
- Clickimin Roundabout/Access Road - £0.751 million
- AHS Clickimin Path –£0.7 million
- ET & Taing Phase 2 - £1.1 million
- Ferry/Terminal Life Extensions - £0.580 million
- Bridge Replacements - £0.484 million
- Town Hall Conservation – £0.396 million

56. A certain level of slippage on capital projects can occur, particularly in complex projects. However, significant delays may have an impact on the council's MTFP and on the council's ability to meet its objectives and deliver services.

Recommendation 2

Asset Management

57. In December 2014 the council agreed its five year Asset Investment Plan 2015-20 which is aligned with its MTFP. The focus of the Asset Investment Plan is on the maintenance of existing assets rather than the creation of new assets. The main exception to this will be the construction of the new Anderson High School.
58. Each year, as part of the annual budgeting process, an annual asset investment plan is agreed. Quarterly monitoring reports on capital expenditure are submitted to service committees, detailing the progress of capital projects within the current financial year.

Workforce Management

59. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its service.
60. The council continues to develop arrangements to manage its staff and has a number of policies and procedures in place covering staff development, performance management and attendance. However the council does not have a documented workforce strategy in place. The development of a workforce strategy is one of the objectives of the Corporate Plan and it was intended that a strategy would be in place by the end of 2014. However, a workforce strategy is not yet in place.

Recommendation 3

61. During 2014/15 there were 36 exit packages agreed with employees at a total cost of £1.033 million (2013/14 – 170 exit packages with a total cost of £3.019 million).

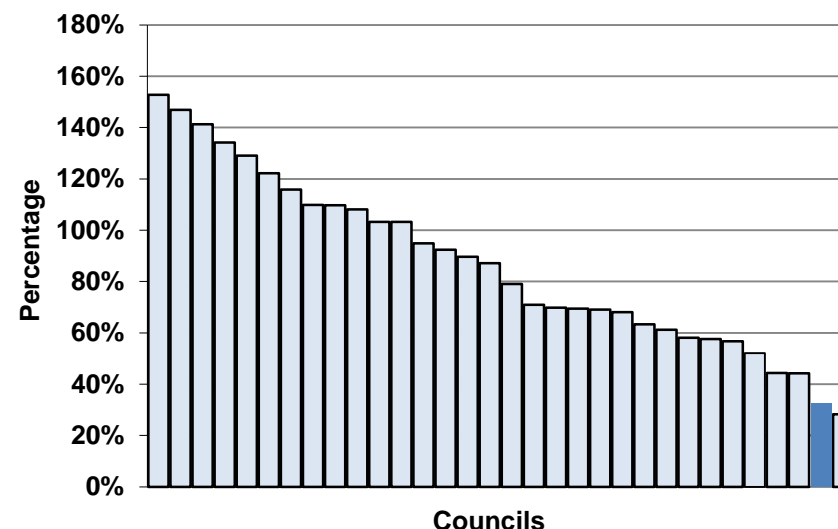
Treasury Management

62. The council has not had any external borrowing for 20 years and has had a policy to fund all capital expenditure from its reserves. However, in December 2013, the council agreed a new Borrowing Policy and Strategy 2013-18 in order to
 - secure best value in the financing of capital expenditure
 - maintain reserve levels.
63. The two capital projects funded from external borrowing during 2014/15 were the new Anderson High School (DBFM and DBDA construction contract value £55.75million) and Housing Revenue Account historical internal borrowing (debt of £16 million as at 31 March 2014).
64. As a result of this change in policy, at 31 March 2015 long term borrowing stood at £31 million (Nil at 31 March 2014). Funds held for investment at 31 March 2015 were £278 million (£203.5 million at 31 March 2014). The increase in investments is mainly attributable to revaluations of £24 million and additional cash investments of £46 million as a result of temporary funds invested from PWLB borrowing, funding provided by Westminster to write-off internal HRA debt and the sum transferred from the Shetland Development Trust on winding up during 2014/15.

65. Financial investments are covered by the council's Investment Strategy 2013-18 that is intended to
- support the council's MTFP
 - reduce fund manager fees
 - lower the risk of large negative returns whilst maintaining similar levels of return to that achieved in recent years.
66. The Investment Strategy required changes to the way the council's funds are invested. An active equity mandate was replaced with a passive equity mandate and a diversified growth fund mandate was added to the strategy. There have also been changes to the council's fund managers.
67. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including Shetland Islands Council. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report was published in March 2015 and the report makes reference to the council's change in policy in relation to external borrowing outlined in the above paragraphs.
68. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 2 below shows long term borrowing as at 31 March 2015 as a proportion of the net revenue stream for the year for all

councils in Scotland. Shetland Islands Council is highlighted in Exhibit 2 as having the second lowest rate in Scotland which is due mainly to the specific financing arrangements used by the council (see paragraph 62).

Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15

Pension liability

69. The pension liability on the council's balance sheet has increased from £148.6 million in 2013/14 to £183.4 million in 2014/15, an increase of £34.8 million. This is also reflected in the balance sheet for the group.

70. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial actuarial valuation at 31 March 2014 the Shetland Islands Council Pension Fund was 91.7% funded and had assets of £333 million with new contribution rates becoming effective from 1 April 2015. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets. The next valuation will take place in 2017 with new contribution rates in place from 1 April 2018.

population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

73. In common with many other councils, Shetland Islands Council is now reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

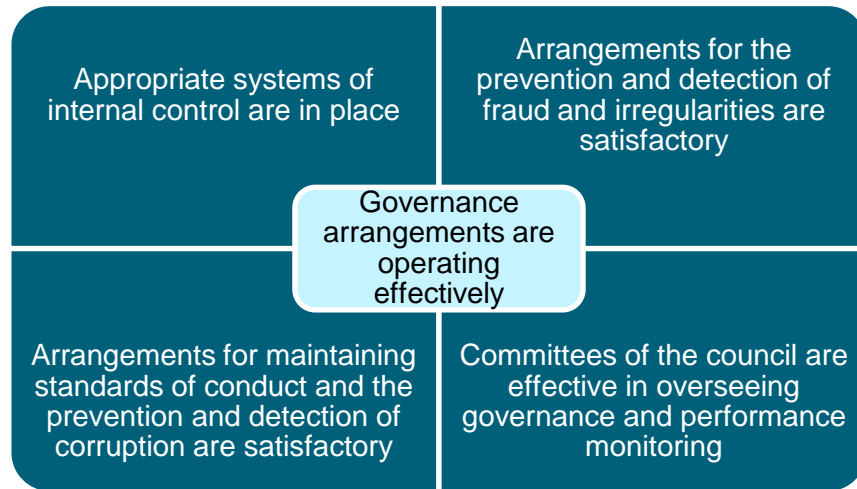
Conclusion on financial sustainability

71. We have concluded that the council is containing its expenditure within annual budgets and has an appropriate MTFP in place. Overall the financial position is sustainable currently, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. The achievement of the savings set out in the council's MTFP will be significant in ensuring the council's continued financial sustainability.

Outlook

72. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to

Governance and transparency

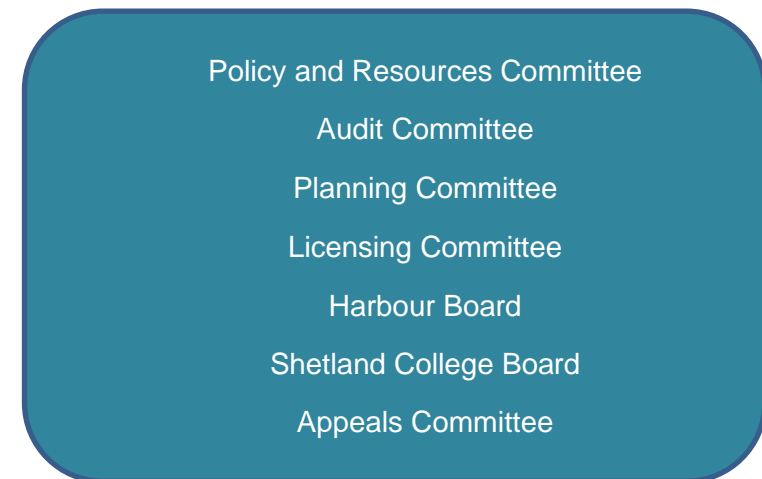


74. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
75. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent.

Corporate governance

76. Within Shetland Islands Council the corporate governance arrangements are supported by the following standing committees:



77. The council also has the following functional committees:



78. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Shetland Islands Council are operating effectively.

Local code of corporate governance

79. The council developed and adopted a local code of corporate governance in September 2012 which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. Although the local code highlights that it would be reviewed on an annual basis to ensure its ongoing effectiveness, there is no evidence that an annual review has been carried out by members and officers. In addition, we noted that it is a council requirement that six monthly updates on the code of corporate governance are presented to the Audit Committee but there is no evidence that this requirement has been followed.

Recommendation 4

Internal control

80. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
81. We reported our findings to the Audit Committee in May 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record,

process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control systems in operation.

Internal audit

82. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
83. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with the Public Sector Internal Audit Standards and that we could place formal reliance on the planned areas set out in our 2014/15 Annual Audit Plan.

ICT audit

84. During 2014/15 we undertook a review of the council's arrangements in relation to cyber security. Our review identified that:
- the corporate risk register does not recognise the risk of a cyber-attack. As cyber security is one of the highest priority national security risks, organisations need to recognise this issue within their risk registers.

- although the council has an Incident Response Plan in place, this has not been reviewed and updated since it was first implemented in 2010.
85. However, we acknowledge that the council is proactive in relation to cyber security and work in this area includes fortnightly Security Review Team meetings, weekly Operations Analyst meetings and also participation in various national security groups such as the Cyber Security Information Sharing Partnership.

Recommendation 5

Arrangements for the prevention and detection of fraud

86. Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

87. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has

been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

88. During 2014/15 we reviewed the progress being made by the council in following up NFI data matches. Our work identified that:
- the council's Audit Committee have not reviewed the self-appraisal checklist included in the 2014 NFI Report as a means of monitoring the council's planning and progress with the 2014/15 NFI exercise
 - due to staff absence the dataset for blue badges in 2014/15 which had been uploaded in previous years was not uploaded to the NFI database
 - progress in following up high priority NFI data matches is slow
 - there is no evidence that NFI progress or outcomes is reported internally to senior management or the council's Audit Committee.
89. Although the number of high priority NFI data matches to be followed up by Shetland Islands Council is low in comparison to the majority of other Scottish councils, these matches should be followed up timeously to ensure potential fraud is addressed and allow the council to improve internal arrangements for preventing and detecting fraud if necessary.
90. We are aware that management are reviewing the current NFI arrangements in order to improve the council's NFI co-ordination process.

Recommendation 6

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

91. The arrangements for the prevention and detection of corruption in Shetland Islands Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

92. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.
93. Through our audit approach we gave consideration to:
- the clarity and presentation of the council's committee papers, budget monitoring reports and financial statements
 - the regularity with which the council excludes the press or public from agenda items under the Local Government (Scotland) Act 1973
 - the council's approach to public performance reporting
 - accessibility of information via the council website.
94. Overall we concluded that the council has appropriate arrangements in this area.

Freedom of Information (FOI) requests

95. During 2014/15 the council received 851 FOI requests and 739 requests (87%) were responded to within 20 days. Of the 851 FOI requests received, all information was provided for 737 requests (87%) with partial or no information provided for the remaining 114 requests. During the period there were 6 appeals against denial of FOI requests but no decisions were overturned. One of these appeals has been appealed further to the Office of the Scottish Information Commissioner and the council is awaiting the outcome of this appeal.

Integration of health and social care

96. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
97. Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015. The IJB will assume responsibility for the functions delegated to it by Shetland Islands Council and NHS Shetland when the IJB approves and adopts the joint Strategic (Commissioning) Plan 2015-18 which will be presented to a meeting of the IJB in August 2015. The arrangements for the commencement of the IJB will be reviewed by internal audit during 2015/16.
98. The first meeting of the Shetland IJB took place on 20 July 2015 and is made up of three councillors, three NHS Shetland health board members and a number of health and social care

professionals as non-voting members. The council's Social Services Committee will be disbanded once the IJB is fully up and running.

Welfare Reform

99. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. As a result, the council is represented on the Shetland Welfare Reform & Financial Resilience sub-group which considers the impact of welfare reform changes.
100. Since the introduction of the "Spare Room Subsidy" in April 2013 there have been a number of households in Shetland that have been affected by the change. However due to Discretionary Housing Payments (DHP), no households in Shetland have suffered any financial impact from under occupancy. During 2014/15 the council received total DHP funding from the Department for Work and Pensions and the Scottish Government of £0.137 million of which £0.102 million was awarded to 223 claimants.
101. The phased implementation of Universal Credit started at the council in mid-May 2015, with only 8 claims to August 2015 with housing costs.
102. The council reported housing rent arrears of £206,000 as at 31 March 2015 (2014: £161,000), an increase of 28% relating to 433 properties (2014: 319). Therefore, 25% of the council's housing stock is in arrears at 31 March 2015 compared to 18% in the previous year.

Recommendation 7

Housing benefits performance audit

103. In June 2015 an Audit Scotland report on behalf of the Accounts Commission identified some risks relating to the performance of housing benefit services across councils and their ability to deliver improvements going forward. Key risks identified were:
- Business planning and performance reporting weaknesses were noted. Specifically, either targets are not set for all areas of the service and/or there is limited reporting to senior management in respect of all areas of the service. Audit Scotland appreciate that the delay and uncertainty around the roll-out of Universal Credit has made it difficult for councils to plan ahead. However, despite this some housing benefit services could do better.
 - Housing benefit cases selected for quality checking by council staff are selected without a focus on higher risk cases. While in most instances processes are in place to record the results of quality checks, the results are not analysed to a level to inform a risk based approach to checking, either by officer or claim type.
104. These are relevant risks to the council and present a challenge to the delivery of improvements in this area.

Local scrutiny plan

105. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to Shetland Islands Council in April 2015.

106. The LSP highlights that, although no scrutiny risks have been identified which require specific scrutiny by the LAN in 2015/16, there are a number of areas where the LAN will carry out ongoing oversight and monitoring. These include:

- risk management
- financial planning and management
- leadership and governance
- asset management
- education and children's services.

107. We will revisit these areas as part of the shared risk assessment process for 2015/16.

Following the public pound

108. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).

109. Although Shetland Islands Council does not make use of ALEOs, we confirmed that the council has appropriate governance arrangements in place in respect of community grants, economic development grants and funding provided to procure services from the local third sector.

110. By Autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following

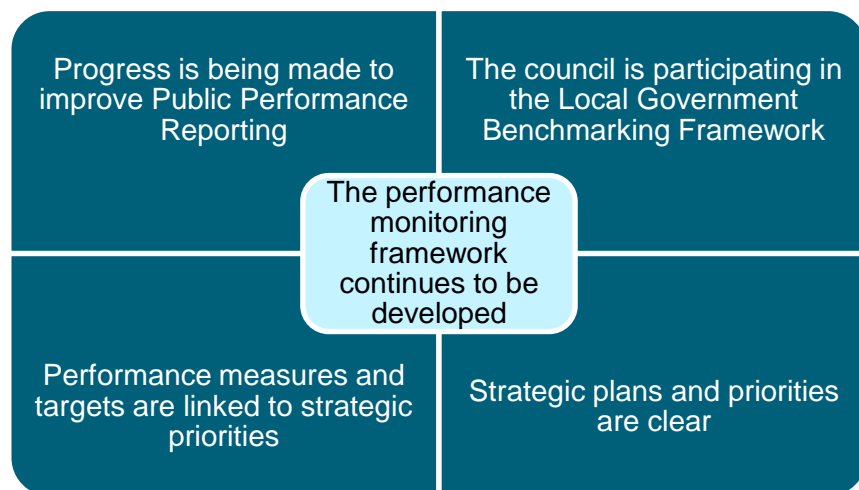
the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Outlook

111. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

112. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



- 113.** Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Procurement

- 114.** In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council reported a 2014 PCA assessment score of 40% (35% in 2013) against the average

score across Scottish councils of 62%. The council has established a PCA Improvement Plan to help deliver further improvement.

- 115.** The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised but it is anticipated they will be conducted between January and June 2016.

Performance management

- 116.** The council is committed to having a strong framework in place for monitoring and reporting performance. The Planning and Performance Management Framework (PPMF) is regularly updated as the council's arrangements for improving performance continue to be developed. The latest update in May 2014 was made to clarify:
- the integration of Financial and Service Planning timetables
 - the link between planning and risk management.
- 117.** The PPMF sets out the arrangements for delivering corporate objectives including the planning, monitoring and reporting arrangements. It shows how operational objectives are linked to strategic objectives, who has accountability for each plan and who has responsibility for each process.

- 118.** Quarterly PPMF reports are submitted by each directorate to the relevant committee and these reports are undergoing presentational changes during 2015/16 as the council moves towards better utilising the covalent performance management system. In addition, a Performance Management Strategy is to be developed during 2015/16 which will be reported to Policy & Resources Committee for approval.
- 119.** We note the council's progress towards developing robust and effective performance management arrangements. Effective arrangements are important to the delivery of the council's strategic and operational objectives. The council should continue to work to improve its performance management arrangements.

Overview of performance targets in 2014/15

- 120.** The Corporate Plan 2013-17 sets out ambitious objectives for the council and is currently in the process of being refreshed by council officers. During May 2015, each service committee received the 2014/15 year end performance report for the relevant directorate. These performance reports provide members with a summary of activity and performance for each directorate in relation to both corporate plan priorities and directorate plan priorities and are presented to committees on a quarterly basis throughout the year. Our review of these 2014/15 year end directorate performance reports noted that the council reported substantial progress against delivery of its corporate plan priorities, with very few priorities highlighted as not progressed.

- 121.** In addition to directorate performance reports, in May 2015 the Council received a report which provided an update on the Corporate Plan 2013-17 which highlights what actions have been delivered to meet the plan's underpinning objectives and also sets out targets for 2015/16.
- 122.** In September 2015 the council are due to report progress against performance indicators which will be submitted to the Improvement Service in August 2015 as part of the Local Government Benchmarking Framework (LGBF). In comparison to 2013/14, six indicators have improved, six areas have declined and two have stayed the same. Areas of improvement include the cost of collection of council tax collection and asset management. Areas that have declined include sickness absence and the number of visits to pools, libraries and museums.
- 123.** LGBF indicators are incorporated into directorate service plans and are reported to relevant committees, but not necessarily quarterly, as some are measured only annually.

Statutory performance indicators (SPIs)

- 124.** The Accounts Commission places great emphasis on councils' responsibility for Public Performance Reporting (PPR). The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
- 125.** For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 126.** An evaluation of all Scottish councils' approaches to PPR was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Shetland Islands Council was issued to the Chief Executive in July 2015.
- 127.** Shetland Islands Council was rated as fully meeting the requirements in 12 of the 26 PPR categories, with the remaining 14 categories assessed as being an area for improvement. This represents a significant improvement from the previous year's results where the council was assessed 0% fully, 76% partially and 24% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2016.
- 128.** During 2014/15 the local audit team reviewed the council's PPR arrangements. Overall we found that the council was committed to improving its arrangements and has plans in place to do so. There is room for improvement in the Council's arrangements for collecting, reporting and publishing performance information that the community would like to see.

National performance audit reports

- 129.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in **Appendix III**. Shetland Islands Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

- 130.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 131.** We noted that the council published its Equality Outcomes Progress and Mainstreaming Report (including employment monitoring information) in April 2015 which is available on the council's website.

Outlook

- 132.** In common with other councils, Shetland Islands Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding

gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>ISA 240 presumes an inherent risk of fraud where income streams are significant.</p> <p>Shetland Islands Council receives a significant amount of income in addition to Scottish Government funding. The size and diversity of income streams flowing to the council means that there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> • Evaluation of accounting policies for income and expenditure • Detailed testing of journal entries • Review of accounting estimates • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements. 	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>

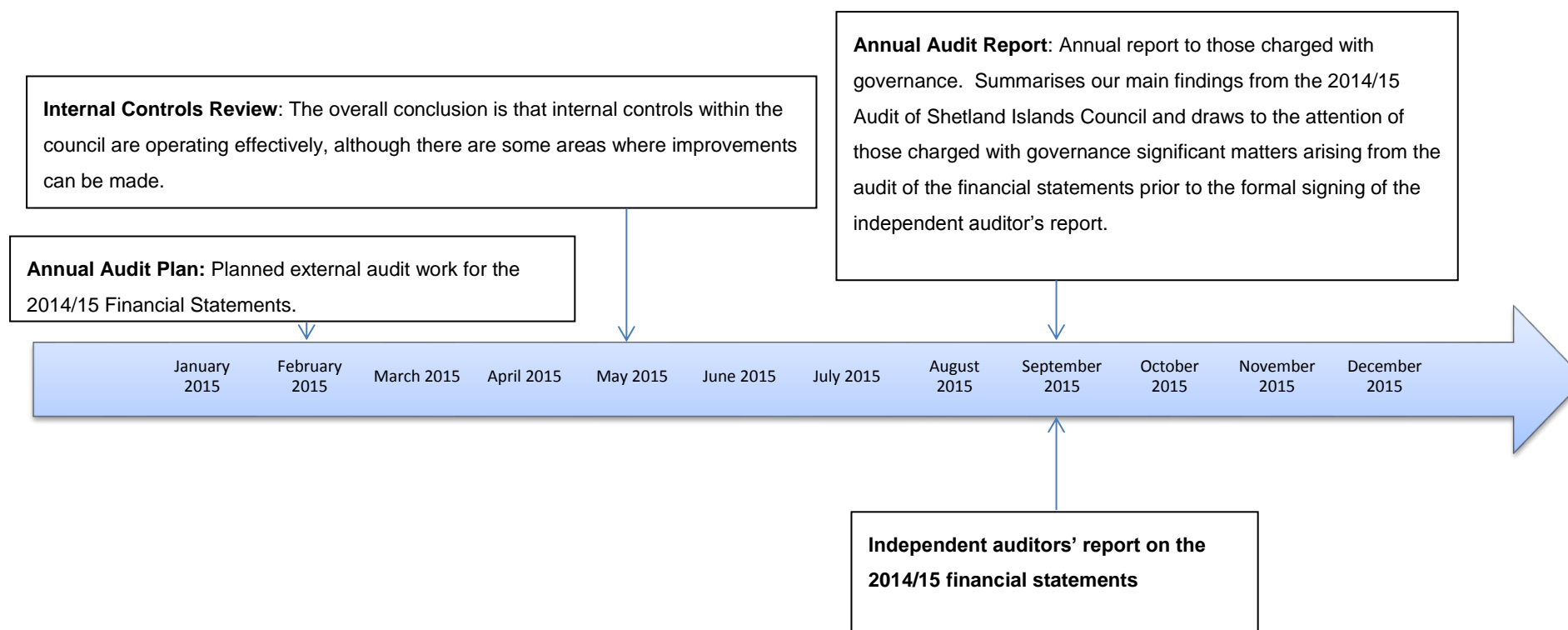
Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Evaluating significant transactions that are outside the normal course of business • Focused testing of accruals and prepayments 	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p>Valuations</p> <p>The financial statements of Shetland Islands Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas. 	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>No material misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Finance function – senior appointments</p> <p>Changes across the finance function may impact upon the operation of financial management and accounting arrangements.</p>	<ul style="list-style-type: none"> • Audit of financial statements to ensure compliance with the Code. • Provide an update in the annual audit report. • Review financial reporting to committee throughout year. • Ongoing liaison with finance staff to ensure that the unaudited financial statements are prepared in line with the Code. 	<p>We liaised with finance staff throughout the year and reviewed the financial statements to ensure compliance with the Code. We also reviewed the format and content of budget monitoring reports submitted to service committees during the year.</p> <p>No issues were identified in respect of financial management and accounting arrangements.</p>
<p>Borrowing</p> <p>As borrowing is a new area for the council there is a risk that borrowing transactions are not appropriately managed and/or reported in the financial statements.</p>	<ul style="list-style-type: none"> • Design and perform audit tests to ensure borrowing transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the borrowing transactions are disclosed in line with the Code. 	<p>We reviewed the controls in place over borrowing transactions and undertook testing of the amounts disclosed in the financial statements.</p> <p>No issues or errors were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Shetland Development Trust (SDT)</p> <p>There is a risk that transactions relating to the transfer of the SDT are not properly disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Design and perform audit tests to ensure the SDT transfer transactions disclosed in the financial statements comply with the Code. • Ongoing liaison with finance staff to ensure that the SDT transfer transactions are disclosed in line with the Code. 	<p>We liaised with finance staff throughout the year to ensure SDT transfer transactions complied with the Code. We also conducted appropriate audit work to ensure that the transfer of SDT was properly disclosed and accounted for in the financial statements of the council.</p> <p>The transfer of the SDT is properly disclosed in the council's financial statements.</p>
<p>Group Accounts</p> <p>There is a risk that the group accounts disclosures in the financial statements do not include accurate and reliable financial information for Shetland Charitable Trust (SCT).</p>	<ul style="list-style-type: none"> • Early financial statements planning meeting and review. • Regular audit liaison meetings with finance staff. 	<p>We worked with finance staff on this matter during the year to ensure the sign-off deadlines were achieved. We audited the working papers provided by the council in support of the Group Accounts disclosures in the financial statements.</p> <p>The SCT financial information is properly disclosed in the council's financial statements.</p>

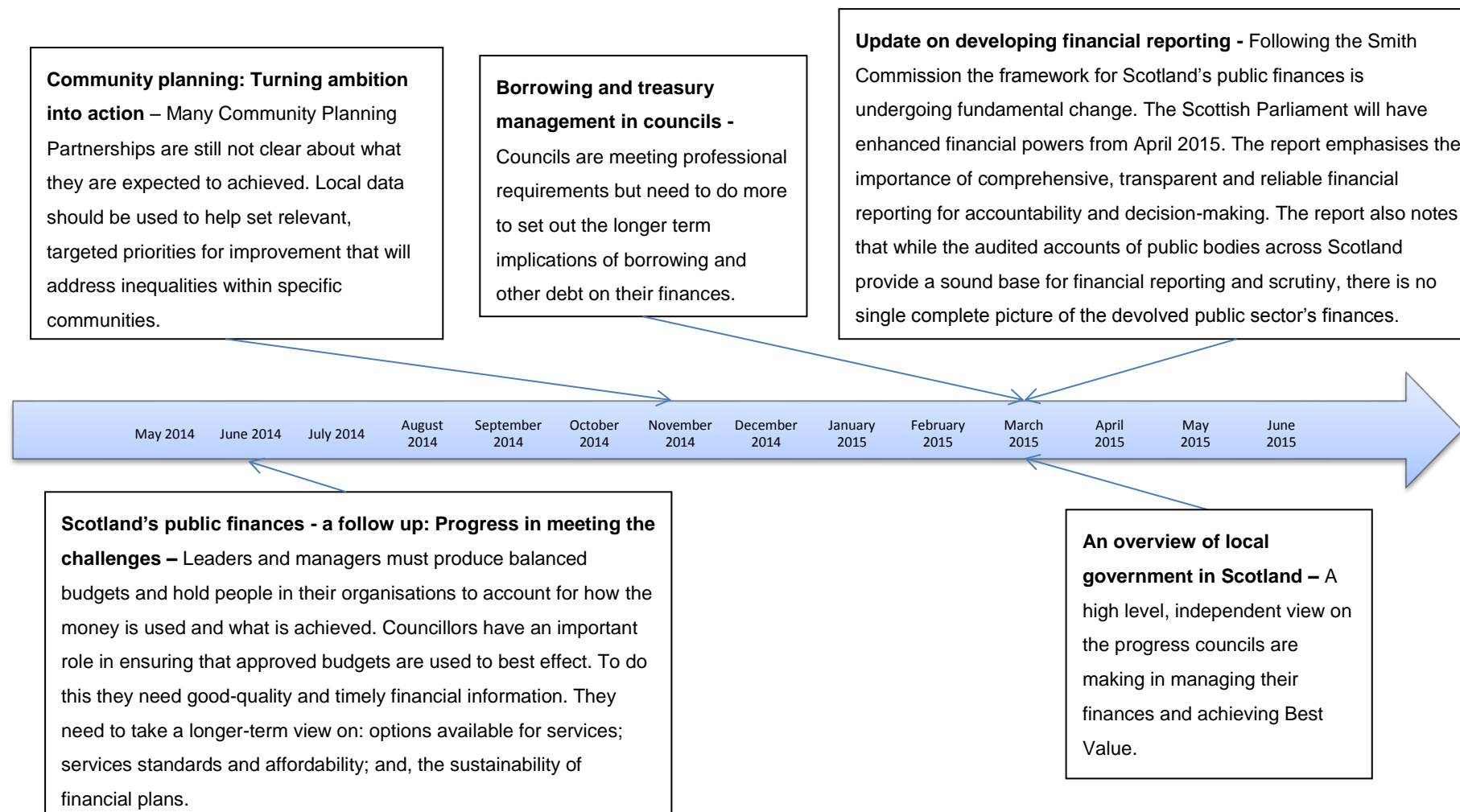
Appendix II – Summary of local audit reports 2014/15

Summary of Shetland Islands Council local audit reports 2014/15



Appendix III – Summary of national reports 2014/15

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action plan

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 16/53	<p>Medium Term Financial Plan</p> <p>The council's Medium Term Financial Plan requires significant savings to be delivered over the coming years.</p> <p>Risk</p> <p>Savings are not achieved and there is a larger draw on reserves than planned.</p> <p>Recommendation</p> <p>Progress against planned savings targets continues to be monitored and corrective action taken to address any significant variances.</p>	<p>Monthly monitoring of Council financial performance is undertaken by Finance and Service staff and quarterly reporting is in place for all Council accounts to Councillors.</p> <p>The refresh of the Medium Term Financial Plan will capture the latest data available recognising the risk relating to the assumptions around future Scottish Government funding levels. This will present the framework for work to continue by Services, preparing for and delivering on future saving plans.</p>	Executive Manager – Finance	<p>Ongoing</p> <p>30 November 2015</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 16/56	<p>Capital Programme Slippage</p> <p>There was a 25% slippage in the 2014/15 capital programme.</p> <p>Risk</p> <p>Delays in the capital programme impact on the council's ability to deliver its objectives.</p> <p>Recommendation</p> <p>Reasons for capital slippage should be investigated and appropriate action taken to minimise the risk of future delays with capital projects. This should include learning lessons from past delays.</p>	<p>The reasons for this slippage are understood and varied. The significantly reduced Asset Investment Plan resulted in the Council's technical teams being reduced commensurately. The development and design stages of larger projects can be challenging, however the buoyant construction market also means external resources and supply chain are not always available. Using this experience the capital investment plan and Long Term Asset Investment Plan, currently being prepared, aim to build in achievable levels of spending and delivery of projects moving forward.</p>	Executive Manager – Capital Project	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 17/60	<p>Workforce Management Strategy</p> <p>The council does not yet have an approved workforce management strategy in place.</p> <p>Risk</p> <p>The council may be less effective at delivering on its agreed objectives if resources are not strategically managed.</p> <p>Recommendation</p> <p>The council should approve a workforce strategy during 2015/16.</p>	Work has commenced on this strategy and the Council will be asked to adopt a strategy when the data collection, consultation and officer / management processes are complete.	Executive Manager – Human Resources	30 April 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 21/79	<p>Code of Corporate Governance</p> <p>The council's local code of corporate governance (September 2012) contains a requirement to be reviewed on an annual basis. However, no annual review has been carried out by members and officers. In addition, six monthly updates on the local code of corporate governance have not been presented to the Audit Committee as required.</p> <p>Risk</p> <p>The local code of corporate governance is not effective and does not reflect current legislative and good practice requirements.</p> <p>Recommendation</p> <p>The local code of corporate governance should be reviewed annually by members and officers to ensure its ongoing effectiveness and regular updates should be provided to the Audit Committee.</p>	<p>The code of corporate governance will be reviewed on a regular basis to ensure it reflects the corporate governance framework of the Council and its effectiveness will be considered as part of the Annual Governance Statement.</p>	<p>Executive Manager- Governance and Law</p>	<p>30 April 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 22/90	<p>National Fraud Initiative (NFI)</p> <p>The council's progress in following up NFI data matches has been slower than expected.</p> <p>Risk</p> <p>Potential fraud cases are not identified due to NFI matches not being followed up timeously.</p> <p>Recommendation</p> <p>The council should review the current NFI arrangements in order to improve the council's NFI co-ordination process.</p>	<p>Agreed.</p> <p>Will undertake a review of the current NFI arrangements in order to improve the Council's NFI co-ordination process.</p>	Team Leader – Revenues and Benefits	30 June 2016
7 24/102	<p>Rent Arrears</p> <p>Council house rent arrears are continuing to rise (increasing by 28% on 2013/14) and this may be further impacted by welfare reform.</p> <p>Risk</p> <p>The council is unable to prevent rent arrears from increasing, leading to a significant loss of income.</p> <p>Recommendation</p> <p>The council should ensure that it has taken action to identify and address the causes of increasing housing rent arrears.</p>	<p>Agreed.</p> <p>Work being undertaken to identify the causes for the increased arrears and these will be fully considered when reviewing the Council's Rent Collection and Arrears Prevention Procedures.</p>	Team Leader – Revenues and Benefits	31 December 2016



**Audit Committee
Shetland Islands Council**

**22 September 2015
22 September 2015**

Shetland Islands Council - Final Audited Accounts 2014/15

F-047-F

**Report Presented by Executive Manager –
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to present the 2014/15 audited Annual Accounts for approval.

2.0 Decision Required

- 2.1 That the Audit Committee RESOLVE to:
- a) CONSIDER the Shetland Islands Council audited Annual Accounts for 2014/15 (Appendix 1); and
- 2.2 That the Council RESOLVE to:
- a) APPROVE the Shetland Islands Council audited Annual Accounts for 2014/15 for signature (Appendix 1).

3.0 Detail

- 3.1 The Council is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Council's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected Members to consider the audited annual accounts and approve them for signature by 30 September 2015, and publish them no later than 31 October 2015.
- 3.3 The regulations also require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of financial statements. This was presented as a separate item on the agenda.
- 3.4 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2014/15 accounts. The overall conclusion being that the 2014/15 Annual Accounts:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of Shetland Islands Council and its group as at 31 March 2015 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

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 – Receiving the audited accounts of the Council and related certificates and reports is a matter reserved by the Council. In accordance with the Council's Scheme of Administration and Delegations, the remit of the Audit Committee includes reviewing the annual statement of accounts, specifically to consider whether appropriate Council policies have been followed and whether there are concerns arising from the financial statements that require to be brought to the attention of the Council.
- 4.4 Risk Management – There are no significant issues in relation to the audited Annual Accounts. Audit Scotland's Annual Report on the 2014/15 audit was presented as a separate item on the agenda. This contains a number of matters arising. For each matter, a resolution accompanies it to set out how this will or has been addressed.
- 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, within a set timescale, and elected members are required to approve the accounts for signature by 30 September 2015.
- 5.2 Audit Scotland has confirmed that it anticipates certifying the accounts as being a true and fair statement of the Council's financial position at 31 March 2015.

For further information please contact:

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Telephone: 01595 74 4607

List of Appendices

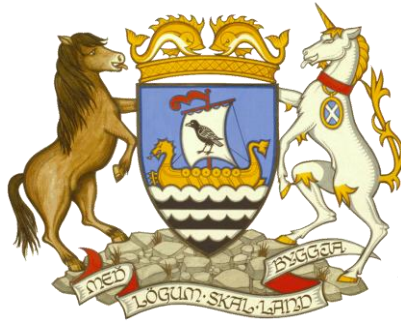
Appendix 1: Final Audited Annual Accounts 2014/15

Background documents:

NONE

END

Shetland Islands Council



Annual Accounts 2014/15 Audited

Securing the best for Shetland



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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

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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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 to develop 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 27 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 £122.9m, 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

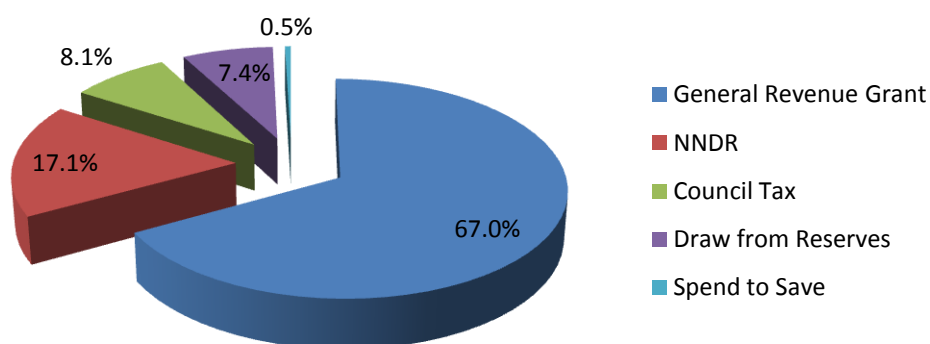
General Fund

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 2014/15. 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 through 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 £12.8m. 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 £492.7m in the Council's own Balance Sheet shown on page 41 to £606.5m in the group Balance Sheet which is shown on page 123. This represents an increase of £113.8m and this is mainly due to the inclusion of the Shetland Charitable Trust which added £114.7m 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.

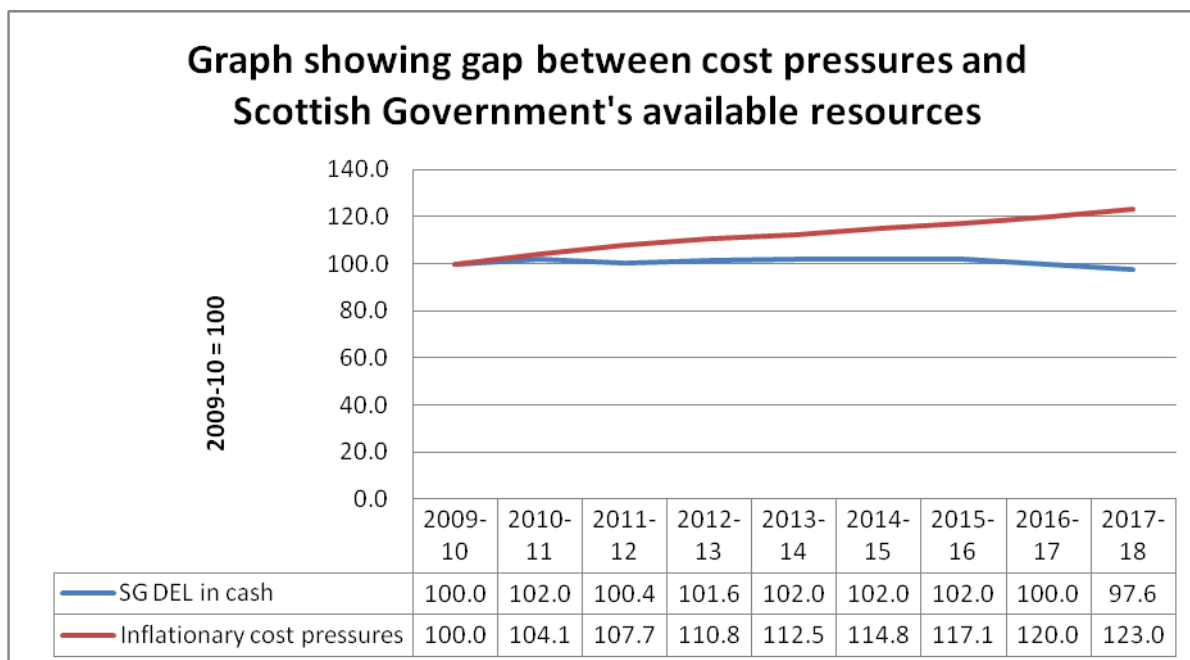
Carbon Management

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.



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
..... 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.

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Mark Boden
Chief Executive

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Gary Robinson
Leader of the Council

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Date

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Date

Remuneration Report

Introduction

The Remuneration Report is set out in accordance with the Local Government Accounts (Scotland) Regulations 2014. 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 and the (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	Infrastructure Services	Community Health and Social Care	Development 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	33
£60,000 - £64,999	16	1	5	3	0	1	1	11
£65,000 - £69,999	5	3	1	7	1	1	1	14
£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	2
£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	119

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	0	3	0	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	28	170	35	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) £	Total Remuneration £	
M Bell	Convener	20,317.28	20,702.04	0.00	20,702.04	
G Robinson	Leader of the Council	27,388.12	27,602.04	331.09	27,933.13	
C Smith	Chair - Social Services Committee	18,825.62	19,182.00	0.00	19,182.00	
D Ratter (a)	Chair - Shetland College Board	20,859.33	20,702.04	660.13	21,362.17	Chair to 14/5/14 also Chair of O&SVJB.
P Campbell	Chair - Shetland College Board	N/A	17,997.09	0.00	17,997.09	Chair from 15/5/2014
A Cooper	Chair - Development Committee	18,825.62	19,182.00	0.00	19,182.00	
A Duncan	Chair - Audit & Standards Committee	17,852.36	18,189.00	0.00	18,189.00	
F Robertson	Chair - Planning Committee	18,302.08	18,189.00	338.65	18,527.65	
M Stout	Chair - Environment & Transport Committee	N/A	18,873.11	0.00	18,873.11	Chair from 15/5/2014
A Wishart	Chair - Environment & Transport Committee	18,825.62	16,868.89	0.00	16,868.89	Chair to 14/5/2014
G Smith	Chair - Licensing Committee	17,852.36	18,189.00	0.00	18,189.00	
V Wishart	Chair - Education and Families Committee	18,825.62	19,182.00	0.00	19,182.00	
A Manson	Chair - Harbour Board	17,852.36	18,189.00	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	2014/15			Notes
		Total Remuneration £	Salary, Fees and Allowances £	Taxable Expenses (a) £	Total Remuneration £	
M Boden	Chief Executive	101,069.25	100,984.54	48.27	101,032.81	
H Budge	Director - Children's Services	80,849.10	83,413.39	0.00	83,413.39	
M Sandison	Director - Infrastructure Services	39,817.24	81,536.12	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	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	83,413.39	
C Ferguson	Director - Corporate Services	80,950.35	83,413.39	22.50	83,435.89	
S Shaw	Director - Community Care Services (b)	33,211.10	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	73,657.54	
J Gray	Executive Manager - Finance (Section 95 Officer) (c)	70,401.54	51,227.37	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	70,205.23	Left 31/03/2015

Notes:

- Taxable Expenses - includes taxable mileage and/or expenses outwith HMRC's dispensation.
- 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.
- S Whyte, Executive Manager, Finance (Section 95 Officer) from 8 December 2014, is employed by Aberdeen City Council.

Pension Benefits – Senior Councillors

The pension entitlements for Senior Councillors are shown in the table below, together with the contribution made by the Council to each Senior Councillor during the year.

Name of Councillor	Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
		Year ending 31 March 2014	Year ending 31 March 2015		As at 31 March 2014	As at 31 March 2015	Increase / (Decrease)	
		£'000	£'000		£'000	£'000	£'000	
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	N/A	3	Pension	N/A	1	1	Chair from 15/05/2014
				Lump Sum	N/A	0	0	
A Cooper	Chair - Development Committee	4	4	Pension	2	2	0	
				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	N/A	4	Pension	N/A	1	1	Chair from 15/05/2014
				Lump Sum	N/A	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			Accrued Pension Benefits			Notes
			Year ending 31 March 2014	Year ending 31 March 2015		As at 31 March 2014	As at 31 March 2015	Increase (Decrease)	
			£'000	£'000		£'000	£'000	£'000	
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 Services	ER	7	15	Pension	17	22	5	Commenced as Director
		Strain	0	0	Lump Sum	34	42	8	01/10/2013
P Crossland	Director - Infrastructure Services	ER	8	0	Pension	3	0	-3	Terminated Employment
		Strain	0	0	Lump Sum	0	0	0	30/03/2013
N Grant	Director - Development Services	ER	15	16	Pension	13	15	2	
		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 Services	ER	5	0	Pension	3	0	-3	Terminated Employment
		Strain	0	0	Lump Sum	0	0	0	04/08/2013
J Riise	Executive Manager - Governance & Law	ER	14	14	Pension	27	29	2	
		Strain	0	0	Lump Sum	62	63	1	
J Gray	Executive Manager - Finance	ER	13	10	Pension	2	3	1	Terminated Employment
		Strain	0	0	Lump Sum	0	0	0	14/12/2014
H Leslie	Executive Manager - Children & Families	ER	13	13	Pension	25	26	1	Terminated Employment
		Strain	0	0	Lump Sum	58	56	-2	31/03/2015

Notes:

- 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.
- 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.
- 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.
- 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
Chief Executive

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Gary Robinson
Leader of the Council

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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
Leader of the Council

.....
Date

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 unaudited 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.

.....
Steven Whyte, CPFA
Executive Manager – Finance

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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	(1,162)	664	0	0	0	(498)	0	(498)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(12,257)	(12,257)
Total Comprehensive Income and Expenditure	(1,162)	664	0	0	0	(498)	(12,257)	(12,755)
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,472	(1,232)	(1,102)	1,277	0	415	(415)	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	310	(568)	(1,102)	1,277	0	(83)	(12,672)	(12,755)
Net Transfers to/(from) Other Statutory Reserves	552	568	(955)	0	(165)	0	0	0
(Increase)/Decrease in 2014/15	862	0	(2,057)	1,277	(165)	(83)	(12,672)	(12,755)
Balance as at 31 March 2015	(12,998)	0	(73,840)	(643)	(153,474)	(240,955)	(251,790)	(492,745)

	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		36,100	(24,089)	12,011
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		179,767	(56,846)	122,921
(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				(498)
	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			(14,714)
(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)					(13,277)
	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				(12,257)
(23,271)	Total Comprehensive Income and Expenditure				(12,755)

Balance Sheet as at 31 March 2015

31 March 2014 £000		Notes	31 March 2015 £000
401,012	Property, Plant and Equipment	12	390,643
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		697,011
875	Assets held for Sale	16	12,577
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		40,616
(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		492,745
(240,872)	Usable Reserves	22	(240,955)
(239,118)	Unusable Reserves	23	(251,790)
(479,990)	Total Reserves		(492,745)

The audited Annual Accounts were authorised for issue on 22 September 2015.

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Steven Whyte, CPFA
Executive Manager – Finance

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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 provision of services	(498)	
(8,158)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 37)	(24,159)	
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	(11,091)	
(11,521)	Investing activities (Note 38)	47,196	
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) Property, Plant and Equipment

Assets are depreciated over the useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to its assets.

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 22 September 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.

The Council approved the sale of two tugs in June 2015. The sale is pending completion and is expected to conclude in the Autumn. These assets are shown as Assets Held for Sale in the Council's Balance Sheet as at 31 March 2015.

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				Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(13,196)	(2,179)	0	0	15,375
Revaluation losses on property, plant and equipment	(6,568)	(1,189)	0	0	7,757
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	1,472	(1,232)	(1,102)	1,277	(415)

2013/14 Comparative Figures	Usable Reserves				Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(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)	14,306	(13,302)	(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)	14,337	(13,475)	(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	3,420	(3,420)	0	1,232	(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)	30,682	(30,765)	(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	(1,998)	0	0	(537)	0	(2,133)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,206)	(6,193)	(6,212)	0	0	(33)	0	(13,644)
Derecognition – disposals	(1,245)	(28)	(951)	0	0	(309)	0	(2,533)
Derecognition – other	0	0	0	0	0	0	(16)	(16)
Assets reclassified (to)/ from Assets held for sale	(791)	(38)	(11,743)	0	0	(5)	0	(12,577)
Other movements in cost or valuation	1,994	4,314	177	3,092	0	1,513	(11,392)	(302)
At 31 March 2015	71,630	155,096	50,013	161,719	6,921	1,689	8,596	455,664
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	30,611	119,072	6,913	1,657	8,596	390,643
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 Construction £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. The fishing quota was originally 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:	
2,454	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
		Financial Liabilities		
		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
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	0	(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)	(41,229)

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	12,576
(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	12,577

17. Inventories

	Ports & Harbours		Infrastructure		Total	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000	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	2,679	4,323	3,066
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	8	0	8
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)
0	Miscellaneous Invoices written off	0
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	Symbister Peerie Dock	Total		Landfill De-commissioning	Symbister Peerie Dock	Total
£000	£000	£000		£000	£000	£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	Outstanding Legal Actions	Landfill De-commissioning	Financial Guarantees	VAT Penalties	Total
	£000	£000	£000	£000	£000	£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	Outstanding Legal Fees	Landfill De-commissioning	Financial Guarantees	VAT Penalties	Total
	£000	£000	£000	£000	£000	£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	(100,372)
(21,449)	Available for Sale Financial Instruments Reserve	(45,429)
0	AFS Financial Instruments Adjustment Account	(1,519)
(279,669)	Capital Adjustment Account	(290,643)
148,562	Pensions Reserve	183,396
2,639	Employee Statutory Adjustment Account	2,777
(239,118)	Total balance of unusable reserves at 31 March	(251,790)

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	
(62,886)	Balance at 1 April	(89,201)	
(24,858)	(Upward)/downward revaluation of assets	(31,129)	
	(Upward)/downward revaluation of assets and impairment		
(3,431)	(gains)/ losses not charged to the Surplus or Deficit on the Provision of Services	16,415	
(28,289)	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(14,714)	
1,661	Difference between fair value depreciation and historical cost depreciation	2,422	
313	Accumulated gains on assets sold or scrapped	1,121	
1,974	Amount written off to the Capital Adjustment Account	3,543	
(89,201)	Balance at 31 March	(100,372)	

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	7,757	
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			24,545
(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		22,123
	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	(290,643)	

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	27,860
(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	122,921
4,041	Amounts relating to Subsidiaries, Associates and Joint Ventures	3,953
119,450	Cost of Services in Comprehensive Income and Expenditure Statement	126,874

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	Group Amounts £000	Total £000
Employee expenses	91,339	2,109	0	0	93,448
Other service expenses	72,777	7,394	(1,709)	0	78,462
Support service recharges	1,324	(2,436)	(11)	0	(1,123)
Depreciation, amortisation and impairment	0	23,201	0	0	23,201
Interest payments	4,618	0	(4,536)	0	82
Total expenditure	170,058	30,268	(6,256)	0	194,070
Fees, charges & other service income	(67,408)	(36)	0	0	(67,444)
Amounts relating to Subsidiaries, Associates and Joint Ventures	0	0	0	3,953	3,953
Interest and investment income	(148)	0	0	0	(148)
Government grants and contributions	(1,185)	(2,372)	0	0	(3,557)
Total Income	(68,741)	(2,408)	0	3,953	(67,196)
Cost of Services	101,317	27,860	(6,256)	3,953	126,874

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	Group Amounts £000	Total £000
Employee expenses	95,662	774	0	0	96,436
Other service expenses	74,043	185	(2,461)	0	71,767
Support service recharges	1,445	(2,831)	0	0	(1,386)
Depreciation, amortisation and impairment	0	14,706	0	0	14,706
Interest payments	6,004	0	(5,955)	0	49
Total expenditure	177,154	12,834	(8,416)	0	181,572
Fees, charges & other service income	(61,780)	0	0	0	(61,780)
Amounts relating to Subsidiaries, Associates and Joint Ventures				4,041	4,041
Interest and investment income	(120)	0	0	0	(120)
Government grants and contributions	(4,263)	0	0	0	(4,263)
Total Income	(66,163)	0	0	4,041	(62,122)
Cost of Services	110,991	12,834	(8,416)	4,041	119,450

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 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 Restated £000		31 March 2015 £000
55,922	Opening Capital Financing Requirement	36,360
16,547	Capital investment:	12,432
24	Property, plant and equipment	21
	Intangible assets	
	Sources of finance:	
(1,485)	Capital receipts	(1,302)
(6,844)	Government grants and other contributions	(9,365)
(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	8,927
12,030	Later than five years	12,030
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	(5,899)
(10,449)	Later than five years	(8,997)
(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	(681)
(2,416)	Later than five years	(2,882)
(3,706)	Total	(3,903)

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	
20,513	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 2016 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
	£000	A £000	B %	C %	A*C £000
Deposits with Banks	9,429	4,275	0	0	0
Customers	118	131	25	25	33

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	2,112
187	Three to six months	218
200	Six months to one year	148
531	More than one year	611
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)
(1,884)	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	(7,757)
(64)	Amortisation	(68)
	(Increase)/decrease in impairment for bad debts	9
1,280	(Increase)/decrease in creditors	(2,310)
12,940	Increase/(decrease) in debtors	(3,614)
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	(24,159)

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	12,348
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	(2,475)
(17,220)	Proceeds from short-term and long-term investments	(1,720)
(8,763)	Other receipts from investing activities	(8,096)
(11,521)	Total	47,196

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 generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework; 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	£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)
	Net (income)/ cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
(2,683)			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
	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)
(496)		
2,499	Statutory provision for the financing of capital investment	1,101
1,249	Capital expenditure charged against HRA balances	985
	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,302
906		
(128)	Reversal of items relating to retirement benefits debited and credited to the Comprehensive Income and Expenditure Statement	(378)
	Employer's pensions contributions and direct payments to pensioners payable in the year	214
131		
	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)
0		
(442)		(568)
442	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 but a reduction in the amount of arrears per property.

2013/14 £000		2014/15 £000
161	Rent Arrears	206

2013/14		2014/15
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	(14)
(54)	Balance as at 31 March	(49)

* 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	0	0	0	0	0	0	0	0	0
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 the Scottish Government. There is no material impact on prior year comparative figures as a result of this change.

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.

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.

Group Movement in Reserves Statement 2014/15

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve / Capital Funds	Capital Grants Unapplied	Other Revenue/ Statutory Funds	Council's share of Group Usable Reserves	Total Usable Reserves	Council's Unusable Reserves	Council's share of Group Unusable Reserves	Total Unusable Reserves	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 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	(1,162)	664	0	0	0	(7,630)	(8,128)	0	0	0	(8,128)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(12,257)	(14)	(12,271)	(12,271)
Total Comprehensive Income and Expenditure	(1,162)	664	0	0	0	(7,630)	(8,128)	(12,257)	(14)	(12,271)	(20,399)
Adjustments between accounting basis & funding basis under regulations	1,472	(1,232)	(1,102)	1,277	0	(34)	381	(415)	34	(381)	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	310	(568)	(1,102)	1,277	0	(7,664)	(7,747)	(12,672)	20	(12,652)	(20,399)
Transfers to/from Earmarked Reserves	552	568	(955)	0	(165)	(47)	(47)	0	47	47	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)	3,194	3,111	(12,672)	67	(12,605)	(9,494)
Balance at 31 March 2015	(12,998)	0	(73,840)	(643)	(153,474)	(115,357)	(356,312)	(251,790)	1,564	(250,226)	(606,538)

Group Movement in Reserves Statement 2013/14

	Usable Reserves							Unusable Reserves			Total Group Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve / Capital Funds	Capital Grants Unapplied	Other Revenue/ Statutory Funds	Council's share of Group Usable Reserves	Total Usable Reserves	Council's Unusable Reserves	Council's share of Group Unusable Reserves	Total Unusable Reserves	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 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	36,100	(24,089)	12,011
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	9,017	(5,064)	3,953
119,450	Cost of Services	188,784	(61,910)	126,874
(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			(11,583)
(33,165)	(Surplus) or Deficit on Provision of Services			(8,128)
	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			(14,714)
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			(14)
15,938				12,729
	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			(12,271)
(24,380)	Total Comprehensive Income and Expenditure			(20,399)
0	SDT assets written out of Group Accounts			10,905
(24,380)	Movement on Balance Sheet			(9,494)

Group Balance Sheet as at 31 March 2015

31 March 2014 £000		Notes	31 March 2015 £000
401,012	Property, Plant and Equipment		390,643
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		114,659
3,534	Long-term Loans	4	3,438
5,054	Other Long-term Debtors		30
731,723	Long-Term Assets		811,670
875	Assets Held for Sale		12,577
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		40,616
(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		606,538
(359,423)	Usable Reserves		(356,312)
(237,621)	Unusable Reserves		(250,226)
(597,044)	Total Reserves		(606,538)

The audited Annual Accounts were authorised for issue on 22 September 2015.

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Steven Whyte, CPFA
Executive Manager – Finance

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Date

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 provision of services	(8,128)	
(8,898)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 10)	(16,529)	
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	(11,091)	
(11,852)	Investing Activities (Note 11)	47,196	
1,043	Financing Activities (Note 12)	(30,992)	
(4,603)	Net (increase) or decrease in cash and cash equivalents		5,113
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	Removal 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)	(311)
Gross Expenditure	361	450
Net (Surplus)/Deficit	45	139
Non-Current Assets	0	0
Current Assets	13	32
Current Liabilities	(18)	(39)
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 Restated	2014/15 £000
Gross Income	(1,743)	(2,106)
Gross Expenditure	1,743	2,106
Net (Surplus)/Deficit	0	0
Non-Current Assets	0	0
Current Assets	1,743	2,106
Current Liabilities	(1,743)	(2,106)
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	(14,389)
Gross Expenditure	(8,320)	6,606
Net (Surplus)/Deficit	(1,440)	(7,783)
Non-Current Assets	103,687	110,694
Current Assets	4,914	5,600
Current Liabilities	(887)	(877)
Non-Current Liabilities	(838)	(758)
Capital and Reserves	(106,876)	(114,659)

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 value 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 £606.5m is an increase of £113.8m from the Council's net worth of £492.7m. This is mainly due to the inclusion of the Shetland Charitable Trust which added £114.7m 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	(7,757)
(1,010)	Amortisation	(68)
569	(Increase)/decrease in impairment for bad debts	9
1,156	(Increase)/decrease in creditors	(2,310)
12,792	Increase/(decrease) in debtors	(3,614)
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	23,902
(8,898)	Total	(16,529)

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	12,348
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	(2,475)
(18,494)	Proceeds from short-term and long-term investments	(1,720)
(8,763)	Other receipts from investing activities	(8,096)
(11,852)	Total	47,196

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

Independent auditor's report to the members of Shetland Islands Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-Domestic Rate Income Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

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

Respective responsibilities of the Executive Manager - Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Manager - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

24 September 2015

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.



**Audit Committee
Shetland Islands Council**

**22 September 2015
22 September 2015**

Zetland Educational Trust – ISA 260 Report on the 2014/15 Audit

F-050-F

**Report Presented by Executive Manager –
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to receive Audit Scotland's ISA 260 Report on the 2014/15 Audit.

2.0 Decision Required

- 2.1 That the Audit Committee and Shetland Islands Council RESOLVE to:
- a) NOTE Audit Scotland's ISA 260 Report on the 2014/15 Audit.

3.0 Detail

- 3.1 The Trust is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Trust's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of the Annual Accounts.
- 3.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

- 3.4 Audit Scotland's ISA 260 report is included at Appendix 1 to this Report. This confirms that Audit Scotland will be certifying the accounts as being a true and fair statement of the Trust's financial position at 31 March 2015.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The preparation and presentation of the Accounts is a key element of the Trust'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 Trust's financial performance as contained in the Annual Report. Receiving the audited accounts of the Council and related certificates and reports is a matter reserved by the Council
- 4.4 Risk Management – The ISA 260 Report is included at Appendix 1 to this report.
- 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 Audit Scotland has provided an ISA 260 Report on the 2014/15 audit.
- 5.2 Audit Scotland will be certifying the accounts as being a true and fair statement of the Trust's financial position at 31 March 2015.

For further information please contact:
Jonathan Belford
Executive Manager - Finance
Email: jonathan.belford@shetland.gov.uk
Telephone: 01595 74 4607

List of Appendices

Appendix 1: Audit Scotland ISA 260 Report 2014/15

Background documents:

NONE

END

Zetland Educational Trust

Report to those charged with governance on the 2014/15 audit



Prepared for the members of Shetland Islands Council
September 2015

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

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. Prior to the sign-off of the financial statements, the trustees of the charity will be given the opportunity to discuss the points raised within the ISA 260 report directly with External Audit.
3. This report sets out for the trustees' consideration the matters arising from the audit of the financial statements for 2014/15 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Shetland Islands Council, as the sole trustee of Zetland Educational Trust and no responsibility to any third party is accepted.

Status of the Audit

4. Our work on the financial statements is now complete. The issues arising from the audit were included in a matters arising schedule issued to the Executive Manager - Finance on 2 September 2015. Satisfactory responses have been received for all matters raised.
5. We received the unaudited financial statements by 29 June 2015, in accordance with the agreed timetable. The working papers in support of the financial statements were of good standard. Finance staff provided good support to the audit team and we completed our on-site fieldwork on 21 August 2015.

Matters to be reported to those charged with governance

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan of Shetland Islands Council presented to the Audit Committee on 24 February 2015, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

8. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the trustees we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

9. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified audit report on 24 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
10. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £10. There were none identified as part of our audit work.
11. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
12. The Council has decided not to recharge any administration to the trusts in 2014/15. This policy is disclosed in the Notes to the Accounts for all trusts. As a result, the costs incurred in administering the trusts are not known to the trustees.
13. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix C. This should be signed and returned by the Executive Manager - Finance with the signed financial statements prior to the independent auditor's opinions being certified.

Accounting and internal control systems

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

Significant findings from the audit

15. There are no significant issues to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

Acknowledgements

16. We would like to express our thanks to the staff of Shetland Islands Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of Zetland Educational Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of receipts and payments, statement of balances and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

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

Respective responsibilities of the trustees and auditor

The trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

24 September 2015

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

Appendix B: ISA 580 - Letter of Representation

22 September 2015

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

Dear David

Zetland Educational Trust
Annual Accounts 2014/15

This representation letter is provided in connection with your audit of the financial statements of the Zetland Educational Trust for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Zetland Educational Trust for the year ended 31 March 2015.

General

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

The information given in the Annual Report to the financial statements presents a balanced picture of the Zetland Educational Trust and is consistent with the financial statements.

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

Financial Reporting Framework

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

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the charity for the year ended 31 March 2015.

Accounting Policies & Estimates

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

Going Concern

The trustees have assessed the ability of the Zetland Educational Trust to carry on as a going concern and have disclosed in the financial statements any material uncertainties that have arisen as a result.

Related Party Transactions

All transactions with related parties have been disclosed in the financial statements and I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure.

Events Subsequent to the Date of the Balance Sheet

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

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

Corporate Governance

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

Fraud

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

Trustee Remuneration

I confirm that no remuneration was paid to any trustee or any person connected to a trustee during the period to 31 March 2015.

Trustee Expenses

I confirm that no expenses were paid to any trustee during the period to 31 March 2015.

Assets

The cash fund and investments shown in the statement of balances at 31 March 2015 were owned by Zetland Educational Trust. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

Yours sincerely

Steven Whyte

Executive Manager - Finance



**Audit Committee
Shetland Islands Council**

**22 September 2015
22 September 2015**

Zetland Educational Trust - Final Audited Accounts 2014/15

F-051-F

**Report Presented by Executive Manager –
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to present the Zetland Educational Trust's 2014/15 audited Annual Accounts for approval.

2.0 Decision Required

- 2.1 That the Audit Committee RESOLVE to:
- a) CONSIDER the Zetland Educational Trust's audited Annual Accounts for 2014/15 (Appendix 1); and
- 2.2 That the Council RESOLVE to:
- a) APPROVE the Zetland Educational Trust's audited Annual Accounts for 2014/15 for signature (Appendix 1).

3.0 Detail

- 3.1 The Trust is required to prepare and publish a set of Annual Accounts within a set timescale, which are then subject to external audit. Audit Scotland is currently the Trust's nominated auditors.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require elected Members to consider the audited annual accounts and approve them for signature by 30 September 2015, and publish them no later than 31 October 2015.
- 3.3 The regulations also require elected members to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of financial statements. This was presented as a separate item on the agenda.
- 3.4 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2014/15 accounts. The overall conclusion being that the 2014/15 Annual Accounts:

- properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The preparation and presentation of the Accounts is a key element of the Trust's overall governance and reporting arrangements.
- 4.2 Community /Stakeholder Issues – NONE.
- 4.3 Policy And/Or Delegated Authority – Receiving the audited accounts of the Trust and related certificates and reports is a matter reserved by the Council. In accordance with the Council's Scheme of Administration and Delegations, the remit of the Audit Committee includes reviewing the annual statement of accounts, specifically to consider whether appropriate Council policies have been followed and whether there are concerns arising from the financial statements that require to be brought to the attention of the Council.
- 4.4 Risk Management – Audit Scotland's ISA 260 Report on the 2014/15 audit was presented as a separate item on the agenda. No significant issues were reported on the audited Annual Accounts.
- 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 Trust is required to prepare and publish a set of Accounts, within a set timescale, and elected members are required to approve the accounts for signature by 30 September 2015.

5.2 Audit Scotland has confirmed that it anticipates certifying that the accounts properly present the receipts and payments of the charity for the year ended 31 March 2015.

For further information please contact:

Jonathan Belford

Executive Manager - Finance

Email: jonathan.belford@shetland.gov.uk

Telephone: 01595 74 4607

List of Appendices

Appendix 1: Final Audited Annual Accounts 2014/15

Background documents:

NONE

END

Zetland Educational Trust Schemes 1961 to 1965

Scottish Charity No SC001146

Annual Report & Financial Statements

For the Year Ended 31 March 2015

(Audited)

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Trustee's Annual Report For the Year Ended 31 March 2015

The trustee has 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 Trustee
Shetland Islands Council

Structure Governance & Management

Constitution

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

Trustee

The trustee is Shetland Islands Council, the local authority for the Shetland Islands area. 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 eight and four 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 trustee on 22 September and signed on their behalf by:

Steven Whyte CPFA
Executive Manager - Finance

Dated : _____

Statement of Receipts and Payments - For the Year Ended 31 March 2015

	Note	Unrestricted Funds £	Total 2015 £	Total 2014 £
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
Auditor'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 8 form an integral part of these accounts

Statement of Balances - As at 31 March 2015

	Unrestricted Funds £	Total 2015 £	Total 2014 £
Cash Funds			
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

	Market valuation £	Last year £
Investments		
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 8 form an integral part of these accounts

Approved by the trustee on 22 September and signed on their behalf by:

Steven Whyte CPFA
Executive Manager - Finance

Dated : _____

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	4	800	5	1,000
E & M Gair Bursaries	8	1,600	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)
		<u>2,745</u>		<u>17,842</u>

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.

Independent Auditor's Report

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

I certify that I have audited the financial statements of Zetland Educational Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of receipts and payments, statement of balances and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

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

Respective responsibilities of the trustees and auditor

The trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

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

24 September 2015

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