Agenda Item
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Shetland Islands Council

Audit Committee | **21 September 2016**
Shetland Islands Council | **21 September 2016**

Shetland Islands Council - Annual Audit Report on the 2015/16 Audit	
F-056-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 2015/16 Audit.

2.0 Decision Required

2.1 That the Audit Committee:

a) NOTE Audit Scotland's Annual Audit Report on the 2015/16 Audit.

2.2 That Shetland Islands Council RESOLVE to:

a) NOTE Audit Scotland's Annual Audit Report on the 2015/16 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 the Committee/Council 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 2016.

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 IV: 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 2015/16 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 2016.

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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List of Appendices

Appendix 1: Audit Scotland ISA 260 Report 2015/16
Appendix 2: Audit Scotland Annual Audit Report 2015/16.

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

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AUDIT SCOTLAND

The Audit Committee
Shetland Islands Council

21 September 2016

Shetland Islands Council
2015/16 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 2015/16 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" 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 auditor's report (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit 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. Two monetary errors have not been processed through the financial statements by management. If adjusted these would decrease net expenditure by £0.026 million and increase the carrying value of non-current assets in the balance sheet by £0.029 million.

5. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the 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 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the council-only Housing Revenue Account, 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 2015/16 (the 2015/16 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 circumstances of the council and its group 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 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group 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 2015/16 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.

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September 2016

APPENDIX B: Letter of Representation (ISA 580)

David McConnell
Assistant Director
Audit Scotland
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8 Nelson Mandela Place
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Dear David

Shetland Islands Council
Annual Accounts 2015/16

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 2016 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 2016 and its comprehensive net 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 2016.

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 Annual Accounts, including the Management Commentary and 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).

Regularity of Financial Transactions

6. The financial transactions of Shetland Islands Council are in accordance with the relevant legislation and regulations governing its activities and expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

Financial Reporting Framework

7. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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.

8. 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 its group for the year ended 31 March 2016.

Accounting Policies & Estimates

9. 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 2015/16.

10. 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

11. 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

12. 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 2015/16.

Events Subsequent to the Date of the Balance Sheet

13. 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.

14. 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

15. 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.

16. 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 2015/16. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2016, which require disclosure.

Fraud

17. 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

18. The assets shown in the Balance Sheet at 31 March 2016 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

19. 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 2016.

Carrying Value of Assets and Liabilities

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

21. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016 and of which Shetland Islands Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2016.

Yours sincerely

Jonathan Belford, Executive Manager - Finance

Section 95 Officer

Shetland Islands Council

2015/16 Annual audit report to Members and the Controller of Audit

September 2016

Key contacts

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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/about/).

The Accounts Commission has appointed 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.

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.

Contents

Key messages

Audit of financial statements	• Unqualified auditor's report on the 2015/16 financial statements. • Unqualified auditor's reports on the Zetland Educational Trust administered by the council.
Financial management and sustainability	• 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.
Governance and transparency	• The council has a strong governance structure in place. • There is a sound system of internal control with an appropriate committee structure in place to identify and report on any areas of weakness. • The council has an effective internal audit function and sound anti-fraud arrangements • Integration Joint Board to deliver health and social care integration became operational during the year
Best Value	• 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 is meeting the requirements of the Public Performance Reporting (PPR) criteria.
Outlook	• 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 2015/16 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 appendix II and appendix III, include recommendations for improvements.

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.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Shetland Islands Council will be Deloitte LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	• We have completed our audit of the council and its group and issued an unqualified independent auditor’s report.
Going concern	• 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’s, its group and associated charitable trust’s ability to continue as a going concern.
Other information	• 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.
Charitable trusts	• We have completed our audit of the 2015/16 financial statements of the Zetland Educational Trust administered by Shetland Islands Council and issued an unqualified independent auditor’s report for the trust.
Group accounts	• Shetland Islands Council has accounted for the financial results of three associates and one joint venture in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £110.354 million.
Whole of government accounts	• The council submitted a consolidation pack for audit by the deadline of 26 August 2016. This has been audited and the certified return submitted to the NAO.

Submission of financial statements for audit

10. We received the unaudited financial statements on 27 June 2016, 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.

11. In 20105/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Shetland Islands IJB was established on 20 June 2016 and became operational on 22 November 2016. The amounts concerned in 2015/16 are material and they have been consolidated into the group accounts.

Overview of the scope of the audit of the financial statements

12. 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 1 March 2016.

13. 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 2015/16 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.

14. 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.

15. 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

16. 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).

17. 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.

18. 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 2015/16 at £1.885 million (1% of gross expenditure). We report all misstatements greater than £0.020 million. Performance materiality was calculated at £0.942 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

19. 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

20. 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.

21. Two misstatements have not been processed through the Council's financial statements by management. If adjusted these would result in a decrease in expenditure of £0.026 million in the 2015/16 Comprehensive Income and Expenditure Account, and an increase in the carrying value of Property, Plant and Equipment in the Balance Sheet at 31 March 2016 of £0.029 million.

Significant findings from the audit

22. 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.

23. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
Untaken Annual Leave Accrual
24. Our review of the untaken annual leave accrual identified significant errors within the calculations for non-teacher school staff and for non-school staff. The non-teacher school staff calculations had used the incorrect number of working days and accrued holidays for some staff, while the non-school staff calculations had a number of errors in the spreadsheet formula used to calculate the accrual. The council agreed to correct these errors, the effect of which is a decrease of £0.605 million to the 2015/16 untaken annual leave accrual and an increase to the unusable reserves balance in the Balance Sheet.

Future accounting and auditing developments

Highways network assets

25. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement costs basis. This will have a significant impact on the value of local authority balance sheets.

Code of Audit Practice

26. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
    - Financial sustainability
    - Financial management
    - Governance and transparency; and
    - Value for money

27. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability

Budgeted draw on reserves £6.9m	Original planned capital expenditure £33.6m	Planned to maintain usable reserves balance	Of the Council's total revenue and capital underspend, £5.6m relates to carry forward requests which will be drawn from reserves in 2016/17
Actual contribution to reserves £5.7m	Outturn Capital spend £13.8m	Usable reserves balance £242.2m	
Revenue Underspend £6.0m	Capital underspend £19.7m	Movement in usable reserves £1.3m	

Financial management

28. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

29. 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

30. Overall the council reported a deficit of £23.999 million on the provision of services in the 2015/16 Comprehensive Income and Expenditure Statement. Adjusting this balance to remove the accounting entries required by the Code, the council's general fund increased by £0.804 million.

31. The 2015/16 budget, approved by the Council in December 2014, had a planned total draw on reserves of £6.946 million, including £3.326 million of savings. The actual outturn for the year was a contribution to reserves of £5.746 million. This was mainly due to one-off capital receipts for the sale of tugs and an underspend against the general fund of £5.998 million.

Exhibit 1: Draw on reserves

Spending area	Original Budget £m	Actual £m	Variance £m
General fund	12.98	6.63	(6.35)
Housing Revenue Account	(0.41)	(1.43)	(1.02)
Capital programme	0.17	(7.61)	(7.78)
Spend to Save	1.53	0.07	(1.46)
Other	(7.32)	(3.41)	3.91
Total draw on reserves	**6.95**	**(5.75)**	**(12.70)**

Source: Shetland Islands Council 2015/16 budget book and financial review

32. The underspend on the general fund was mainly due to underspends in the following services:

- Community Care Services - £2.0m underspend due to staffing underspends across the service
- Development Services - £0.7 million underspend due to increased income from local investments and underspending on Fairer Scotland scheme grants
- Infrastructure Services - £2.5 million underspend due to increased income from Scord quarry and underspending on ferry fuel costs.

33. The council is required by legislation to maintain a separate housing revenue account 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 £0.418 million contribution to the Housing Repairs & Renewal Fund in 2015/16 and the actual contribution for the year was £1.429 million. The increased contribution was mainly due to there being no capital expenditure funded from revenue during the year.

Financial management arrangements

34. 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.

35. As part of the audit we reviewed the council's financial regulations and concluded that they are comprehensive. However we noted that they had not been updated for several years. Updated financial regulations are being considered for approval by the council in November 2016.

36. Financial monitoring reports (both revenue and capital) are submitted to the Council on a quarterly basis. Reports are comprehensive and well laid out. Service committees also receive directorate financial performance reports on a quarterly basis.

37. 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

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

Financial sustainability

39. 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.

40. 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.

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

Reserves

42. The overall level of usable reserves held by the council increased by £1.274 million compared to the previous year and totalled £242,229 million, refer Exhibit 2. The closing usable reserves balance at 31 March 2016 includes a number of earmarked commitments. The main commitments include:

- Harbour contingency of £43.3 million
- Repairs and renewals fund of £42.7 million
- Capital Fund of £65.1 million

Exhibit 2: Usable reserves

Description	31 March 2015 £ million	31 March 2016 £ million
General fund	12.998	11.790
Capital grants unapplied	0.643	0.053
Capital receipts reserve	73.840	85.173
Other Revenue / Statutory Funds	153.474	145.213
Total usable reserves	**240.955**	**242.229**

Source: Shetland Islands Council 2015/16 financial statements

43. 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.

44. 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

45. The council has responded to the challenging financial climate by adopting a medium term approach to financial planning. The council's Medium Term Financial Plan (MTFP) was updated in November 2015 and covers the period from 2015/16 – 2020/21. The aim of the MTFP is to help the council approve annual budgets that are balanced and affordable in the medium term, with a sustainable draw from investments in order to maintain usable reserves at their present value. Anticipated funding for the next 5 years is detailed in Exhibit 3 below.

Exhibit 3: Savings requirements

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
General fund service expenditure	114,503	115,926	117,673	120,672	124,365
Income	6,910	6,719	6,777	7,871	8,044
Revenue Funding	93,744	91,722	90,305	89,890	94,238
Draw from investments	12,045	12,298	12,556	12,820	13,089
Savings required	1,804	5,187	8,035	10,091	8,994

Source: Shetland Islands Council Medium Term Financial Plan

46. The exhibit highlights that the council anticipates that there will be significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years, coupled with an ever increasing demand for Council services from areas such as Community Care.

47. In order to address the funding challenges the Council plans to:

- structure services in a way that maximises productivity and operates as efficiently and effectively as is possible;
- prioritise service delivery
- capture savings from improved and robust procurement and commissioning processes
- improve the consistency and application of charging policies.

48. The Scottish Government settlement for 2016/17 resulted in a lower level of funding for the council than was planned. This required the council to revisit its budget for 2016/17 and begin discuss longer term plans for savings to meet the challenges over the following 3 years. The council is planning to address the challenges that lie ahead in line with the strategy outlined in the MTFP.

Action Plan no. 1

Capital programme 2015/16

49. The council approved its asset investment plan (capital programme) for 2015/16 in December 2014. Total capital expenditure for 2015/16 was £13.845 million and the most significant items of expenditure were on the new Anderson High School and Sound Primary School.

50. The council reported an underspend of £19.747 million against its budgeted capital expenditure of £33.592 million (59% of the total programme). This underspend was mainly due to budget provisions included for the new Anderson High School (£14.8 million) and the Town Hall Conservation project (£1.2 million).

Action Plan no. 2

Asset Management

51. In February 2016 the council agreed its five year Asset Investment Plan 2016-21 which is aligned with its MTFP. The focus of the Asset Investment Plan continues to be on the maintenance of existing assets rather than the creation of new assets. The main exceptions to this will be the construction of the new Anderson High School, upgrading ferry terminals and purchase of new vessels.

52. 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

53. 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 services. We

noted in our report in 2014/15 that the council had a number of policies and procedures in place relating to staff, however there was no overall workforce strategy in place. The council developed its workforce strategy during 2015/16 and a strategy for 2016-20 was approved in April 2016.

54. During 2015/16 there were 23 exit packages agreed with employees at a total cost of £0.345 million (2014/15 – 35 exit packages with a total cost of £1.033 million).

Treasury Management

55. At 31 March 2016 long term borrowing stood at £31 million, which is the same as the level at 31 March 2015. 2014/15 was the first time that Shetland had used external borrowing for 20 years and the borrowing was carried out in line with its Borrowing Policy and Strategy 2013-18.

56. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 4 shows long term borrowing as at 31 March 2016 as of net revenue stream a proportion of the actual outturn for the year for all mainland councils in Scotland. Shetland Islands Council continues to have the second lowest level in Scotland.

Exhibit 4: Scottish councils' long term borrowing as a percentage of net revenue streams

Source: Scottish councils' unaudited accounts 2015/16

57. Funds held for investment at 31 March 2016 were £287 million (£278 million 2014/15).

58. The council agreed the Annual Investment and Treasury Strategy for 2016/17 in February 2016 in line with the CIPFA Code of Practice for Treasury Management in the Public Services 2011. The strategy keeps the same types of investments for 2016/17 as previous years.

Pension liability

59. The net pension liability included in the council's balance sheet has decreased by £40,267 million from £183,396 million in 2014/15 to £143,129 million. The principal reason for this decrease is mainly as a result of the movement in the discount rate to calculate the annual liability.

60. 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 valuation at 31 March 2014 the Shetland Islands Council Pension Fund was 91.7% funded and had assets of £333 million. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

Group Accounts

61. 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.

62. The council has accounted for the financial results of three associates and one joint venture in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £110.354 million.

63. The net assets of the group at 31 March 2016 totalled £618.445 million, compared to a net asset position of £606.538 million in 2014/15. This positive movement largely relates to the significant decrease in the pension liability within the council's accounts.

Shetland Charitable Trust

64. The Shetland Charitable Trust (SCT) is included in the council's group accounts as an associate. The Code defines an associate as an entity over which the reporting entity has significant influence. During 2015/16 seven of the fifteen trustees of the SCT were councillors which is the main reason that the SCT was included within the group accounts.

65. In June 2016 the Council received a report on a review of the governance arrangements at SCT carried out during 2015/16. The governance review proposed that the number of councillor trustees should be reduced from seven to four. However the Council decided that in future no councillors will be put forward to serve as trustees for SCT. This change in the governance arrangements and any impact on the structure of the council's group accounts will need to be reviewed in future years.

Conclusion on financial sustainability

66. We have concluded that the council is containing its expenditure within annual budgets and has an appropriate medium term financial plan in place. Overall we conclude that the financial position is 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.

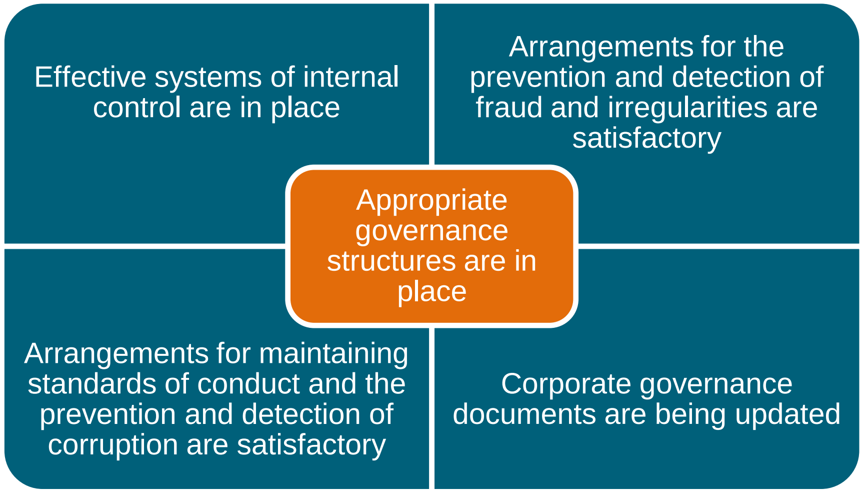
Outlook

67. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2016/17, Scottish Government funding for councils decreased by 11 per cent in real terms to almost £10 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

68. 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 pressures expected, councils face difficult decisions to balance their budgets. The council's medium term financial plan includes £32 million of savings required from 2017/18 to 2020/21 to support maintaining the current level of usable reserves in line with the council's reserves policy. Decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

69. The council are prepared for the introduction of Highway Network Assets in 2016/17. The Roads Service will populate the valuation spreadsheet provided by consultants to enable a valuation to be included within the draft annual financial statements. As noted in the management commentary within the annual accounts, this change in valuation methodology will have a significant impact on the value of assets in the council's balance sheet from 2016/17.

Governance and transparency



70. 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.

Corporate governance

71. The council's corporate governance framework is centred on the full council, supported by seven standing committees. It also has four functional committees which are responsible for taking decisions within their respective scope of responsibility. Committees are well attended by elected members and papers are subject to a high level of scrutiny.

Local code of corporate governance

72. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. Although this code highlights that it should be reviewed on an annual basis, there is no evidence that this has been done and the current version is dated September 2012. This was highlighted in our 2014/15 annual report and the code was scheduled to be reviewed by April 2016.

73. Constitutional documents, such as the scheme of administration and delegations, are currently being updated and it is intended that they will be approved in November 2016. Following this, the code of corporate governance will be reviewed and submitted to the council for approval in February 2017.

Action Plan no. 3

Internal control

74. 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.

75. What were the results of our review and how did this impact on our audit approach, if at all. We reported our findings to the Audit Committee in May 2016. 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 system in operation.

Internal audit

76. 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.

77. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with Public Sector Internal Audit Standards and that we could place formal reliance on the planned areas set out in the 2015/16 Annual Audit Plan.

ICT audit

78. Our ICT audit work during 2015/16 generally found that the ICT controls in place at the council are satisfactory. However, we note following the successfully completion of a change to the backup process, the ICT department is planning their business continuity provision and expect to reduce the recovery times substantially for some applications.

Arrangements for the prevention and detection of fraud

79. 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

80. 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.

81. As part of our audit work we consider the council's approach to the NFI exercise. We noted areas for improvement in the council's engagement with the NFI process as part of our 2014/15 annual audit report. Internal audit at the council are reviewing the NFI arrangements at the council during 2016/17.

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

82. 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

83. 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.

84. 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.

85. Overall we concluded that the council has appropriate arrangements in this area.

Freedom of Information requests

86. During 2015/16 the council received 911 FOI requests and 837 requests (92%) were responded to within 20 days. Of the 911 FOI requests received, all information was provided for 797 requests (87%) with partial or no information provided for the remaining 114 requests. During the period there were four appeals against denial of FOI requests but no decisions were overturned. One of these appeals was appealed further to the Office of the Scottish Information Commissioner which was upheld.

Integration of health and social care

87. 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. The Act requires councils and NHS bodies to integrate the governance, planning and resourcing of adult social care services, adult primary care and community health services and some hospital services.

88. Shetland Islands Council and NHS Shetland decided to follow the body corporate model, creating an Integration Joint Board to plan and commission the health and social care services for their area.

89. The Shetland Islands Integration Joint Board was established on 27 June 2015 and first met on 20 July 2015. At this meeting it approved the appointment of the Chief Officer and Chief Financial Officer and membership of the Board. The Strategic Commissioning Plan was approved at a meeting on 20 November 2015 with applicable functions and budgets delegated to the IJB.

90. The IJB has produced financial statements for 2015/16 covering the period 27 June 2015 to 31 March 2016, which have been audited by Audit Scotland and will be reported to the Integration Joint Board in a separate Annual Audit Report for 2015/16 by 30 September 2016.

Local scrutiny plan

91. The 2016/17 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 2016.

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

- financial planning
- health and social care integration
- self evaluation within the Education department

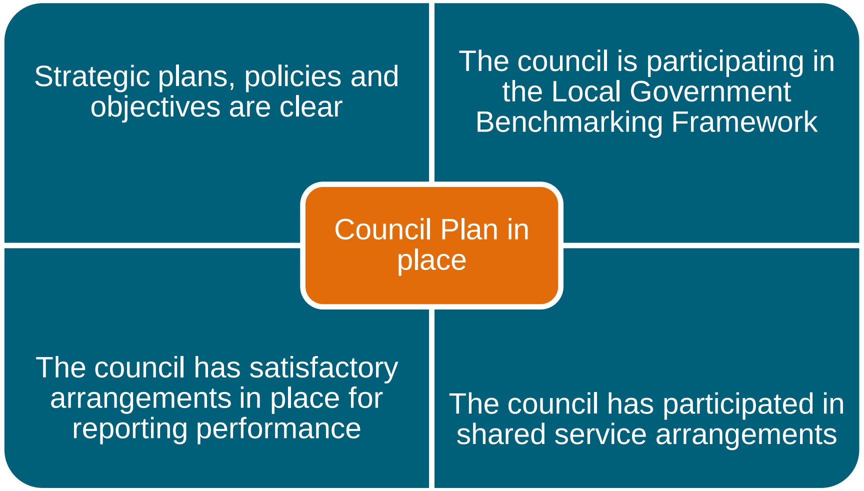
93. These areas will be revisited as part of the shared risk assessment process in 2016/17.

Outlook

94. 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.

95. Partnership, joint working and arm's 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



96. 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

97. 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.

98. The annual PCA was replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP introduced a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results are not comparable with the previous PCA scores. Scotland Excel began undertaking PCIP assessments for local authorities in May 2016, and the cycle will continue until November 2016.

99. The Council approved a new Commissioning and Procurement Framework in April 2016 following work on reviewing the council's policies and strategies on commissioning and procurement. One of the aims of the review was to review existing policies and procedures to ensure that they comply with all relevant legislation and guidance including changes in EU Regulations that take effect in 2016/17.

Shared services

100. During 2014/15 the council reached an agreement with Aberdeen City Council to jointly share the Head of Finance at Aberdeen City Council to carry out overall responsibility for the proper administration of both councils' finances. This arrangement was for an initial period of twelve months from December 2014, with a review to be carried out during the year.

101. Following the review in December 2015 it was decided that the council should look to appoint an Executive Manager – Finance on a

permanent basis. Following a recruitment exercise in February 2016 an Executive Manager – Finance was appointed on a permanent basis from April 2016.

Following the public pound

102. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance and funding external bodies and following the public pound.

103. Although the council does not make use of Arms-Length External Organisations (ALEOs), we confirmed that the council has appropriate arrangements in place in respect of community grants, economic development grants and funding provided to procure services from the third sector.

104. During 2017 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.

Performance management

105. The council is committed to having a strong framework in place for monitoring and reporting performance. During 2016 work has been carried out to standardise the content of Directorate and Service Plans and performance reports within the council and to better align them with the content of the council's Corporate Plan. It is intended that once this work is completed it will be collated in a Performance Management Handbook for approval by the council.

106. The council also participates in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

Overview of performance targets in 2015/16

107. The Council agreed a new Corporate Plan for the period 2016-20 in September 2015. The plan sets out the priorities for the council over the next four years as well as setting out important challenges. It also includes twenty aims that the council plans to achieve by 2020.

108. Directorate and Service Plans will be linked to achieving the outcomes that are set out in the Corporate Plan. Service committees receive performance reports for each relevant directorate on a quarterly basis during the year and a year end report in May. Our review of the 2015/16 directorate performance reports from May 2016 noted that the council is reporting good progress against the actions for each directorate with very few being classed as having a risk of not completing the target action.

Statutory performance indicators (SPIs)

109. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils

to provide citizens with fair, balanced and engaging performance information reporting.

110. For 2015/16 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.

111. Overall we concluded that the council's arrangements for publication were satisfactory.

Local performance audit reports

112. A summary of any significant local performance audit reports issued during the year at appendix II.

National performance audit reports

113. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, 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

114. 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.

115. The council reported on progress against the outcomes in April 2015 as part of the report for Shetland's Community Planning Partnership.

Outlook

116. 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.

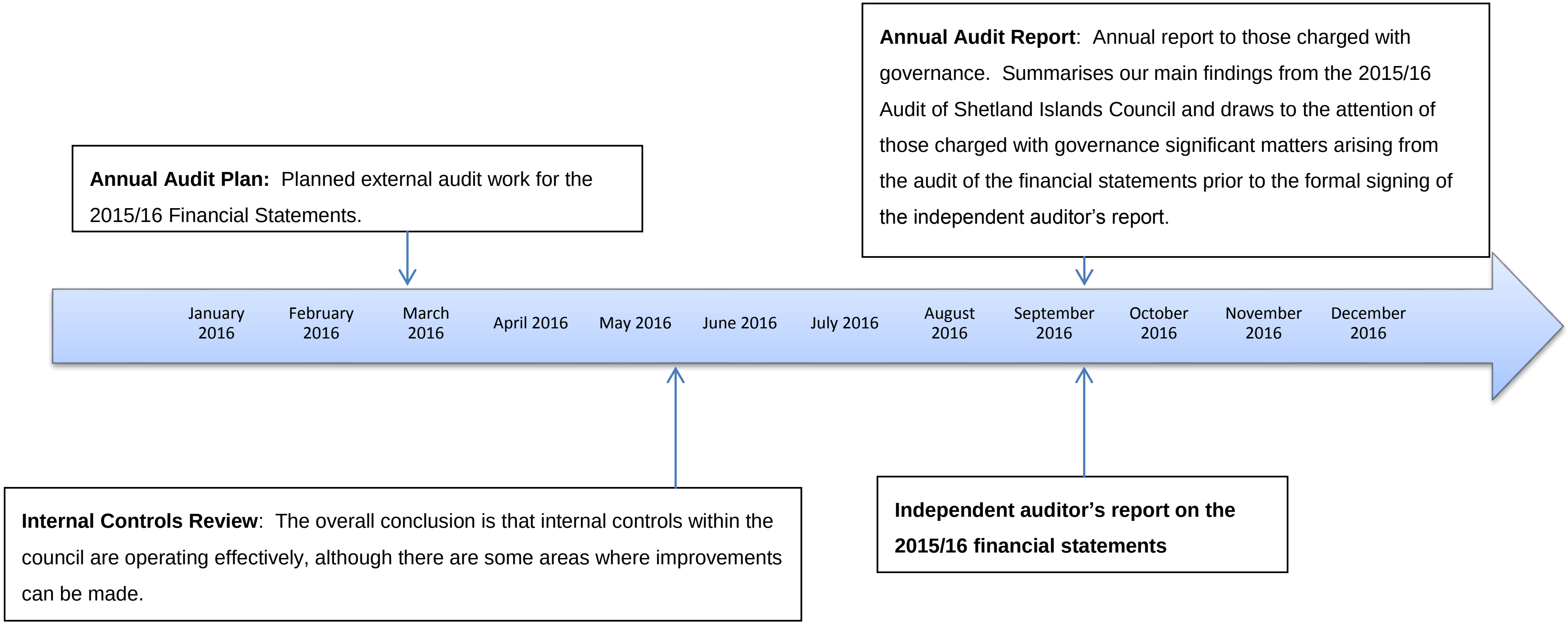
#	Audit Risk	Source of assurance	Results and conclusions
Financial statement issues and risks			
1	**Management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the 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 • Evaluating significant transactions that are outside of the normal course of business • Focussed testing of accruals and prepayments	From our audit testing of risk areas we did not identify any incidents of management override of controls.
2	**Income** The Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA 240.	• Evaluation of accounting policies for income and expenditure • Detailed testing of journal entries • Analytical review of income streams to confirm completeness and identify any unusual transactions or variation in income • Substantive testing of income to	From our audit testing of income, we did not identify any areas of concern.

#	Audit Risk	Source of assurance	Results and conclusions
		confirm occurrence and accuracy of amounts in the financial statements	
3	**Valuations** 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.	• Completion of 'review of the work of an expert' for professional valuer • Focussed substantive testing of key areas	From our review of the work of the professional valuer and focused substantive testing, no issues or misstatements were identified.
4	**Group accounts** There is a risk that the group accounts disclosures in the financial statements do not include accurate and reliable financial information for SCT.	• Early financial statements planning meeting and review • Regular audit liaison meetings with finance staff	We worked with finance staff on this matter during the year to ensure sign-off deadlines were achieved. We audited the working papers provided by the council in support of the group accounts disclosures in the annual accounts. The SCT financial information is properly disclosed in the council's annual accounts.
5	**Integration Joint Board** The Shetland Islands Integrated Joint Board (IJB) was established in June 2015 and will be required to prepare its own annual accounts for 2015/16. Shetland Islands	• Early financial statements planning meeting and review • Regular audit liaison meetings with finance staff	We discussed this matter with finance staff during the year to ensure issues were identified early on. We audited the working papers provided by the council in support of the group accounts disclosures in the annual

#	Audit Risk	Source of assurance	Results and conclusions
	Council will be required to include the IJB in its assessment of entities for inclusion in the group accounts and to consider relevant financial and governance disclosures regarding the IJB for 2015/16. There is a risk that the Council may not account for the IJB appropriately within its annual accounts.		accounts. The IJB financial information is properly disclosed in the council's annual accounts.
Wider dimension issues and risks			
6	**Governance documents** Many of the governance documents and policies in place at the council have not been reviewed for several years. There is a risk that the documents do not reflect current recommended practice or current arrangements at the council.	• Reviewing governance documents in place to confirm their adequacy. • Monitoring arrangements for updating and reviewing the governance documents	The council has adequate governance documents in place, however these should be reviewed and updated on a regular basis to ensure that they remain relevant.
7	**Business continuity** It may be difficult to recover some ICT applications at the council within the Recovery Time Objectives. There is a risk that council services would be	• Monitoring the work being carried out by the council's ICT department	ICT audit work during the year found that ICT controls are satisfactory and that ICT staff at the council are carrying out work which should reduce the recovery times for applications.

#	Audit Risk	Source of assurance	Results and conclusions
	disrupted if applications cannot be recovered promptly.		
8	**Financial planning** The council's Medium Term Financial Plan sets out how the council plans to achieve a sustainable financial position and maintain its level of usable reserves. The plan includes challenging savings targets, with a funding gap of £32 million over the period to 2020/21. There is a risk that the council will not be able to achieve the savings required	• Monitor the council's financial position via revenue budget reports presented to full Council and meetings with officers. • Ongoing review of council's progress delivering savings options. • Review of council's revised long term Financial Strategy.	We have concluded that the council's financial management arrangements are satisfactory. However large savings targets will still need to be achieved in future years.
9	**Capital investment** The council's Asset Investment Plan is focussed on maintaining the existing council assets and requires borrowing in future years to cover the funding shortfall. There is a risk that an appropriate level of capital spending may not be sustainable in the future.	• Review delivery of the annual capital programme during the audit of the council's 2015/16 financial statements. • Development of long term asset investment plan • Adoption of a balanced 2016/17 to 2020/21 Asset Investment Plan.	The council has a long term capital investment plan which is monitored and updated regularly. However there was a large underspend for capital in 2015/16 and this has been noted in the action plan in appendix IV.

Appendix II: Summary of Shetland Islands Council local audit reports 2015/16



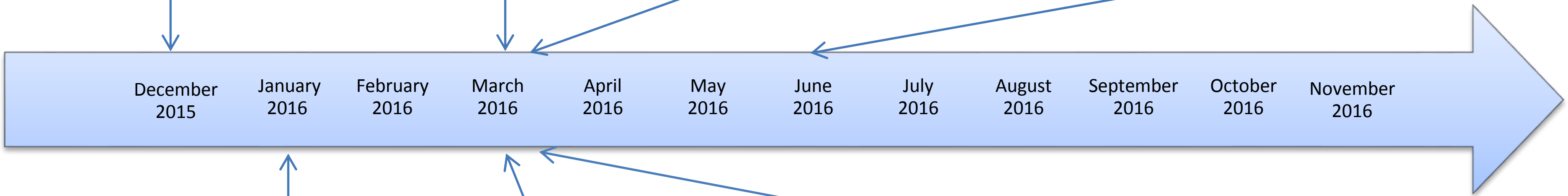
Appendix III: Summary of Audit Scotland national reports 2015/16

Health and social care integration (December 2015) – Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.

An overview of local government in Scotland (March 2016) – Budget reductions mean starker choices ahead for councils which will not be met simply by continuing to cut staff and services

Community planning: an update (March 2016) – Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.

National Fraud Initiative in Scotland 2014/15 (June 2016) – The security and transparency of Scotland's public finances have been strengthened after a national data-sharing exercise found nearly £17million of fraud and error across pubic services.



Major capital investments in councils: follow-up (January 2016) - Councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.

National scrutiny plan for local government (March 2016) – Provides a summary of strategic scrutiny activity for all councils in 2016/17.

Changing models of health and social care integration (March 2016) - A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.

Appendix IV: Action plan

No.	Page /Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	14/48	**Medium Term Financial Plan** The council's Medium Term Financial Plan requires significant savings to be delivered over the coming years. **Risk** Savings are not achieved and there is a larger draw on reserves than planned. This could impact on funding available for council services and lead to the council not being able to achieve outcomes. **Recommendation** The Council should ensure it continues to monitor and manage the planned areas for savings in order to ensure that savings targets are met.	The Council will continue to monitor and manage the planned areas for savings working towards ensuring that savings targets are met through the quarterly monitoring reports and the budget process.	Jonathan Belford, Executive Manager – Finance Ongoing

No.	Page /Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	14/50	**Capital Programme Slippage** There was an underspend of 59% in the 2015/16 capital programme. **Risk** Delays in the capital programme impact on the council's ability to deliver its objectives. **Recommendation** 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.	The extent of the slippage noted is due to the scale of the projects involved (new AHS and Halls of Residence) rather than the widespread delays across the Council's 5-year Asset Investment Plan. At the time of setting the Asset Investment Plan for 2015/16, the new AHS and Halls of Residence projects were not finalised nor were there forecasts on spending over Plan available. This is an area that continues to be monitor closely and reported to the Council. Budget Responsible Officers and Project Managers are routinely challenged on the deliverability of project programmes.	Robert Sinclair, Executive Manager – Capital Programme Ongoing

No.	Page /Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	18/73	**Code of Corporate Governance** 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. **Risk** The local code of corporate governance is not effective and does not reflect current legislative and good practice requirements. **Recommendation** 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.	A governance documents review project has been ongoing during 2016, recognising the changes that have been made to some of the Council's governance arrangements since 2012. A revised set of documents will be issued to the Council on 2 November for approval. Following this, the governance arrangements will be reviewed by February 2017, taking account of the new "Delivering Good Governance in Local Government: Framework" (CIPFA/SOLACE, 2016), and a revised Code of Corporate Governance presented to the Audit Committee and Council in February 2017.	Jan Riise, Executive Manager – Governance & Law February 2017

Agenda Item

2

Shetland Islands Council

Audit Committee — **21 September 2016**
Shetland Islands Council — **21 September 2016**

Shetland Islands Council – Final Audited Annual Accounts 2015/16	
F-057-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the 2015/16 final audited Annual Accounts for Shetland Islands Council for approval.

2.0 Decision Required

2.1 That the Audit Committee:

a) CONSIDER the Shetland Islands Council audited Annual Accounts for 2015/16 (Appendix 1); and

2.2 That the Council RESOLVE to:

a) APPROVE the Shetland Islands Council audited Annual Accounts for 2015/16 for signature (Appendix 1).

3.0 Detail

Background

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. The Council is in the final year of appointment with Audit Scotland. I would like to take this opportunity to thank Audit Scotland for all the work they have done with the Council.

3.2 The Local Authority Accounts (Scotland) Regulations 2014 require the Committee/Council to consider the audited annual accounts and approve them for signature by 30 September 2016, and publish them no later than 31 October 2016.

3.3 The regulations also require the Committee/Council to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of the financial statements. This was presented as a separate item on the agenda.

3.4 Audit Scotland's report 'Financial Reporting and Scrutiny: Why the Accounts Matter' recommends that Members consider the following information when scrutinising and approving the annual accounts:

- The Management Commentary on page 4 of the accounts. This statement informs users of the most significant aspects of the Council's performance during 2015/16.

- The Annual Governance statement on page 20 of the accounts. This provides information on the Governance framework and the effectiveness of the organisation, including any concerns raised during the year. The overall conclusion from Internal Audit is that the Council's system of internal control, governance and risk management is generally adequate and effective to provide reasonable assurance that assets are safeguarded, waste and inefficiency is avoided, reliable information is produced and value for money is continually sought. This assumes that any issues have been addressed appropriately.

- The Comprehensive Income and Expenditure Statement (CIES) on page 42 of the accounts. The CIES presents the full economic cost of providing services in 2015/16 (£120.7m). This cost differs from the outturn position reported to Council on 25 May 2016 (£100.2m) due to a number of accounting adjustments which are required to ensure that the annual accounts comply with proper accounting practice. Note 24 (Amounts Reported for Resource Allocation Decisions) on page 92 of the accounts provides a reconciliation between these two amounts.

- The Balance Sheet on page 43, which sets out the total net worth of Shetland Islands Council, and is a snapshot of the position as at 31 March 2016. When comparing the net worth of the Council as at 31 March 2016 to the Balance Sheet as at 31 March 2015, there has been an overall increase in the net worth of £15.3m.

- The Balance Sheet and associated notes provides detailed information on the Council's fixed assets, investments, current assets, current liabilities, including provisions, and longer term liabilities, including borrowing and the pension liability.

- Details of the Council's usable reserves, shown in the Management Commentary on page 13 and in Note 8 (Movement in Reserves) on page 70 of the Annual Accounts. The Council currently holds discretionary capital and revenue reserves totalling £200.1m and specific earmarked reserves totalling £42.2m. Council policy is to maintain the value of its usable reserves to ensure that it can live within its means. However, it is recognised that the earmarked reserves will be used over time to achieve the Council's strategic outcomes and objectives. This needs to be factored into the long term financial planning.

- The debt financing costs to income ratio. This provides an indication on the affordability of the Council's debt/borrowing in terms of how much income can be directed to provide front line service delivery rather than funding capital expenditure costs. This is 12% for 2015/16, however this is due to the write-off and repayment of internal debt. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels.

3.5 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2015/16 accounts. The overall conclusion being that the 2015/16 Annual Accounts:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the Council and its group as at 31 March 2016 and of the income and expenditure of the Council and its group 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 2015/16 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.

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 2015/16 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 the Committee/Council are required to approve the accounts for signature by 30 September 2016.

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 2016.

For further information please contact:
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16 September 2016

List of Appendices

Appendix 1: Shetland islands Council Audited Annual Accounts 2015/16

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Shetland Islands Council

Annual Accounts 2015/16 Audited

Securing the best for Shetland

Contents

Inside front cover and page 45 photograph by Kevin A Jones

Introduction

I am pleased to present the Council's Annual Accounts for the 2015/16 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.

The Council has been through some extremely challenging times and has continued to make good financial progress by, amongst other things, adopting a medium term approach to financial planning and achieving financial improvement year on year. This was confirmed by Audit Scotland who reported in their Annual Audit Report published in September 2015 that 'Financial Management remains strong with a robust budget setting process in place' and that 'the Council is financially sustainable currently and in the foreseeable future'. There are, however, significant financial challenges in the years ahead due to reduced Government funding, increasing service demand and rising costs which will put a strain on the Council's resources. This is discussed in more detail in the Management Commentary section of the Annual Accounts.

In December 2014, the Council entered a fixed term partnership arrangement with Aberdeen City Council to share its Chief Financial Officer to carry the overall responsibility for the proper administration of both councils' finances. Audit Scotland reviewed these arrangements against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the Council satisfies the statement's five principles. Since April 2016, I have been permanently appointed to the Executive Manager – Finance post for Shetland Islands Council. I would like to thank Steve Whyte and Aberdeen City Council for the support received during this period.

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 also like to take this opportunity to say thank you and personally acknowledge the considerable efforts of all staff in the production of the 2015/16 Annual Accounts.

Jonathan Belford, 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 2015/16 and understand the year-end financial position as at 31 March 2016. In addition, it provides a narrative on the financial outlook for the Council during financial year 2016/17 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 Directorates 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, Licensing, 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

Community Planning

The Council is a member of the Shetland Partnership, which is the local Community Planning Partnership for Shetland. Partners are drawn from across the public, private and third sectors in Shetland. The Community Plan sets out what the Partnership will try to do for Shetland over the long term.

Community Planning in Shetland aims to create communities that are:

- Wealthier and Fairer
- Smarter (Learning and Supportive)
- Healthier (Healthy and Caring)
- Safer
- Greener

The Community Plan is linked to the Single Outcome Agreement (SOA) which sets out the priorities between the Scottish Government, the Council and other key partners at a local level up until 2015/16. Progress against the SOA Outcomes is reviewed on a regular basis and an annual report will be published later in the year.

From 2016, the Local Outcomes Improvement Plan (LOIP) sets out the activity and priorities of the Shetland Partnership to deliver the Community Plan. The LOIP is similar to the SOA, but with a few key differences. The LOIP is drawn up between the partners and communities and is designed to bring together the efforts of the Community Planning partners to address inequality and resilience in surrounding communities.

Creating a LOIP for the local area is a responsibility that has been given to Community Planning Partnerships by the Community Empowerment (Scotland) Act 2015. This Act aims to empower community bodies through ownership or control of land and buildings, and by giving them more say in decisions about public services. The legislation has significant implications for the Shetland Partnership in helping to shape the development of the LOIP and guide the approach to securing community participation in Community Planning.

Using the five Community Planning themes the LOIP contains the following 5 key outcomes:

- Shetland has sustainable economic growth and all our people have the chance to be part of island life.
- Shetland is the best place for children and young people to grow up.
- We live longer healthier lives and people are supported to be active and independent throughout adulthood and in older age.
- Shetland is a safe place to live for all our people, and we have strong, resilient and supportive communities.
- 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.

There are a number of indicators which the Partnership will use to monitor how well it is progressing towards delivering and achieving the above outcomes. The indicators will be monitored on a quarterly basis by the Shetland Partnership Performance Group, and progress will be reviewed annually in order to redefine targets and actions if required.

More information can be found at:
http://www.shetland.gov.uk/communityplanning/community_planning.asp

Corporate Plan

The Corporate Plan sets out how the Council will work with other partners to achieve some of the priorities set out in the Community Plan.

This Council agreed its Corporate Plan 2013-2017 in June 2013. Delivery of this plan was monitored each year and the last update was reported to Council in May 2015 which highlighted that substantial progress was made towards delivering objectives and that the Council continued to prioritise its decision-making based on these objectives.

During the year the Corporate Plan was refreshed. Our Plan 2016-2020 provides a vision for the Council that 'By the end of this plan (2020), we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland'. The Plan details the five top political priorities areas as:

- Complete and move into the new Anderson High School and Halls of Residence.
- Increase the supply of affordable housing in Shetland.
- Improve high-speed broadband and mobile connections throughout Shetland.
- Support older people across Shetland so that they can get the services they need to help them live as independently as possible.
- Provide quality transport services within Shetland, and push for improvements in services to and from Shetland.

The Plan will be monitored through the quarterly reporting cycle of Service performance reports and also an annual update to the Councillors and the Corporate Management Team.

The Council's Corporate Plan can be found at:
http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf

Service Performance

The Council's service committees receive quarterly financial and service performance information from each of the directorates. The following table provides brief information on some of the achievements of the directorates during the year:

Directorate	Achievements during 2015/16
Children's Services	• New Anderson High School project achieved Financial Close in July 2015, and construction started immediately thereafter. • Implementation of action plans in relation to social work reviews. • Four year agreement signed with Sports Scotland and partners for Active Schools and other areas.
Community Health and Social Care	• New Eric Gray Resource Centre progressed to tender stage. • Significant progress made by the Intermediate Care Team. • Decrease in delayed discharges during 2015/16. • Home from Hospital Third Sector provision procured.
Development Services	• Progressing the College Integration Project. • Progressing the Inter Island Transport Study, and Fair Funding for the provision of transport services with Transport Scotland and the Scottish Government. • Put in place commercial lending and investment mechanism. • Delivered 46 new social housing units. • Facilitated the development of Local Outcome Improvement Plan with Community Partners.
Infrastructure Services	• Information provided to Capital Programmes Service to build Longer Term Asset Investment plan. • Substantial contribution to Transport Planning projects. • External funding secured for key projects. • Positive audits from regulators.
Corporate Services	• New governance arrangements implemented for Health and Social Care Integration. • Building Budgets Exercise completed to inform the 2016/17 budget setting exercise. • New workforce strategy approved in April 2016.

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 2016 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 39, 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 page 121.

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 2015/16

The Comprehensive Income and Expenditure Statement (CIES) presents the full economic cost of providing Council services in 2015/16. This differs from the budgeted outturn position which was reported to the Policy & Resources Committee of the Council on 24 May 2016, the Council on 25 May 2016, and which is available on the Council's website.

For financial year 2015/16 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 CIES 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 CIES and the actual outturn position is as a result of necessary accounting adjustments to the former. The Cost of Services of £120.7m, which is disclosed on the CIES, has been reconciled to the outturn used for management decision making of £100.2m 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 CIES 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 a contribution of £5.7m for 2015/16.

As a result of underspending and applying the Council's carryforward scheme, a sum of £5.6m was committed for use in 2015/16.

2015/16 Budget v Expenditure Draw / (Contribution) to Reserves	Revised Budgeted £m	Actual £m	Budget v Actual Variance Under/(Over) £m	2015/16 Carry Forwards £m	Revised Variance Under/(Over) £m
General Fund	15.760	6.634	9.126	2.110	7.016
Revenue Spend to Save	1.530	0.065	1.465	0.292	1.173
Housing Revenue Account	(0.444)	(1.429)	0.985	0.000	0.985
Harbour Account	(5.054)	(3.406)	(1.648)	0.000	(1.648)
Total Revenue Draw	**11.792**	**1.864**	**9.928**	**2.402**	**7.526**
Asset Investment Plan	0.895	(7.610)	8.505	3.174	5.331
Total	**12.687**	**(5.746)**	**18.433**	**5.576**	**12.857**

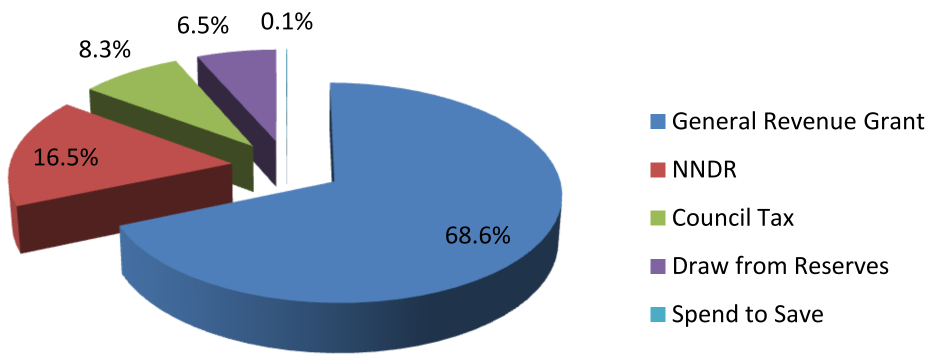
General Fund

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund.

The net General Fund expenditure for 2015/16 was £102.2m, which represented 91.3% of the Council's annual budget, resulting in a net underspend of £9.7m. This underspend can be attributed to a drive across services to reduce expenditure and increase income, as well as a number of one off savings in year, mainly due to the number of staff vacancies that the Council had.

In 2015/16 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 2015/16



The collection of Council Tax represents 8.3% of the Council's overall funding and the Council has achieved an in-year collection rate of 97% during 2015/16. 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 2016/17.

The remainder of the funding comes from Council's own reserves. This is sustainable based on the assumptions made about investment income and growth in the 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 from, for example, an anticipated increasing demand for Council services, such as in Community Care, and having to manage the range of inflationary cost pressures.

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 £5.1m contribution to the Reserve Fund in 2015/16. The actual contribution was £3.4m, a reduction of £1.7m against budget. This was mainly due to a reduction in tanker traffic and low oil prices which impacted on harbour fees and charges and the Shetland Gas Plant becoming operational much later in the year than assumed.

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 £0.4m contribution to the Housing Repairs and Renewals Fund in 2015/16 which was exceeded by £1.0m, giving a total contribution of £1.4m in 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 as well as managing the pressure for new build housing to meet the high demand.

As at 31 March 2016, the HRA is currently responsible for 1,725 properties There has been a year on year reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme, but this scheme ended on 31 July 2016. While 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 HRA, the Council continues to support Hjaltland Housing Association in its building programme, to ensure there is increased provision of affordable housing within Shetland.

Asset Investment Plan

In 2015/16 Shetland Islands Council incurred capital expenditure of £13.8m against a budget of £33.6m representing an underspend of £19.8m in the year. The main reason for this underspend is a revision to the timing of construction following decisions being taken later than anticipated (Anderson High School, Halls of Residence, Eric Gray Resource Centre and Town Hall Conversion). The underspend will be carried forward to future years when the work will be completed.

The Balance Sheet as at 31 March 2016

The Balance Sheet sets out the total net worth of Shetland Islands Council, and is a snapshot of the position as at 31 March 2016. When comparing the net worth of the Council at 31 March 2016 to that of the last Balance Sheet on 31 March 2015 there has been an overall increase in the net worth of the Council of £15.3 m. 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.

Material Transactions

Long Term Investments

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. The Medium Term Investment Strategy is supported by an Annual Investment and Treasury Strategy.

As at 31 March 2016, the Council had £286.6m, invested with three external fund managers, an increase of £8.7m from the previous year. This increase is mainly attributable to an injection of funds following the sale of Council assets and the final payment from the Government in relation to the Council's housing debt. No funds were withdrawn from the Council's investments during the year.

The Fund Management Annual Investment Report 2015/16 was presented to Council on 18 May 2016 and this summarised the performance of the Council's investments during the year. The report concluded that the Council's investment return was -0.8%, resulting in a £1.0m reduction in the Council's long term investments during the year.

External Borrowing

External borrowing is covered by the Council's Borrowing Policy and Strategy 2013-18 which aims to secure Best Value in the financing of capital expenditure and maintain the level of reserves.

The Council's Capital Financing Requirement (CFR) is £26.5m as at 31 March 2016 and this represents the capital expenditure to be funded from borrowing. Whilst the CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cash flow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing in advance of need). As at 31 March 2016, external borrowing was £31.0m and this is reflected on the Council's balance sheet on page 43.

Debt financing costs currently represent 12% of the Council's net revenue stream from general revenue grant (including NNDR), Council Tax, housing rents and harbour income. This provides an indication on the affordability of the Council's debt in terms of how much income can be directed to provide front line service delivery rather than funding capital expenditure costs. There is a one-off increase in debt charges in 2015/16 that is due to the write-off and repayment of internal debt in relation to the sale of the tugs. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels, and the estimated cost of debt for 2016/17 is 2.5% of net revenue stream.

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.

The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £143.1m as at 31 March 2016 (£183.4m at 31 March 2015). 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 2016, which is currently unfunded.

During 2015/16, the net pension liability has reduced by £40.3m as a result of updated assumptions. 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 £53.1m, however, the assumptions interact in complex ways, and are chosen for particular reasons.

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 are effective for three years from 1 April 2015.

Local Investment Fund

The Shetland Development Trust wound up on 28 February 2015 and the majority of its assets and undertakings transferred to the Council. Following the transfer, the Policy & Resources Committee unanimously approved the creation of a £15.0m Local Investment Fund and lending service which will be used to support local businesses. It is intended that by supporting the development of businesses there will be additional social and community benefits, improving local employment prospects and helping to retain more people of working age in the islands. As at 31 March 2016, £6.1m of this fund was committed through loans to local business, leaving a balance of £9.4m for further distribution.

Health and Social Care Integration

The Public Bodies (Joint Working) (Scotland) Act 2014 introduced significant changes to the provision of social and health care across Scotland. The legislation means changes to the law which requires Health Boards and Local Authorities to integrate their services resulting in more joined-up, seamless health and social care provision that will improve people's lives.

In response to the legislation, an Integration Joint Board (IJB) has been established locally with voting members from both the Council and the Health Board. The IJB was formally constituted on 27 June 2015 and the first formal meeting was held on 20 July 2015.

The IJB is responsible for the strategic planning of the functions delegated to it by the Council and the Health Board and for the preparation of the Strategic Plan. The Strategic Plan was adopted on 20 November 2015 and this specifies the services to be delivered by each of the parties. This is recognised as the ‘go live’ date. The IJB is responsible for ensuring the delivery of its functions through the locally agreed operational arrangements set out within the Integration Scheme.

Since the ‘go live’ date, the Council has contributed £7.8m to the IJB and has received £7.1m in commissioning income, resulting in an underspend of £0.7m in the IJB which has been paid back to the Council. As a result of this, in the CIES on page 42 Social Work gross income and gross expenditure has increased significantly, however, net expenditure has remained relatively stable.

Sale of Tugs

Two of the Council’s tugs, Bonxie and Solan, were sold to Italian company Panfido during 2015/16. The Reserve Fund has taken account of the various transactions to ensure that the relevant balances, including the write off of internal debt, are removed from the Council’s

Balance Sheet without impacting on the General Fund. The Council's shipbrokers, who advised during the negotiation and sale of the tugs, have confirmed that, in their professional opinion, the agreement represents an above-market valuation of the tugs.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2015 £m	Closing Balance 31 March 2016 £m
Capital Fund	(63.512)	(65.071)
Reserve Fund (Harbour contingency)	(42.241)	(43.279)
Repairs & Renewals Fund	(44.320)	(42.651)
Reserve Fund	(25.408)	(17.292)
Capital Efficiency/Spend to Save Reserve	(8.202)	(10.341)
General Fund Balance	(11.809)	(10.190)
Usable Capital Receipts	(1.102)	(8.712)
Financial Risk	(1.246)	(2.527)
Revenue Efficiency/Spend to Save Reserve	(0.065)	(0.002)
Discretionary Reserves	**(197.905)**	**(200.065)**
Equalisation Fund	(15.214)	(15.588)
Housing Repairs & Renewals Fund	(11.433)	(13.143)
Local Investment Fund	(11.019)	(9.394)
Pilot Boat Renewal Fund	(1.024)	(1.049)
Council Tax Second Homes Receipts	(0.844)	(1.009)
Community Care Funds	0.000	(0.510)
School Funds	(0.185)	(0.242)
Insurance Fund	(0.231)	(0.237)
Shetland College	0.000	(0.221)
Welfare Reform Fund	(0.202)	(0.202)
Central Energy Efficiency Fund	(0.029)	(0.196)
Quarry Repairs & Renewals Fund	(0.163)	(0.167)
Hansel Funds	(0.131)	(0.153)
Capital Grants Unapplied	(0.643)	(0.053)
Marine Superannuation Fund	(1.932)	0.000
Earmarked Reserves	**(43.050)**	**(42.164)**
TOTAL	**(240.955)**	**(242.229)**

The overall level of usable reserves was £242.2m at 31 March 2016, an increase of £1.3m 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	Total £m
Contribution to reserves as per Outturn Report	**(5.746)**
Additional items not reported to Management:	
Financing and investment income	(6.514)
Hansel, School Fund and CEEF movement	(0.153)
Cash transferred from the Bare Trust (previously Shetland Development Trust)	(0.031)
Internal debt write-off	10.575
Capital grants applied, not reported as a draw on reserves	0.589
Prior year-adjustment	0.006
Movement on Usable Reserves as per Accounts	**(1.274)**

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 £1.6m (13.71%) to £10.2m as at 31 March 2016 from the previous year. The uncommitted balance represents 9.29% of the Council's annual budgeted net expenditure and is considered adequate to manage any financial risks in the short term.

The Council utilises its reserves on an annual basis to support delivery of front line services. This is done on the basis of income and growth achieved from the Council's long term investments.

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 any 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 above.

Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 (O&SVJB), Zetland Transport Partnership (ZetTrans) and the Shetland Charitable Trust (SCT) as associates.

The inclusion of these three associates changes the net worth from £508.1m in the Council's own Balance Sheet shown on page 43 to £618.4m in the group Balance Sheet which is shown on page 126. This represents an increase of £110.4m and this is mainly due to the inclusion of the Shetland Charitable Trust which added £111.0m 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.

2016/17 Budget and Medium Term Financial Outlook

Medium Term Financial Outlook

The Medium Term Financial Plan is the Council's strategic finance document which focuses on the next five year period. It is anticipated that there will be significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years, and if nothing changes an increasingly unaffordable cost of service delivery will be inevitable. Simultaneously the Council will have to manage an ever increasing demand for Council services from areas such as Community Care where the Integration Joint Board will direct service development and change to adapt to these demands.

The planning assumptions included within the Medium Term Financial Plan are:

- to take a prudent approach to core Scottish Government funding projections for the next five years
- to treat all non-specific grants received as a corporate resource
- to take action on costs over the life of the Plan
- to build upon the financial management improvements that have already been made
- to focus investment returns on supporting revenue expenditure
- to limit capital expenditure to a programme that is deliverable and affordable
- to borrow in specific circumstances for capital investment.

In order to address the above challenges the Council will:

- structure services in a way that maximises productivity and operates as efficiently and effectively as is possible;
- prioritise service delivery
- capture savings from improved and robust procurement and commissioning processes
- improve the consistency and application of charging policies.

Building Budgets

In August 2015 the Council undertook a building budgets engagement exercise, which included a series of public meetings throughout Shetland and the use of an interactive on-line budget planning model, to gauge the views of the public on where the 2016/17 budget savings should be made. There were 244 people who participated in this exercise which is approximately 1% of the Shetland public. The response was good relative to that achieved the previous year and the Council recognises that the exercise resulted in a proportionately low response. However the results do provide an idea of what the respondents felt was important. It was those services which are visible to the public which were most widely supported while those less visible, such as support and corporate services were identified for higher savings. Mental Health Services stood out as particularly important to respondents.

The Directors reviewed the results of the building budgets exercise and have taken the views expressed into consideration when creating their 2016/17 budgets.

The experience of this exercise will inform the development and changes to the continued focus on engagement with the people of Shetland during 2016/17.

2016/17 Budget

The 2016/17 Council budget is a tactical financial plan that complements the strategic Medium Term Financial Plan and will ensure that the Council moves towards delivering its strategic financial objectives and achieving its corporate outcomes.

The 2016/17 budget was originally prepared in line with the budget targets set out in the Council's Medium Term Financial Plan 2015 – 2020, which was approved by the Policy & Resources Committee on the 25 November 2015. Before approved the budget proposals were subject to any further recommendations as a result of the Scottish Government settlement for 2016/17.

The comparative figures for the settlement are shown in the table below and indicate a Scotland wide funding reduction of over 5% from the current year. Although the revenue funding in Scotland reduced by 3.4%, the impact on Shetland was a reduction of 5.1% from 2015/16, this is the largest reduction seen by any Scottish Council.

Description	2015/16 £m	2016/17 £m	Movement £m	Movement %
Scotland				
Revenue	10,030	9,693	(337)	(3.36)
Capital	856	607	(249)	(29.09)
Total Scotland Funding	**10,886**	**10,300**	**(586)**	**(5.38)**
Shetland				
Revenue Distributed	87.036	82.150	(4.886)	(5.61)
Revenue Undistributed	0	0.489	0.489	0.00
Total Revenue Funding	**87.036**	**82.639**	**(4.397)**	**(5.05)**
Capital	7.363	5.535	(1.828)	(24.83)
Capital - Reprofiled	0	1.250	1.250	0.00
Total Capital Funding	**7.363**	**6.785**	**(0.578)**	**(7.85)**

The actual reduction in funding is significantly higher than that built into the original 2016/17 budget proposal, which was based on a reduction of 1.5%. In addition to having a lower level of funding there are certain conditions that Councils must meet which cause further pressures. These conditions are:

- Freeze Council Tax for the ninth consecutive year;
- Teacher/pupil ratios are to be maintained at a national level; and
- £250m funding for social care was allocated to Health for the Integration Joint Boards, to be used for specific purposes.

Shetland Islands Council's penalty for not meeting these conditions is estimated to be £1.5m.

Following the announcement of the final settlement, Directors met with the Chairs and Vice-chairs of the relevant committee/body with support from the Finance Service to discuss ideas for any further budget reductions that were required in 2016/17 and also began to discuss longer term plans for savings to meet the challenges over the following 3 years.

A seminar was held for all Elected Members in January 2016 where the 2016/17 and later year proposals were explored. A number of measures were applied to balance the budget for 2016/17 and the revised budget was formally approved by Council on 10 February 2016.

A briefing note on the implications for the Medium Term Financial Plan was issued to Elected Members by the Executive Manager Finance in April 2016 to reflect the new position the Council finds itself in with a lower level of grant then anticipated and a continuing challenging financial climate.

Outlook - Projects and Initiatives

Anderson High School

The Anderson High School project, which will be substantially funded by the Scottish Government, reached financial close in July 2015, meaning that all contracts and designs have been completed and signed off.

The project is being delivered by hub North Scotland and the main contractor Morrison Construction were on site immediately following financial close and construction is well underway. The project is due for completion by the end of the summer 2017.

New Eric Gray Resource Centre

The final decision has been taken to proceed with the construction of a New Eric Gray Resource Centre to support adults with learning disabilities and complex needs. The building warrant was validated on 22 June 2015 and approved on 10 May 2016. The project will be funded from a mixture of general capital grant and external borrowing. Tenders have been issued and an evaluation process will be undertaken before the construction contract is awarded.

College Integration

There has been an ongoing review of Tertiary Education in Shetland and in February 2016, the Director of Development Services was given delegated authority to progress an integrated management structure, joined up governance, further collaboration and stability funding in order to move towards a single governance and delivery model for “Tertiary Education, Research and Training in Shetland”.

Initial actions have been the recruitment of an Interim Joint Principal of Shetland College, Train Shetland and NAFC Marine Centre, and this was progressing positively in early 2016/17. Further actions will be taken following the appointment.

Provision for a sum of £261k in addition to the NAFC core grant will be made available during 2016/17 as change and stability funding to enable the agreed integration steps to take place.

Inter Island Transport Study

Shetland Islands Council is working in partnership with ZetTrans, the Highlands and Islands Transport Partnership (HITRANS), Orkney Islands Council and Transport Scotland to undertake a network wide study of inter island transportation in each of the archipelagos which will confirm the appropriateness of service needs to outer islands in applying national standards and methodology.

This work will be the foundation for engaging with Transport Scotland and the Scottish Government in relation to fair funding for these services. Work continues apace in respect of addressing shortfalls in revenue and capital funding for these services.

Highways Network Assets

There will be requirement from 2016/17 to report Highways Network Assets on a Depreciated Replacement Cost (DRC) basis. This represents a change in accounting policy from 1 April 2016 which would normally be accounted for retrospectively. However, the reporting requirements to restate opening balances as at 1 April 2015 and for financial year 2015/16 in the 2016/17 annual accounts for the Highways Network Assets has now been removed under an exceptional adaptation to IAS 1 – Presentation of Financial Statements. This change will therefore be accounted for as an adjustment to the opening balance as at 1 April 2016 and will require the establishment of a separate asset in accordance with the components classified in the Code of Practice on Transport Infrastructure Assets.

As at 31 March 2015, the depreciated replacement cost for the highways network assets was estimated at £903m, compared to a historic cost of £119m reported in the balance sheet as at the same date. This change will therefore have a significant impact on the Balance Sheet position as at 31 March 2017.

Workforce Management and Strategy

The key focus for workforce management during 2015/16 has been on matching resources to needs, both existing and in the future. There are a number of key issues facing the Council, both internally and externally, which will impact on its ability to ensure we have the right people in the right place at the right time doing the right things.

Considerable work has been done to prepare our workforce strategy which was approved in April 2016. The Workforce Strategy sets out our intentions for the ways in which people will be managed, motivated and deployed and the availability of skills and knowledge that will shape our ability to deliver Council Services. These are grouped within 3 themes of: Right Shape, Right Skills and Right Culture. One important area of the Workforce Strategy is workforce planning, which helps organisations meet their future needs and support longer term goals. A draft workforce planning guide has been produced to support the Strategy and will form part of the Council's overall performance management framework.

The Council has a wide range of Human Resources 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. The Council is holder of the "Positive About Disabled" accreditation and actively supports local Employability Schemes by providing placements and work experience opportunities.

The Council has continued to work on improving the management of attendance which has led to an improvement in our sickness absence figures:-

Average days lost per employee	2014/15	2015/16*
Local Government Employees	12.1	10.7*
Teachers	7.5	6.2*

*2015/16 sickness absence data is currently being verified by Audit Scotland and the Improvement Service.

Workforce management priorities and performance are reported formally through a structured performance management framework that provides quarterly reporting to its Policy & Resources Committee.

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 a carbon reduction of 2.68% per year since 2007. A Carbon Management Plan (2015–2020) was adopted by the Council in April 2015 to:

- 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
- to operate on a more sustainable basis in line with the Council's Medium Term Financial Plan.

Outlook

In summarising all that has been said, the Council has had a successful year financially and has moved a number of crucial projects forward to ensure the continued positive progress that it has been making to achieve its outcomes and to manage its resources in an effective and efficient way for the long term benefit of Shetland. The challenges that lie ahead will be addressed in line with the strategy outlined in the Medium Term Financial Plan.

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Gary Robinson Leader of the Council	Mark Boden Chief Executive	Jonathan Belford, CPFA Executive Manager – Finance
21 September 2016	21 September 2016	21 September 2016

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, which was replaced by the Integration Joint Board in November 2015. These committees take decisions within their respective scope of responsibility. The 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, Local Outcomes Improvement Plan and the refreshed Corporate Plan approved in September 2015, is to be known as an excellent organisation that works well with partners to deliver sustainable services for the people of Shetland.

The Council's Corporate Plan and Community Planning documents can be found at:
http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf
http://www.shetland.gov.uk/communityplanning/community_planning.asp

Flowing from that overall objective is a range of strategic and service specific priorities and targets which are reported in the Strategy and Performance Management Section of the Management Commentary on page 4.

The Council works with other partners to provide services that 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. Established agreements include the Shetland Partnership, the Community Safety Partnership, the Skills and Learning Partnership and the Carbon Group.

The Public Bodies (Joint Working) (Scotland) Bill, passed by the Scottish Parliament on 25 February 2014, established the framework for the integration of health and social care in Scotland. In response to the legislation, an Integrated Joint Board (IJB) has been established locally with members from both the Council and the Health Board. The IJB is responsible for the strategic planning of the functions delegated to it by the Council and the Health Board and for the preparation of the Strategic Plan. The Strategic Plan was adopted on 20 November 2015 and this specifies the services to be delivered. The IJB is responsible for ensuring the delivery of its functions through the locally agreed operational arrangements set out within the Integration Scheme.

The Council adopted a Risk Management Strategy, a Policy and associated documents in June 2015. Risk registers are reported to the relevant functional Committees on a quarterly basis, and the Corporate Risk Register is presented quarterly to the Policy and Resources Committee and Council. The Corporate Management Team meets quarterly as the Risk Board for the Council and considers the reports from each department as well as the Corporate Risk Register, and other reports on relevant issues.

The Corporate Risk Register was presented to the Council on 31 August 2016 and can be found at: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=19738.

This has seen progress continue to be made in developing the risk management arrangements within the Council. The Risk Management section recently launched a rolling programme of risk checks, in conjunction with services, to facilitate the identification and management of issues that impact on services. A review of the first year's risk checks will be presented to the Audit Committee in early 2017. In undertaking a self assessment against 'The Alarm National Performance Model for Risk Management in the Public Services', the Corporate Management Team assessed the Council to be at level two of the framework (Risk Management is happening within the organisation) and set a target to be at level three (Risk Management is working for the organisation) by the Autumn of 2016, and this has substantially been achieved. A gap analysis is also being carried out to identiy what other steps are required for the organisation to achieve the highest level of risk maturity.

Financial controls are governed by the Council's Standing Orders and Financial Regulations. These ensure that the stewardship of income and expenditure is managed effectively and explain the rules under which decisions and choices on how to spend money can be made, with a focus on value for money. The Financial Regulations are currently being updated and will be reported to Committee in autumn 2016.

Looking forward, the Council agreed an updated Medium Term Financial Plan in November 2015, which sets out the spending limits for each of the next five financial years. The 2016/17 Council budget complements the strategic Medium Term Financial Plan and will ensure that the Council moves towards delivering its strategic financial objectives. The budget was recommended for approval by the Policy & Resources Committee in November 2015, subject to any further recommendations as a result of the local authority settlement for 2016/17. The budget was formally approved in February 2016, taking account of a £2.6m funding gap from the Scottish Government settlement.

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. There is also an 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.

There is a Strategy for the Prevention and Detection of Fraud and Corruption which sets out the responsibilities of Officers and Elected Members to protect the Council from fraud and corruption, and as a result minimise any potential financial loss. 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 2015/16 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's financial management arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The role of the Chief Financial Officer was delivered successfully in shared arrangement with Aberdeen City Council, a review of which was carried out and reported to the Council in December 2015. The Council agreed to seek a permanent employee for the role and undertook a recruitment exercise during the last quarter of the year. The successful candidate commenced employment on 1 April 2016.

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

A professional, independent and objective internal audit service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).

The Internal Audit work programme has been completed, with some minor carry-forward of work into the 2016/17 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:

- inappropriate employment of relief workers and the security and processes surrounding the use of web-roster within community care;

- standing orders requirements for quotes not being observed and concerns re Service Level maintenance charges and performance targets not being met in Building Services;

- the lack of a Service Plan within Planning; and

- corporate breaches of working time regulations and overtime requirements, inconsistencies and procedure not being followed in relation to preventing illegal working; lack of observance with the Council's vehicles usage policy; lack of contracts in place with individuals undertaking work for the Council; poor controls surrounding the payment of adoption allowances; a lack of Access Audits and observance of the Corporate landlord Model; and credit card usage procedural observation not always observed.

Follow up work was carried out in relation to the lack of appropriate Service Level Agreements at Environmental Health; relief workers not being appropriately used in the Council; and disclosure issues, which were highlighted as issues in last year's Annual Governance Statement: Internal audit concluded that satisfactory progress had been made in addressing these control weaknesses.

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.

The Audit Committee received Audit Scotland's Local Scrutiny Plan for 2015/16 in August 2015. This plan sets out the planned scrutiny activity for the year and is based on a shared risk assessment undertaken by a Local Area Network (LAN) comprising of representatives from all scrutiny bodies who engage with the Council. The plan concludes that "no scrutiny risks have been identified which require specific scrutiny by the LAN in the coming year, however there are a number of areas where the LAN will carry out ongoing oversight and monitoring". The areas pertain to Risk Management, Departure of Section 95 Officer, Medium Term Financial Plan and Financial Management, asset Management / Anderson High School and Education & Children's services.

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 systems of internal control, governance and risk management were generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed, have been or will be addressed.

Conclusion

The Governance Framework has been in place for the financial year ended 31 March 2016 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 2015/16 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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Gary Robinson	Mark Boden
Leader of the Council	Chief Executive
21 September 2016	21 September 2016

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) also 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) and 2015 (SSI No. 2015/007). 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 and further amended by the 2015 Regulations SSI 2015/007. For 2015/16 the level of remuneration was £27.9k for the Leader (£27.6k in 2014/15), and £20.9k for the Convener (£20.7k in 2014/15).

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 £169k in 2015/16 (£168k in 2014/15). 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 Integration Joint Board
- 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 2015/16 was £169k (£167k in 2014/15).

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 current senior management structure is:

- 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							
	2014/15	2015/16						
		Exit Packages and One-Off Payments	Children's Services	Infra-structure Services	Community Health and Social Care	Develop-ment Services	Corporate Services & Executive Services	Total
£50,000 - £54,999	41	-	19	26	1	1	4	51
£55,000 - £59,999	33	-	4	14	-	2	2	22
£60,000 - £64,999	11	-	6	6	2	3	1	18
£65,000 - £69,999	14	-	1	6	-	1	-	8
£70,000 - £74,999	7	-	1	3	-	-	1	5
£75,000 - £79,999	1	-	1	1	-	-	-	2
£80,000 - £84,999	5	-	-	1	-	-	-	1
£85,000 - £89,999	2	-	1	-	-	1	1	3
£90,000 - £94,999	1	-	-	-	-	-	-	0
£95,000 - £99,999	3	-	-	-	-	-	-	0
£100,000 - £104,999	1	-	-	1	-	-	1	2
£105,000 - £109,999	0	-	-	-	-	-	-	0
£110,000 - £114,999	0	-	-	-	-	-	-	0
£115,000 - £119,999	0	-	-	1	-	-	-	1
£120,000 - £124,999	0	-	-	-	-	-	-	0
£125,000 - £129,999	0	-	-	-	-	-	-	0
£130,000 - £134,999	0	-	-	-	-	-	-	0
£135,000 - £139,999	0	-	-	-	-	-	-	0
£140,000 - £144,999	0	-	-	1	-	-	-	1
£145,000 - £149,999	0	-	-	-	-	-	-	0
£150,000 - £154,999	0	-	-	1	-	-	-	1
£155,000 - £159,999	0	-	-	1	-	-	-	1
Total	**119**	**0**	**33**	**62**	**3**	**8**	**10**	**116**

The table above includes employees who terminated employment during 2014/15 and 2015/16. Some of the employees that left in 2014/15 received remuneration packages which included compensation for loss of office (e.g. redundancy payment and/or enhanced pension payments), and because of these payments a number of employees' remuneration had increased temporarily in 2014/15.

Of the 33 staff (37 in 2014/15) in Children's Services receiving remuneration over £50k, 22 (23 in 2014/15) were head teachers or senior teaching staff.

Of the 62 staff (52 in 2014/15) in Infrastructure Services receiving remuneration over £50k, 56 (47 in 2014/15) worked in Ports and Harbours Operations and/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, with ongoing salary savings being provided thereafter.

The total cost for 2015/16 of £0.3m (£1.0m in 2014/15) in the table includes £0.161m (£0.9m in 2015/16) 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 £0.184m (£0.1m in 2014/15) 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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £000	2015/16 £000
£0 - £19,999	6	2	9	18	15	20	**96**	**81**
£20,000 - £39,999	1	0	7	1	8	1	**221**	**39**
£40,000 - £59,999	0	0	7	0	7	0	**352**	**0**
£60,000 - £79,999	0	0	4	0	4	0	**277**	**0**
£80,000 - £99,999	0	0	1	1	1	1	**87**	**90**
£100,000 - £149,999	0	0	0	1	0	1	**0**	**135**
Total	**7**	**2**	**28**	**21**	**35**	**23**	**1,033**	**345**

The table above details the number and cost of exit packages awarded in 2014/15 and 2015/16. 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, additional allowances (for senior councillors) and expenses in respect of all Councillors:

	2014/15 £000	2015/16 £000
Salaries	364	368
Allowances	34	34
Expenses	95	94
Total	**493**	**496**

The annual return of Councillors’ salaries and expenses for 2015/16 is available for any member of the public to view at the Finance Service, 8 North Ness during normal working hours or on the Council’s website.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2014/15 Total Remuneration £	2015/16 Salary, Fees and Allowances £	2015/16 Taxable Expenses (b) £	2015/16 Total Remuneration £	Notes
M Bell	Convener	**20,702.04**	20,908.92	0.00	**20,908.92**	
G Robinson	Leader of the Council	**27,933.13**	27,877.92	327.62	**28,205.54**	
C Smith	Chair - Integration Joint Board	**19,182.00**	19,374.00	0.00	**19,374.00**	
D Ratter (a)	Chair - Shetland College Board	**21,362.17**	16,725.96	462.38	**17,188.34**	Chair to 14/5/2014 also Chair of O&SVJB.
P Campbell	Chair - Shetland College Board	**17,997.09**	18,370.92	0.00	**18,370.92**	Chair from 15/5/2014
A Cooper	Chair - Development Committee	**19,182.00**	19,374.00	0.00	**19,374.00**	
A Duncan	Chair - Audit & Standards Committee	**18,189.00**	18,370.92	0.00	**18,370.92**	
F Robertson	Chair - Planning Committee	**18,527.65**	18,370.92	482.41	**18,853.33**	
M Stout	Chair - Environment & Transport Committee	**18,873.11**	19,374.00	0.00	**19,374.00**	Chair from 15/5/2014
A Wishart	Chair - Environment & Transport Committee	**16,868.89**	16,725.96	0.00	**16,725.96**	Chair to 14/5/2014
G Smith	Chair - Licensing Committee	**18,189.00**	18,370.92	0.00	**18,370.92**	
V Wishart	Chair - Education and Families Committee	**19,182.00**	19,374.00	0.00	**19,374.00**	
A Manson	Chair - Harbour Board	**18,189.00**	18,370.92	0.00	**18,370.92**	

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 2015/16 (£4k in 2014/15), which is not included in the salary figure above as it is reimbursed by the Orkney & Shetland Valuation Joint Board.

b) Taxable Expenses – include Telephone Line Rental/ Broadband.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	Total Remuneration £	Salary, Fees and Allowances (a) £	Taxable Expenses (b) £	Total Remuneration £	Notes
M Boden	Chief Executive	**101,032.81**	102,509.99	0.00	**102,509.99**	
H Budge	Director - Children's Services	**83,413.39**	85,433.22	0.00	**85,433.22**	
M Sandison	Director - Infrastructure Services	**81,536.12**	84,549.28	0.00	**84,549.28**	
N Grant	Director - Development Services	**83,413.39**	85,433.22	0.00	**85,433.22**	
C Ferguson	Director - Corporate Services	**83,435.89**	85,433.22	70.00	**85,503.22**	
J Riise	Executive Manager - Governance & Law (Monitoring Officer) (c)	**73,657.54**	74,772.92	81.00	**74,853.92**	
J Gray	Executive Manager - Finance (Section 95 Officer)	**51,227.37**	0.00	0.00	**0.00**	Left 14/12/2014. Full year equivalent in 2014/15 £73,649
H Leslie	Executive Manager - Children and Families (Chief Social Work Officer)	**70,205.23**	10,487.91	0.00	**10,487.91**	Left 31/03/2015. 2015/16 payments includes holiday pay.
M Nicolson	Executive Manager - Children and Families (Chief Social Work Officer)	**N/A**	54,386.62	0.00	**54,386.62**	Commenced 29/6/15. Full year equivalent in 2015/16 £64,789.
W Cameron	Marine Pilot (d)	**N/A**	152,924.47	861.65	**153,786.12**	
S Polson	Marine Pilot (d)	**N/A**	157,200.36	641.86	**157,842.22**	

Notes:

a) Remuneration includes adhoc elements which are part of the normal duties of the post, i.e. call out and standby allowances.

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

c) In addition to the above, the Executive Manager - Governance & Law received a payment of £2.6k for his Returning Officer duties in respect of Local Government, Scottish and European Parliamentary elections.

d) Marine Pilot remuneration is inclusive of non-contractual overtime payments and a one off compensation payments.

e) 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 2015/16 the Council paid £59k (£55k for 2014/15) to NHS Shetland in respect of this post.

f) From 8 December 2014 until 31 March 2016, the role of Executive Manager, Finance (Section 95 Officer) was held by S Whyte who was employed by Aberdeen City Council during this period. In 2015/16 the Council paid £69k to Aberdeen City Council in respect of this post.

Pension Benefits – Senior Councillors

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

Name of Councillor	Designation	In-Year Employer Pension Contributions Year ending 31 March 2015 £'000	Year ending 31 March 2016 £'000		Accrued Pension Benefits As at 31 March 2015 £'000	As at 31 March 2016 £'000	Increase / (Decrease) £'000	Notes
M Bell	Convener	4	4	Pension	1	1	0	
				Lump Sum	0	0	0	
G Robinson	Leader of the Council	5	5	Pension	5	5	0	
				Lump Sum	2	2	0	
C Smith	Chair - Integration Joint Board	4	4	Pension	2	4	2	
				Lump Sum	1	2	1	
D Ratter	Chair - Shetland College Board	4	4	Pension	5	6	1	Chair to 14/05/2014
				Lump Sum	0	0	0	
P Campbell	Chair - Shetland College Board	3	3	Pension	1	1	0	Chair from 15/05/2014
				Lump Sum	0	0	0	
A Cooper	Chair - Development Committee	4	4	Pension	2	3	1	
				Lump Sum	1	2	1	
A Duncan	Chair - Audit & Standards Committee	3	3	Pension	3	4	1	
				Lump Sum	1	1	0	
F Robertson	Chair - Planning Committee	0	0	Pension	0	0	0	
				Lump Sum	0	0	0	
A Wishart	Chair - Environment & Transport Committee	3	3	Pension	3	3	0	Chair to 14/05/2014
				Lump Sum	1	1	0	
M Stout	Chair - Environment & Transport Committee	4	4	Pension	1	1	0	Chair from 15/05/2014
				Lump Sum	0	0	0	
G Smith	Chair - Licensing Committees	3	3	Pension	1	1	0	
				Lump Sum	0	0	0	
V Wishart	Chair - Education & Families Committee	0	0	Pension	0	0	0	
				Lump Sum	0	0	0	
A Manson	Chair - Harbour Board	3	3	Pension	1	1	0	
				Lump Sum	0	0	0	

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions Year ending 31 March 2015 £'000	Year ending 31 March 2016 £'000		Accrued Pension Benefits As at 31 March 2015 £'000	As at 31 March 2016 £'000	Increase (Decrease) £'000	Notes
M Boden	Chief Executive	ER	19	19	Pension	4	6	2	
		Strain	0	0	Lump Sum	0	0	0	
H Budge	Director - Children's Services	ER	12	14	Pension	24	25	1	
		Strain	0	0	Lump Sum	71	75	4	
M Sandison	Director - Infrastructure Services	ER	15	16	Pension	22	25	3	Commenced as Director
		Strain	0	0	Lump Sum	42	44	2	01/10/2013
N Grant	Director - Development Services	ER	16	16	Pension	15	17	2	
		Strain	0	0	Lump Sum	20	20	0	
C Ferguson	Director - Corporate Services	ER	16	16	Pension	39	42	3	
		Strain	0	0	Lump Sum	92	94	2	
J Riise	Executive Manager - Goverance & Law	ER	14	14	Pension	29	32	3	
		Strain	0	0	Lump Sum	63	66	3	
J Gray	Executive Manager - Finance	ER	10	0	Pension	3	3	0	Terminated Employment
		Strain	0	0	Lump Sum	0	0	0	14/12/2014
H Leslie	Executive Manager - Children & Families	ER	13	0	Pension	26	0	-26	Terminated Employment
		Strain	0	0	Lump Sum	56	0	-56	31/03/2015
M Nicolson	Executive Manager - Children & Families	ER	N/A	10	Pension	N/A	20	20	Commenced as Executive
		Strain	N/A	0	Lump Sum	N/A	36	36	Manager - 29/6/2015
W Cameron	Marine Pilot	ER	N/A	15	Pension	0	36	36	
		Strain	N/A	0	Lump Sum	0	80	80	
S Polson	Marine Pilot	ER	N/A	15	Pension	0	20	20	
		Strain	N/A	0	Lump Sum	0	32	32	

Notes:

a) Strain costs are the cost to the Pension Fund (which requires to be met up-front by the General Fund) for allowing staff to retire early with an unreduced LGPS pension & lump sum. No Strain costs occurred in 2015/16.

b) The Executive Manager - Governance & Law also has pension benefits arising from his Returning Officer duties in respect of Local Government, Scottish and European Parliamentary elections. A single disclosure of the pension benefits is detailed above and includes Returning Officer accrued pension benefits of £1.5k and £2.5k lump sum at 31 March 2016. At 31 March 2015 the comparative figures were £0.5k pension benefits and £0.7k lump sum.

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

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

Pension Benefits

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

Councillors' pension benefits to 31 March 2015 was based on career average pay. Councillors' pay for each year or part up to 31 March 2015 (other than the pay in the final year commencing 1 April 2014) 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 up to 31 March 2015.

From 1 April 2015, the Pension Scheme moved to a career average related earnings scheme for all scheme members. Councillors' and local government employees will now build up a pension at a rate of 1/49th of the amount of pensionable pay they receive in a scheme year. The amount of pension built up is increased in line with HM Treasury Orders at the end of each scheme year.

Benefits built up before April 2015 will continue to be calculated on final pay for employees and average revalued pay for councillors.

The Scheme's Normal Retirement Age for both councillors and employees is now linked to their own State Pension Age (with a minimum age 65).

From 1 April 2015 the five-tier employee pension contribution system still remains, 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 2015/16 are as follows:	Contribution Rate 2015/16 %
Whole time pay:	
On earnings up to and including £20,500	5.50
On earnings above £20,500 and up to £25,000	7.25
On earnings above £25,000 and up to £34,400	8.50
On earnings above £34,400 and up to £45,800	9.50
On earnings above £45,800	12.00

From April 2015, if a person works part-time their contribution rate is worked out on their actual pay rate for the job, and contributions paid on actual pay earned. Prior to April 2015, their contribution rate was worked out on their whole time equivalent rate of pay, with 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. From April 2015 pensions are built up at a rate of 1/49th of annual pensionable pay for that year. Prior to April 2015, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

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

…………………………………...	………………………...................
Gary Robinson	Mark Boden
Leader of the Council	Chief Executive
21 September 2016	21 September 2016

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 21 September 2016.

Signed on behalf of Shetland Islands Council

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

21 September 2016

The Executive Manager - Finance's Responsibilities

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

It is the responsibility of the Executive Manager - Finance to sign, date and submit the un-audited Annual Accounts to the appointed auditor by 30 June 2016.

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 2016.

…………………………………………..
Jonathan Belford, CPFA
Executive Manager – Finance

21 September 2016

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' (i.e. 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, 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, i.e. 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 (i.e. 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 2015	**(14,446)**	**0**	**(73,840)**	**(643)**	**(152,026)**	**(240,955)**	**(251,790)**	**(492,745)**
Movement in reserves during 2015/16:								
(Surplus) or deficit on the provision of services	25,117	(1,118)	0	0	0	**23,999**	0	23,999
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	(39,345)	(39,345)
Total Comprehensive Income and Expenditure	**25,117**	**(1,118)**	**0**	**0**	**0**	**23,999**	**(39,345)**	**(15,346)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(17,661)	(592)	(7,610)	590	0	(25,273)	25,273	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	**7,456**	**(1,710)**	**(7,610)**	**590**	**0**	**(1,274)**	**(14,072)**	**(15,346)**
Net Transfers to/(from) Other Statutory Reserves	(8,260)	1,710	(3,723)	0	10,273	0	0	0
(Increase)/Decrease in 2015/16	**(804)**	**0**	**(11,333)**	**590**	**10,273**	**(1,274)**	**(14,072)**	**(15,346)**
Balance as at 31 March 2016	**(15,250)**	**0**	**(85,173)**	**(53)**	**(141,753)**	**(242,229)**	**(265,862)**	**(508,091)**

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

	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 (Restated)	**(15,270)**	**0**	**(71,783)**	**(1,920)**	**(151,899)**	**(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	514	568	(955)	0	(127)	0	0	0
(Increase)/Decrease in 2014/15	**824**	**0**	**(2,057)**	**1,277**	**(127)**	**(83)**	**(12,672)**	**(12,755)**
Balance as at 31 March 2015	**(14,446)**	**0**	**(73,840)**	**(643)**	**(152,026)**	**(240,955)**	**(251,790)**	**(492,745)**

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

Comprehensive Income and Expenditure Statement for year ended 31 March 2016

2014/15 Net Expenditure £000		Notes	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
46,806	Education Services		48,882	(4,571)	44,311
1,306	Housing Services		5,502	(3,691)	1,811
102	Housing Revenue Account		5,708	(6,751)	(1,043)
4,885	Cultural and Related Services		6,144	(981)	5,163
5,608	Environmental Services		13,396	(3,047)	10,349
16,412	Roads and Transport Services		14,433	(3,251)	11,182
12,011	Trading Services		35,292	(22,983)	12,309
3,170	Planning and Development Services		7,016	(2,731)	4,285
28,187	Social Work - Provision of Services		35,175	(14,464)	20,711
0	Social Work - Contribution to IJB		7,756	0	7,756
1,558	Central Services to the Public		1,536	(146)	1,390
2,198	Corporate and Democratic Core		2,248	0	2,248
678	Non Distributed Costs		223	0	223
122,921	**Cost of Services**		**183,311**	**(62,616)**	**120,695**
146	Other operating income and expenditure	9			4,378
3,051	Financing and investment income and expenditure	10			2,527
(126,616)	Taxation and non-specific grant income	11			(103,601)
(498)	**(Surplus) or Deficit on Provision of Services**				**23,999**
	Items that will not be reclassified to the (surplus) or deficit on the provision of services				
(14,714)	(Surplus) on revaluation of property, plant and equipment assets	23a)			3,322
(25,000)	(Surplus) on revaluation of available for sale financial assets	23b)			(8,689)
26,437	Remeasurement of the net defined benefit liability	23d)			(49,419)
(13,277)					(54,786)
	Items that may be reclassified to the (surplus) or deficit on the provision of services				
1,020	Amounts recycled from the AFSFI reserve upon derecognition	23b)			15,441
1,020					15,441
(12,257)	**Other Comprehensive Income and Expenditure**				**(39,345)**
(12,755)	**Total Comprehensive Income and Expenditure**				**(15,346)**

Balance Sheet as at 31 March 2016

31 March 2015 Restated £000		Notes	31 March 2016 £000
390,468	Property, Plant and Equipment	12	374,296
4,730	Heritage Assets	13	4,925
20,173	Intangible Assets	14	19,043
277,997	Long Term Investments	15	286,632
3,438	Long Term Loans	15	5,680
30	Other Long Term Debtors	18	29
696,836	**Long Term Assets**		**690,605**
12,577	Assets held for Sale	16	654
5,179	Inventories	17	4,564
20,212	Short Term Debtors	18	21,833
2,823	Cash and Cash equivalents	19	2,520
40,791	**Current Assets**		**29,571**
(18,157)	Short Term Creditors	20	(24,458)
(5,537)	Provisions	21	(6,102)
0	Grant Receipts in Advance - Revenue	27	(40)
(23,694)	**Current Liabilities**		**(30,600)**
(6,000)	Finance Lease Liability	30	(5,906)
(31,000)	Long Term Borrowing	15	(31,000)
(183,396)	Pension Liability	33	(143,129)
(728)	Provisions	21	(1,357)
(64)	Other Long Term Liabilities		(93)
(221,188)	**Long Term Liabilities**		**(181,485)**
492,745	**Net Assets**		**508,091**
(240,955)	Usable Reserves	22	(242,229)
(251,790)	Unusable Reserves	23	(265,862)
(492,745)	**Total Reserves**		**(508,091)**

The audited Annual Accounts were authorised for issue on 21 September 2016.

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Jonathan Belford, CPFA
Executive Manager – Finance

21 September 2016

Cash Flow Statement for year ended 31 March 2016

2014/15 £000		2015/16 £000	2015/16 £000
	OPERATING ACTIVITIES		
(498)	Net (surplus) or deficit on the provison of services	23,999	
(24,159)	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 36)	(49,028)	
13,566	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 36)	17,073	
(11,091)	**Net cash flows from Operating Activities**	**(7,956)**	
47,196	Investing activities (Note 37)	8,204	
(30,992)	Financing activities (Note 38)	55	
5,113	**Net (increase) or decrease in cash and cash equivalents**		**303**
7,936	Cash and Cash Equivalents at 1 April		2,823
(5,113)	Net movement of Cash and Cash Equivalents during the year		(303)
2,823	**Cash & Cash Equivalents at 31 March**		**2,520**

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 (i.e. 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, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Prior period adjustments arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Where a change in accounting policy is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

1.3 Accounting Conventions and Concepts

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

The concept of the 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 have 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, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

b) Benefits Payable During Employment

Short-term employee benefits (i.e. those due to be settled within 12 months of the year-end) such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees are recognised as an expense for services in the year in which employees render service to the 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 was 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, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, projections of earnings for current employees, etc.

- Liabilities are discounted to their value at current prices using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.

- The pension fund assets attributable to the 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.

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- 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, Blackrock 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.

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

No income is generated by Blackrock outwith their units. The Council pays Blackrock'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 2015/16 was 4.11%.

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 and that the grants and contributions will be received.

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 (e.g. software licences), is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the 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 (e.g. 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 (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance Leases

The Council recognises a finance lease when the risks and rewards of the asset substantially lie with the 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 (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property 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 2015/16 (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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

b) Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure assets are held at depreciated historical cost;
- community assets and assets under construction are held at historical cost.
- council dwellings are held at current value, determined using the basis of existing use value for social housing; and
- all other assets are held at current 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 current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current 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 (i.e. freehold land and certain community and heritage assets) and assets that are not yet available for use (i.e. assets under construction).

The following useful lives and depreciation rates have been used in the calculation of depreciation (straight line method):

- council dwellings: 30 years
- other land and buildings: 7 - 120 years
- vehicles, plant, furniture and equipment: 1 - 30 years
- infrastructure: 5 - 60 years

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

Surplus assets are depreciated on a straight line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Where an item of property, plant and equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

e) Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and are valued at the lower of their carrying amount before they were classified as held for sale. They are adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale and adjusted for their recoverable amount at the date of the decision not to sell (assets to be abandoned or scrapped are not reclassified as assets held for sale).

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.22 Surplus Assets

Surplus assets are measured at fair value at each reporting date. Fair value is the price that would be received to sell an asset between market participants at the measurement date. The fair value measurement assumes that the transition to sell the asset takes place either in the principal market for the asset or in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of the asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring fair value, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess at the measurement date.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3 – unobservable inputs for the asset.

1.23 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, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the 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.

1.24 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, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. 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.

1.25 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 (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.26 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. This reserve is to fund Ports and Harbours' expenditure and 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.

1.27 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.

1.28 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:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions);
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations);
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation);
- Annual Improvements to IFRSs 2012-2014 Cycle;

- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 financial statements.

The issues included in the Annual Improvements to IFRSs cycles are:

- IFRS 3 – Accounting for contingent consideration in a business combination.
- IFRS 5 – Changes in methods of disposal.
- IFRS 7 – Servicing contracts
- IFRS 8 – Aggregation of operating segments and Reconciliation of the total reportable segments.
- IAS 13 – Fair value measurement: short term receivables and payables.
- IAS 16 and IAS 38 – Revaluation method – proportionate restatement of accumulated depreciation / amortisation.
- IAS 24 – Related party disclosures: key management personnel.

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. Where a reliable estimate can be made, these have been included as provisions on the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate, these claims have been accounted for as contingent liabilities.

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 2016 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 £53.1m, however, the assumptions interact in complex ways.

During 2015/16, the net pension liability has reduced by £40.3m as a result of updated assumptions.

b) Arrears

At 31 March 2016, the Council had a balance on sundry debtors of £4.5m 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 2015/16.

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.

d) Fair Value Measurement

When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council’s assets and liabilities.

Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the council’s assets is disclosed at notes 12 and 15 below.

5. Material Items of Income and Expenditure

Two of the Council’s tugs were sold for £7.9m during 2015/16 and this has been reflected in the Council’s Comprehensive Income and Expenditure statement on page 42. As a result of the sale, there was a large repayment and write-off of debt which has been reflected in the Movement in Reserves Statement on page 40.

6. Events after the Balance Sheet Date

The Annual Accounts was authorised for issue by the Executive Manager - Finance on 21 September 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. At its meeting on 29 June 2016, the Council agreed that in future no councillors would be put forward to serve as trustees of Shetland Charitable Trust. As the Trust is currently included in the Council's Group Accounts, the implications from any governance reform will need to be considered. No changes have been made to the position reported in the 2015/16 accounts.

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.

2015/16	Usable Reserves				Unusable Reserves
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£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	(15,464)	(2,151)	0	0	17,615
Revaluation losses on property, plant and equipment	(7,768)	(44)	0	0	7,812
Amortisation of intangible assets	(1,103)	(25)	0	0	1,128
Capital grants and contributions applied	7,996	0	0	0	(7,996)
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	(12,451)	(1,093)	0	0	13,544
Capital repayment in respect of finance leases	89	0	0	0	(89)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	11,542	1,200	0	0	(12,742)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	45	0	0	(45)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	635	(635)
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	7,492	1,674	(9,166)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,556	0	(1,556)
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	482	0	0	0	(482)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(21,452)	(369)	0	0	21,821
Employer's pensions contributions and direct payments to pensioners payable in the year	12,471	198	0	0	(12,669)
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	460	18	0	0	(478)
Total Adjustments	**(17,661)**	**(592)**	**(7,610)**	**590**	**25,273**

2014/15 Comparative Figures	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(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)**

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 2015/16.

	Balance at 31 Mar 2014 £000	Transfers out 2014/15 £000	Transfers in 2014/15 £000	Balance at 31 Mar 2015 £000	Transfers out 2015/16 £000	Transfers in 2015/16 £000	Balance at 31 Mar 2016 £000
General Fund:							
General Fund Balance	**(12,813)**	14,306	(13,302)	**(11,809)**	38,341	(36,722)	**(10,190)**
Council Tax Second Homes Receipts	**(704)**	0	(140)	**(844)**	0	(165)	**(1,009)**
Hansel	**(120)**	0	(11)	**(131)**	0	(22)	**(153)**
School Funds	**(164)**	0	(21)	**(185)**	0	(57)	**(242)**
Central Efficiency	**(59)**	31	(1)	**(29)**	0	(167)	**(196)**
Finanial Risk	**(1,208)**	0	(38)	**(1,246)**	0	(1,281)	**(2,527)**
Council Tax Reduction Scheme	**(202)**	0	0	**(202)**	0	0	**(202)**
Shetland College	**0**	0	0	**0**	0	(221)	**(221)**
Community Care Funds	**0**	0	0	**0**	0	(510)	**(510)**
Total	**(15,270)**	**14,337**	**(13,513)**	**(14,446)**	**38,341**	**(39,145)**	**(15,250)**
Capital:							
Capital Fund	**(62,236)**	0	(1,276)	**(63,512)**	0	(1,559)	**(65,071)**
Capital Efficiency/Spend to Save Reserve	**(8,537)**	487	(152)	**(8,202)**	84	(2,223)	**(10,341)**
Pilot Boat Renewal Fund	**(1,010)**	0	(14)	**(1,024)**	0	(25)	**(1,049)**
Usable Capital Receipts	**0**	1,302	(2,404)	**(1,102)**	1,556	(9,166)	**(8,712)**
Total	**(71,783)**	**1,789**	**(3,846)**	**(73,840)**	**1,640**	**(12,973)**	**(85,173)**
Other Revenue/Statutory Funds:							
Revenue Efficiency/Spend to Save Reserve	**(64)**	487	(488)	**(65)**	65	(2)	**(2)**
Marine Fund	**(2,046)**	153	(39)	**(1,932)**	1,980	(48)	**0**
Reserve Fund	**(24,879)**	4,770	(5,298)	**(25,407)**	14,125	(6,010)	**(17,292)**
Repairs & Renewals Fund	**(45,678)**	2,234	(876)	**(44,320)**	2,783	(1,114)	**(42,651)**
Quarry Repairs & Renewals Fund	**(161)**	0	(2)	**(163)**	0	(4)	**(167)**
Housing Repairs & Renewals Account	**(10,864)**	0	(569)	**(11,433)**	0	(1,710)	**(13,143)**
Insurance Fund	**(228)**	0	(3)	**(231)**	0	(6)	**(237)**
Equalisation Fund	**(15,000)**	0	(214)	**(15,214)**	0	(374)	**(15,588)**
Local Investment Fund	**(11,422)**	4,403	(4,000)	**(11,019)**	1,656	(31)	**(9,394)**
Reserve Fund (Harbour Contingency)	**(41,557)**	0	(685)	**(42,242)**	0	(1,037)	**(43,279)**
Total	**(151,899)**	**12,047**	**(12,174)**	**(152,026)**	**20,609**	**(10,336)**	**(141,753)**
Housing Revenue Account	**0**	1,232	(1,232)	**0**	1,710	(1,710)	**0**
Capital Grants Unapplied	**(1,920)**	1,277	0	**(643)**	635	(45)	**(53)**
Total Usable Reserves	**(240,872)**	**30,682**	**(30,765)**	**(240,955)**	**62,935**	**(64,209)**	**(242,229)**

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 Council Tax Second Homes Receipts, for the receipts from reducing the discount on second homes' Council Tax, was set up to fund affordable housing expenditure.

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 Financial Risk reserve is an earmarked General Fund reserve established to set aside funds to meet the financial obligations that may arise. A Contingency Fund was also established as a contingency for future Harbour Account commitments.

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

The Shetland College reserve is an earmarked General Fund reserve which holds the reserves relating to Shetland College.

The Community Care Funds is an earmarked General Fund reserve which holds the balances relating to the Integrated Joint Board.

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 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 Reserve Fund now includes the balance from the Marine Fund which related to the unfunded element of pensions of harbour staff.

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.

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 realised returns which exceed the long term average rate of return, and these can be released in future years.

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.

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 2015 £000		31 March 2016 £000
146	(Gains)/losses on the disposal of non-current assets	4,378
146	**Total**	**4,378**

10. Financing and Investment Income and Expenditure

31 March 2015 £000		31 March 2016 £000
2,273	Interest payable and similar charges	3,643
6,426	Pensions interest cost and expected return on pensions assets	5,920
(616)	Interest receivable and similar income	(1,403)
(2,286)	Other investment income	(2,821)
(1,368)	Realised gains in relation to available for sale financial assets	(2,329)
(1,378)	Transfer of SDT financial instruments	(483)
3,051	**Total**	**2,527**

11. Taxation and Non-Specific Grant Income

31 March 2015 £000		31 March 2016 £000
(8,351)	Council Tax income	(8,492)
(17,602)	Non domestic rates	(16,882)
(69,072)	Non ring fenced government grants	(70,155)
(8,096)	Capital grants and contributions	(8,040)
(23,495)	Donated assets	(32)
(126,616)	**Total**	**(103,601)**

12. Property, Plant and Equipment

Movement in 2015/16	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 2015	71,630	155,096	49,838	161,719	6,921	1,689	8,596	455,489
Additions	1,549	1,109	1,014	254	0	0	3,396	7,322
Donated assets	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,228)	(5,782)	(4,913)	0	0	(94)	0	(14,017)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(95)	(8,072)	(1,298)	0	0	(84)	0	(9,549)
Derecognition – disposals	(662)	(62)	(2,436)	(560)	(1)	0	0	(3,721)
Derecognition – other	0	(592)	0	0	0	0	0	(592)
Assets reclassified (to)/ from Assets held for sale	(201)	(156)	0	0	0	0	0	(357)
Other movements in cost or valuation	(55)	4,239	4,835	2,400	0	(1,260)	(3,091)	7,068
At 31 March 2016	68,938	145,780	47,040	163,813	6,920	251	8,901	441,643
Accumulated Depreciation and Impairment								
At 1 April 2015	(29)	(2,903)	(19,402)	(42,647)	(8)	(32)	0	(65,021)
Depreciation charge	(2,150)	(7,762)	(3,582)	(4,038)	0	(70)	0	(17,602)
Depreciation written out to the Revaluation Reserve	2,108	3,547	4,805	0	0	28	0	10,488
Depreciation written out to the Surplus/Deficit on the Provision of Services	51	724	957	0	0	5	0	1,737
Derecognition – disposals	19	5	2,418	506	0	0	0	2,948
Derecognition – other	0	103	0	0	0	0	0	103
Assets reclassified (to)/ from Assets held for sale	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	1	(40)	0	0	0	39	0	0
At 31 March 2016	0	(6,326)	(14,804)	(46,179)	(8)	(30)	0	(67,347)
Net Book Value								
At 31 March 2016	68,938	139,454	32,236	117,634	6,912	221	8,901	374,296
At 31 March 2015	71,601	152,193	30,436	119,072	6,913	1,657	8,596	390,468

Comparator Movement in 2014/15 Restated	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and £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	3,077	1,700	1	0	5,358	12,257
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	49,838	161,719	6,921	1,689	8,596	455,489
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	30,436	119,072	6,913	1,657	8,596	390,468
At 31 March 2014	75,513	141,155	43,931	118,097	6,912	758	14,646	401,012

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 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £15.457m. Similar commitments at 31 March 2015 were £2.965m. The major commitments are:

AHS Halls of Residence	£11.697m
AHS Clickimin Sports Facility	£1.895m
Bells Brae Primary School Refurbishment Works	£0.827m

c) Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Surplus Assets were valued using fair value in accordance with the CIPFA Code of Practice. 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 Unit. The basis for valuation is set out in the statement of accounting policies. It should be noted that all the Council Dwellings and Vehicles, Plant & Equipment are assessed for valuation every year resulting in the full valuation figure in the current year.

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Con-struction £000
Carried at historic cost	0	0	0	163,813	6,920	0	8,901
Valued at fair value as at:							
2015 - 2016	68,939	18,155	47,040	0	0	104	0
2014 - 2015	0	75,092	0	0	0	965	0
2013 - 2014	0	25,050	0	0	0	524	0
2012 - 2013	0	14,486	0	0	0	70	0
2011 - 2012	0	24,502	0	0	0	59	0

13. Heritage Assets

	Historic Buildings £000	Museum Collection £000	War Memorial £000	Total Assets £000
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**
Net Value				
At 1 April 2015	1,404	3,269	57	**4,730**
Revaluations	207	0	0	**207**
Depreciation	(12)	0	0	**(12)**
At 31 March 2016	**1,599**	**3,269**	**57**	**4,925**

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, e.g. 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 few items on display, but are often used for reference. Many pieces are 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 orignally purchased by the Shetland Development Trust to enable long term access to a strategically important resource. The quota was transferred to the Authority on 31 December 2014 as part of the wind up of the Shetland Development Trust. The market value at 31 March 2016 is £18.160m . 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 Authority on 31 December 2014 as part of the wind up of the Shetland Development Trust. There was a part disposal in 2015/16 valued at £2k. The market value as at 31 March 2016 is £0.202m. 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 £1.1m was charged directly to the following service headings in the Cost of Services for 2015/16: 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 2015 £000		31 March 2016 £000
	Balance at start of year:	
2,454	Gross carrying amounts	22,103
(1,879)	Accumulated amortisation	(1,930)
575	**Net carrying amount at start of year**	**20,173**
21	Purchases	0
19,470	SDT asset transfers	0
(128)	Other disposals	(2)
(68)	Amortisation for the period	(1,128)
303	Other changes	0
20,173	**Net carrying amount at end of year**	**19,043**
	Comprising:	
22,103	Gross carrying amounts	22,101
(1,930)	Accumulated amortisation	(3,058)
20,173		**19,043**

15. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term 31 March 2015 £000	Current 31 March 2015 £000		Long-Term 31 March 2016 £000	Current 31 March 2016 £000
		Financial Assets		
		Investments:		
277,997	0	Available for sale financial assets	286,632	0
277,997	**0**	**Total Investments**	**286,632**	**0**
		Debtors:		
3,438	894	Loans and receivables	5,680	779
3,438	**894**	**Total Debtors**	**5,680**	**779**
		Financial Liabilities		
		Borrowing:		
(31,000)	0	Financial liabilities at amortised cost	(31,000)	0
(31,000)	**0**	**Total Borrowing**	**(31,000)**	**0**
		Creditors:		
(64)	(12)	Financial liabilities at amortised cost	(93)	(18)
0	(397)	Accrued interest liability	0	(402)
(64)	**(409)**	**Total Creditors**	**(93)**	**(420)**
		Provisions:		
0	(141)	Financial guarantees	0	(139)
0	**(141)**	**Total Provisions**	**0**	**(139)**

Soft Loans

An interest free loan was provided to support Community and Drugs and Alcohol Services Shetland. This supported the Council's corporate priorities in terms of community strength and young people, and the Single Outcome Agreement which aims to "…have tackled inequalitieis by ensuring the needs of the most vulnerable and hard to reach groups are identified and met…". This has been accounted for as a soft loan, and all relevant interest has been charged to Social Work in line with the accounting requirements.

31 March 2015 £000		31 March 2016 £000
634	**Balance at start of year:**	**0**
0	Nominal value of new loans granted in the year	60
0	Fair value adjustment on initial recognition	(3)
(644)	Loans repaid	0
10	Increase in discounted amount	0
0	**Total Investments**	**57**

Valuation Assumptions

The interest rate at which the fair value of this loan has been made is arrived at by taking the opportunity cost based on the Council's Investment Strategy (5.2%). This is the interest rate applied to the Council's Local Development Loans.

b) Income, Expense, Gains and Losses

31 March 2015					31 March 2016			
Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000		Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Financial Liabilities: Amortised Cost £000	Total £000
0	0	1,008	**1,008**	Interest expense	0	0	1,228	**1,228**
0	764	11	**775**	Fee expenses	0	965	15	**980**
0	**764**	**1,019**	**1,783**	**Total expense in (Surplus)/Deficit on the Provision of Services**	**0**	**965**	**1,243**	**2,208**
(148)	(2,286)	0	**(2,434)**	Interest & dividend income	(248)	(3,259)	0	**(3,507)**
0	(1,368)	0	**(1,368)**	Gains on de-recognition	0	(2,329)	0	**(2,329)**
(148)	**(3,654)**	**0**	**(3,802)**	**Total income in (Surplus)/Deficit on the Provision of Services**	**(248)**	**(5,588)**	**0**	**(5,836)**
0	(25,000)	0	**(25,000)**	Gains on revaluation	0	(8,689)	0	**(8,689)**
0	1,020	0	**1,020**	Amounts recycled	0	15,441	0	**15,441**
0	**(23,980)**	**0**	**(23,980)**	**(Surplus)/Deficit arising on revaluation of financial assets in other CI&ES**	**0**	**6,752**	**0**	**6,752**
(148)	**(26,870)**	**1,019**	**(25,999)**	**Net (Gain)/Loss for the Year**	**(248)**	**2,129**	**1,243**	**3,124**

There were gains for available for sale financial assets on revaluation of £8.7m as at 31 March 2016 (£25.0m at 31 March 2015) 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.

In terms of the fair value measurement hierarchy financial instruments measured at fair value are considered to be Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

The Fair Value calculations have been made using the following assumptions and are shown in the table below:

- 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.

31 March 2015			31 March 2016	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
4,403	4,403	Loans and receivables	6,459	6,459
(31,076)	(41,229)	Financial liabilities at amortised cost	(31,110)	(41,260)

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 considered to be Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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 2015 £000		31 March 2016 £000
875	**Balance outstanding at start of year**	**12,577**
	Assets newly classified as held for sale:	
12,576	Property, plant and equipment	624
	Assets declassified as held for sale:	
0	Property, plant and equipment	(267)
(881)	**Assets sold**	(12,280)
7	Other movements	0
12,577	**Balance outstanding at year-end**	**654**

17. Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000 Restated	2015/16 £000	2014/15 £000 Restated	2015/16 £000
Balance outstanding at start of year	**3,614**	**3,447**	**1,758**	**1,557**	**0**	**175**	**5,372**	**5,179**
Purchases	387	407	2,679	2,677	175	232	3,241	3,316
Recognised as an expense in the year	(554)	(1,050)	(2,885)	(2,784)	0	(88)	(3,439)	(3,922)
written off balances	0	0	(3)	(9)	0	0	(3)	(9)
Reversals of write offs in previous years	0	0	8	0	0	0	8	0
Balance outstanding at year end	**3,447**	**2,804**	**1,557**	**1,441**	**175**	**319**	**5,179**	**4,564**

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale), and since 2015/16 items of ICT equipment.

ICT equipment has historically been classified as part of the PPE balance within the Council's balance sheet in the year of purchase. Following a review it was concluded that some of these purchases should actually be classified as Inventory and only recognised as assets when used. These items were therefore written out of Long Term Assets and transferred to Inventories within Current Assets. These items of stock total £319k, £175k of which relates to the prior year restatement.

18. Short-Term Debtors

31 March 2015 £000		31 March 2016 £000
6,532	Central Government Bodies	1,702
3,309	Other Local Authorities	10,075
218	NHS Bodies	152
830	Public Corporations and Trading Funds	1,198
9,323	Other Entities and Individuals	8,706
20,212	**Total**	**21,833**

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 2015 £000		31 March 2016 £000
(209)	Opening balance - General Fund	(223)
25	Miscellaneous Invoices written off	96
49	Council Tax written off	32
0	Tfr provision from HRA to cover General Fund rents	(11)
(88)	Change in General Fund Provision	(102)
(223)	**Closing Balance**	**(208)**
(54)	Opening balance - Housing Revenue Account	(49)
19	Rents written off	31
0	Tfr provision to cover General Fund rents	11
(14)	Change in HRA Provision	(32)
(49)	**Closing Balance**	**(39)**

b) Long Term Debtors

In 2015/16 £29k of debtors have been classified as long term debtors (£30k in 2014/15).

19. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

31 March 2015 £000		31 March 2016 £000
31	Cash held by the Council	34
2,792	Bank current accounts	2,486
2,823	**Total**	**2,520**

20. Short-Term Creditors

31 March 2015 £000		31 March 2016 £000
(3,871)	Central Government Bodies	(3,607)
(3,457)	Other Local Authorities	(10,001)
(312)	NHS Bodies	(99)
(665)	Public Corporations and Trading Funds	(679)
(9,852)	Other Entities and Individuals	(10,072)
(18,157)	**Total**	**(24,458)**

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 for £1.5m has been recognised for landfill decommissioning costs which are expected to be incurred between 2016 and 2026. The provision is split between long and short term provisions to recognise the estimated payment of £0.2m due in 2016/17. 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 was 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.

2014/15			Long Term Provisions	2015/16		
Landfill De-commissioning £000	Symbister Peerie Dock £000	Total £000		Landfill De-commissioning £000	Symbister Peerie Dock £000	Total £000
(810)	**0**	**(810)**	**Balance at 1 April**	**(653)**	**(75)**	**(728)**
0	(75)	(75)	Additional provisions made	(611)	0	(611)
199	0	199	Transfer to Short Term Provisions	0	0	0
(42)	0	(42)	Unwinding of discounting	(18)	0	(18)
(653)	**(75)**	**(728)**	**Balance at 31 March**	**(1,282)**	**(75)**	**(1,357)**

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 (i.e. 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 2014/15, and a further provision of £0.1m has been recognised in relation to 2015/16. This has been calculated based on the current market price of the number of allowances required to meet the liability at 31 March 2016.

Shetland Islands Council requires to respond to legal claims raised against it. The potential liabilities that arise from this consist of an estimate of legal fees and an estimate of the settlement of any actions. The provision is based on the information available at 31 March 2016.

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 2016.

A £0.1m provision was created in 2014/15 in respect of VAT penalty charges which were being disputed with HM Revenue and Customs (HMRC). During 2015/16 HMRC suspended this penalty and imposed a number of conditions on the Council. All conditions have now been met and the penalty is no longer payable by the Council. The provision has therefore been reversed during 2015/16.

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 be applied when certain pay allowances are received. A provision totaling £300k has been recognised in relation to backdated holiday pay from 1 January 2015.

Short Term Provisions	2015/16						
	Carbon Reduction Commitment £000	Outstanding Legal Actions £000	Landfill De-commissioning £000	Financial Guarantees £000	VAT Penalties £000	Backdated Holiday Pay £000	Total £000
Balance at 1 April 2015	**(92)**	**(5,040)**	**(199)**	**(141)**	**(65)**	**0**	**(5,537)**
Additional provisions made in 2015/16	(127)	(328)	0	0	0	(300)	(755)
Amounts used in 2015/16	92	2	0	2	0	0	96
Unused amounts reversed in 2015/16	0	18	11	0	65	0	94
Unwinding of discounting in 2015/16	0	0	0	0	0	0	0
Balance at 31 March 2016	**(127)**	**(5,348)**	**(188)**	**(139)**	**0**	**(300)**	**(6,102)**

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

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 2015 Restated £000		31 March 2016 £000
(14,446)	General Fund Balance	(15,250)
(73,840)	Capital Receipts Reserve/Capital Funds	(85,173)
(643)	Capital Grants Unapplied	(53)
(152,026)	Other Revenue/Statutory Funds	(141,753)
(240,955)	**Total balance of usable reserves at 31 March**	**(242,229)**

23. Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

31 March 2015 £000		31 March 2016 £000
(100,372)	Revaluation Reserve	(91,109)
(45,429)	Available for Sale Financial Instruments Reserve	(38,677)
(1,519)	Financial Instruments Adjustment Account	(2,001)
(290,643)	Capital Adjustment Account	(279,503)
183,396	Pensions Reserve	143,129
2,777	Employee Statutory Adjustment Account	2,299
(251,790)	**Total balance of unusable reserves at 31 March**	**(265,862)**

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 2015 £000		31 March 2016 £000	31 March 2016 £000
(89,201)	**Balance at 1 April**		**(100,372)**
(31,129)	(Upward)/downward revaluation of assets	(13,198)	
16,415	(Upward)/downward revaluation of assets and impairment (gains)/ losses not charged to the Surplus or Deficit on the Provision of Services	16,520	
(14,714)	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		3,322
2,422	Difference between fair value depreciation and historical cost depreciation	5,023	
1,121	Accumulated gains on assets sold or scrapped	918	
3,543	Amount written off to the Capital Adustment Account		5,941
(100,372)	**Balance at 31 March**		**(91,109)**

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 2015 £000		31 March 2016 £000
(21,449)	**Balance at 1 April**	**(45,429)**
(25,000)	Upward revaluation of assets	(8,689)
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0
(25,000)		(8,689)
1,020	Removal of previously unrealised gains in relation to assets sold	15,441
(45,429)	**Balance at 31 March**	**(38,677)**

c) 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 2015 £000		31 March 2016 £000
0	**Balance at 1 April**	**(1,519)**
(1,519)	Amount by which finance costs charged to the CIES are different from the finance costs chargeable in the year in accordance with statutory requirements	(482)
(1,519)	**Balance at 31 March**	**(2,001)**

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 2015 £000		31 March 2016 £000
148,562	**Balance at 1 April**	**183,396**
26,437	Actuarial (gains) and losses on pensions assets and liabilities	(49,419)
21,383	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	21,821
(12,986)	Employer's pensions contributions and direct payments to pensioners payable in the year	(12,669)
183,396	**Balance at 31 March**	**143,129**

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 2015 £000		31 March 2016 £000	31 March 2016 £000
(279,669)	**Balance at 1 April**		**(290,643)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
15,376	Charges for depreciation and impairment of non-current assets	17,615	
7,757	Revaluation losses on property, plant and equipment	7,812	
68	Amortisation of intangible assets	1,128	
(84)	Repayment of capital on finance leases	(89)	
1,428	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	12,626	
24,545			39,092
(2,422)	Adjustment amounts written out of the Revaluation Reserve		(5,023)
22,123	Net written out amount of the cost of Non-Current assets consumed in the year		34,069
	Capital financing applied in the year:		
(1,302)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,556)	
(8,096)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(7,996)	
(1,277)	Application of grants to capital financing from the Capital Grants Unapplied Account	(635)	
(1,942)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(12,742)	
(985)	Capital expenditure charged against the General Fund and HRA balances	0	
(13,602)			(22,929)
(19,495)	Donated Assets credited to the Comprehensive Income and Expenditure Statement		0
(290,643)	**Balance at 31 March**		**(279,503)**

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, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31 March 2015 £000		31 March 2016 £000
2,639	**Balance at 1 April**	**2,777**
(2,639)	Settlement or cancellation of accrual made at the end of the preceding year	(2,777)
2,777	Amounts accrued at the end of the current year	2,299
2,777	**Balance at 31 March**	**2,299**

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 2015/16	Education & Families £000	Integrated Joint Board* £000	Develop-ment £000	Environ-ment & Transport £000	Policy & Resources £000	Boards (Harbour & College) £000	Total £000
Employee expenses	32,714	21,394	4,908	15,206	7,327	9,931	91,480
Operating costs	9,077	13,302	8,303	28,251	7,260	10,930	77,123
Transfer payments	1,321	2,185	1,838	353	3,242	195	9,134
Total expenditure	**43,112**	**36,881**	**15,049**	**43,810**	**17,829**	**21,056**	**177,737**
Total income	(2,750)	(15,578)	(9,718)	(18,587)	(6,283)	(24,649)	(77,565)
Net expenditure	**40,362**	**21,303**	**5,331**	**25,223**	**11,546**	**(3,593)**	**100,172**

*** The Integration Joint Board replaced the Social Work Services Committee during 2015/16.**

Income and Expenditure Analysis Comparative Figures 2014/15	Education & Families £000	Social Services Committee £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**

31 March 2015 £000	Summary Reconciliation between Budget Reported and Comprehensive Income and Expenditure Statement	31 March 2016 £000
101,317	Net expenditure in the Income and Expenditure Analysis	100,172
27,860	Amounts in Comprehensive Income and Expenditure Statement not reported to management in the Analysis	27,294
(6,256)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(6,771)
122,921	**Cost of Services in Comprehensive Income and Expenditure Statement**	**120,695**
3,953	Amounts relating to Subsidiaries, Associates and Joint Ventures	5,724
126,874	**Cost of Services in Group Comprehensive Income and Expenditure Statement**	**126,419**

Detailed Reconciliation between Budget Reported and Comprehensive Income and Expenditure Statement

2015/16	Income and Expenditure Analysis £000	Amounts not reported to management for decision £000	Amounts not included in I&E £000	Group Amounts £000	Total £000
Employee expenses	91,481	2,747	0	0	94,228
Other service expenses	81,350	1,754	(1,406)	0	81,698
Support service recharges	581	0	(581)	0	0
Depreciation, amortisation and impairment	0	25,599	0	0	25,599
Interest payments	4,836	0	(4,784)	0	52
(Gain) or loss on disposal of non-current assets	0	4,378	0	0	4,378
Total expenditure	**178,248**	**34,478**	**(6,771)**	**0**	**205,955**
Fees, charges & other service income	(62,527)	(2,719)	0	0	(65,246)
Amounts relating to Subsidiaries, Associates and Joint Ventures	0	0	0	3,845	3,845
Interest and investment income	(321)	2,526	0	0	2,205
Income from Council Tax	0	(8,492)	0	0	(8,492)
Government grants and contributions	(15,228)	(95,195)	0	0	(110,423)
Total Income	**(78,076)**	**(103,880)**	**0**	**3,845**	**(178,111)**
(Surplus) / deficit on the provision of services	**100,172**	**(69,402)**	**(6,771)**	**3,845**	**27,844**

Comparative Figures 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
(Gain) or loss on disposal of non-current assets	0	146	0	0	146
Total expenditure	**170,058**	**30,414**	**(6,256)**	**0**	**194,216**
Fees, charges & other service income	(67,408)	(36)	0	0	(67,444)
Amounts relating to Subsidiaries, Associates and Joint Ventures	0	0	0	(7,630)	(7,630)
Interest and investment income	(148)	3,051	0	0	2,903
Income from Council Tax	0	(8,351)	0	0	(8,351)
Government grants and contributions	(1,185)	(120,637)	0	0	(121,822)
Total Income	**(68,741)**	**(125,973)**	**0**	**(7,630)**	**(202,344)**
(Surplus) / deficit on the provision of services	**101,317**	**(95,559)**	**(6,256)**	**(7,630)**	**(8,128)**

25. 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 provides payroll services for Shetland Charitable Trust, School Parent Councils and Shetland Tenants Forum. These organisations are billed based on the actual costs of the Council providing the service.

31 March 2015 £000		31 March 2016 £000
32	Expenditure incurred in collection service for Scottish Water	32
(74)	Commission payable by Scottish Water	(70)
(1)	Income payable by SHEAP	(1)
2	Expenditure incurred in payroll services to other organisations	2
(2)	Income payable by other organisations for payroll services	(2)
(43)	**Net surplus arising on the agency arrangements**	**(39)**

26. 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 2015 £000		31 March 2016 £000
218	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	206
218	**Total**	**206**

27. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

31 March 2015 £000		31 March 2016 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,351)	Council Tax income	(8,492)
(17,602)	Non domestic rates	(16,882)
(69,072)	Non ring fenced government grants	(70,155)
(8,096)	Capital grants and contributions	(8,040)
(103,121)	**Total**	**(103,569)**
	Credited to Services	
(499)	NHS grants	(160)
(2,899)	Housing Benefit Subsidy	(3,004)
(31)	ERDF & ESF	(15)
(121)	Training grants	(132)
(5)	Central Services grants	(10)
(259)	Cultural and Related Services grants	(221)
(3,105)	Education Services grants	(2,838)
(143)	Environmental Services grants	(137)
(457)	Planning & Development Services grants	(436)
(28)	Roads & Transport Services grants	(72)
(601)	Social Work Services grants	(477)
(14)	Trading Services grants	(67)
(8,162)	**Total**	**(7,569)**

The council received a grant which has yet to be recognised as income as it has conditions attached to it. The balance at the year end is £40k.

28. 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 (e.g. Council Tax bills, housing benefits). Details of all grants received from Central Government and other public bodies can be found in note 27.

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 £4.8m in 2015/16 (£7.3m in 2014/15) 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 33 to the Annual Accounts.

e) Integrated Joint Board

The Integration Joint Board (IJB) was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board. This represents a Joint Venture between these two bodies.

The IJB became live on 20 November 2015 when its Strategic Plan was adopted by Members. Since this date, the Council has contributed £7.8m towards the IJB and has received £7.1m in commissioning income.

The Council also provided support to the IJB in terms of back office functions. No charge was made for these services.

29. 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 2015 £000		31 March 2016 £000
36,360	**Opening Capital Financing Requirement**	**35,135**
	Capital investment:	
12,432	Property, plant and equipment	14,390
21	Intangible assets	0
0	Revenue Expenditure Funded from Capital	55
	Sources of finance:	
(1,302)	Capital receipts	(1,556)
(9,365)	Government grants and other contributions	(8,685)
	Sums set aside from revenue:	
(985)	Direct revenue contributions	0
(84)	Lease principal	(89)
(1,942)	Loans fund principal	(12,742)
35,135	**Closing Capital Financing Requirement**	**26,508**
	Explanation of movements in year:	
(1,225)	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(8,626)
(1,225)	**Increase/(Decrease) in Capital Financing Requirement**	**(8,626)**

30. Leases

a) The Council as a Lessee

Finance Leases

The Council acquired the Council headquarters office and a music, cinema and creative industries centre under finance leases. The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

31 March 2015 £'000		31 March 2016 £'000
6,920	Property, plant and equipment	6,713
6,920		6,713

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 2015 £'000		31 March 2016 £'000
	Finance lease liabilities (net present value of minimum lease payments)	
(75)	Current	(75)
(1,742)	Non Current	(1,667)
(3,175)	Finance costs payable in future years	(2,825)
(4,992)	**Minimum Lease Payments**	**(4,567)**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	(425)	(393)	(75)	(75)
Later than one year and not later than five years	(1,404)	(1,300)	(300)	(300)
Later than five years	(3,163)	(2,874)	(1,442)	(1,367)
	(4,992)	**(4,567)**	**(1,817)**	**(1,742)**

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 £57k payable in 2015/16 (£48k in 2014/15).

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 2015 £000		31 March 2016 £000
2,346	Not later than one year	1,907
8,927	Later than one year and not later than five years	6,614
12,030	Later than five years	8,725
23,303	**Total**	**17,246**

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

31 March 2015 £000		31 March 2016 £000
2,393	Minimum lease payments	2,426
(1,159)	Sub-lease payments receivable	(1,039)
1,234	**Total**	**1,387**

b) The Council as a Lessor

Finance Leases

During 2014/15 and 2015/16 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 2015 £000		31 March 2016 £000
(1,490)	Not later than one year	(972)
(5,899)	Later than one year and not later than five years	(3,824)
(8,997)	Later than five years	(4,277)
(16,386)	**Total**	**(9,073)**

The total value of rental income, excluding sub-leases, recognised during the period was £0.8m (£0.6m in 2014/15).

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

31 March 2015 £000		31 March 2016 £000
(340)	Not later than one year	(338)
(681)	Later than one year and not later than five years	(1,231)
(2,882)	Later than five years	(4,293)
(3,903)	**Total**	**(5,862)**

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 2014/15 and 2015/16 no contingent rents were receivable by the Council.

31. Termination Benefits

The Council terminated 23 employee contracts in 2015/16 (35 in 2014/15), incurring liabilities of £0.2m (£0.9m in 2014/15).

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

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

32. 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 2014/15).

In 2015/16, the Council paid £2.4m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay until 31 August 2015 and 17.2% of pensionable pay until 31 March 2016 (£2.2m and 14.9% for 2014/15). 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 2015/16, these amounted to £0.9m (£0.9m for 2014/15), representing 6.0% of teachers' pensionable pay (6.1% for 2014/15). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligations.

33. 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 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. From April 2015 the pensions accrual rate guarantees a pension based on 1/49th of pensionable pay. (Prior to April 2015 the pension accrual rate guaranteed 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 now linked to the members State Pension Age (the minimum age being 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 Board and Pension Fund Committee. The Pension Fund Board comprises Elected Members of Shetland Islands Council along with employee and employer representatives and a pension/deferred member representative. The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administrating authority for the Shetland Islands Council Pension Fund. The Pension Fund Committee is made up of the Councillors who currently sit on the Policy & Resources Committee.

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 Pension Board and Pension Committee. 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 (i.e. large-scale withdrawals from the scheme, including Employers ceasing to participate in 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:

2014/15 £000	Local Government Pension Scheme	2015/16 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
14,279	Current service cost	15,678
678	Past service cost (including curtailments)	223
	Financing and Investment Income and Expenditure:	
6,426	Net interest expense	5,920
21,383	**Total Post-Employment Benefit charged to the Surplus or Deficit on the Provision of Services**	**21,821**
	Other Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement	
(19,042)	Return on plan assets (excluding the amount included in the net interest expense)	6,054
(5,608)	Actuarial (gains) and losses arising on changes in demographic assumptions	0
54,192	Actuarial (gains) and losses arising on changes in financial assumptions	(49,254)
(3,105)	Actuarial gains and losses arising from other experience	(6,219)
47,820	**Total Post-Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**(27,598)**
	Movement in Reserves Statement	
(21,383)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(21,821)
	Actual amount charged against the General Fund balance for pensions in the year:	
12,986	**Employer's contributions and direct payments to pensioners payable in the year**	**12,669**

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

	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	(511,817)	(479,250)
Fair value of assets in the Local Government Pension Scheme	328,421	336,121
Net liability arising from Defined Benefit Obligation	**(183,396)**	**(143,129)**
Local Government Pension Scheme	(151,029)	(113,671)
Unfunded liabilities for Pension Fund	(17,297)	(13,633)
Unfunded liabilities for Teachers	(15,070)	(15,825)
Total	**(183,396)**	**(143,129)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2014/15 £000		2015/16 £000
292,533	**Opening balance at 1 April**	**328,421**
12,659	Interest income	10,560
	Re-measurement gains and (losses)	
19,042	Return on assets excluding amounts included in net interest	(6,054)
12,986	Employer contributions	12,669
3,050	Contributions by scheme participants	3,083
(11,849)	Benefits paid	(12,558)
328,421	**Closing balance at 31 March**	**336,121**

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

2014/15 £000		2015/16 £000
441,095	**Opening balance at 1 April**	**511,817**
14,279	Current service cost	15,678
19,085	Interest cost	16,480
3,050	Contributions by scheme participants	3,083
	Remeasurement (gains) and losses:	
(5,608)	Actuarial (gains) and losses from changes in demographic assumptions	0
54,192	Actuarial (gains) and losses from changes in financial assumptions	(49,254)
(3,105)	Actuarial (gains) and losses from other experience	(6,219)
(11,849)	Benefits paid	(12,558)
678	Past service costs including curtailments	223
511,817	**Closing balance at 31 March**	**479,250**

Analysis of Pension Fund's Assets

Shetland Islands Council's share of the Pension Fund's assets at 31 March 2016 comprised:

2014/15 £000	Quoted Prices not in Active Markets	2015/16 £000
53	Cash and cash equivalents	54
	Property:	
31,832	UK property	32,578
2,158	Overseas property	2,208
33,990	**Sub-total Property**	**34,786**
	Investment Funds and Unit Trusts	
198,850	Equities	203,512
31,734	Bonds	32,478
63,795	Other	65,291
294,379	**Sub-total Investment Funds and Unit Trusts**	**301,281**
328,422	**Total Assets**	**336,121**

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, projected forward to 31 March 2016.

The principal assumptions used by the actuary have been:

2014/15		2015/16
	Long-term expected rate of return on assets in the Scheme:	
3.2%	Investment Funds and Unit Trusts	3.2%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.8	Men	22.8
23.8	Women	23.8
	Longevity at 65 for future pensioners (in years):	
24.9	Men	24.9
26.7	Women	26.7
3.3%	Rate of inflation	3.2%
4.3%	Rate of increase in salaries	4.2%
2.4%	Rate of increase in pensions	2.2%
3.2%	Rate for discounting scheme liabilities	3.5%
70.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	70.0%
85.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	85.0%

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

Change in assumptions as at 31 March 2016	Approximate increase to employer liability %	Approximate monetary amount £000
0.5% decrease in real discount rate	11%	53,110
1 year increase in member life expectancy	3%	14,377
0.5% increase in the salary increase rate	4%	18,864
0.5% increase in the pension increase rate	7%	33,176

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 2015/16. The three years set out in the latest triennial valuation as at 31 March 2014 are as follows:

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

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2017 is £10.0m.

The weighted average duration of the defined benefit obligation for Scheme members is 19.6 years at 2015/16.

34. Contingent Liabilities

The Council operates in a legal environment that is extremely complex and as such risks action being raised against it. Any claims are contested and as such any financial liability cannot be quantified as at 31 March 2016.

Shetland Islands Council has one outstanding claim under the Equal Pay Act 1970 for past pay inequalities with male colleagues. The 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.

There is a developing line of case law around the pay and grading structures that organisations currently have in place. The most significant issues for the Council are the changes required in response to the implementation of the Living Wage and also potential changes in relation to the payment of sleep-in staff. The Council acknowledges its position in relation to these matters but is unable to fully quantify the financial liability until the Council's position has been fully reviewed.

There are a number of admitted bodies within Shetland Islands Council Pension Fund. If any of these bodies default on their obligations, the shortfall would likely have to be met by the Council over time and through an adjustment to employer contribution rates. The financial risk cannot be quantified until such circumstances arise.

35. 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 2015/16. 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 £15.5m, however, as at 31 March 2016 £6.1m of this balance was loaned to local businesses, leaving £9.4m for further distribution.

The following analysis summarises the Council's potential maximum exposure to credit risk at 31 March 2016, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Estimated maximum exposure at 31 March 2015 £000	Amount at 31 March 2016 A £000	Historical experience of default (expressed as % of A) B %	Historical experience adjusted for market conditions at 31 March 2016 C %	Estimated maximum exposure to default and uncollectability at 31 March 2016 A*C £000
Deposits with Banks	0	3,568	0%	0%	0
Customers	33	144	25%	25%	36

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 £2.1m of the £4.5m balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2015 £000		31 March 2016 £000
2,112	Less than three months	610
218	Three to six months	543
148	Six months to one year	188
611	More than one year	739
3,089	**Total**	**2,080**

Liquidity Risk

The Council has external investments with fund managers amounting to £286.6m at 31 March 2016. 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 2016 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 2015 £000		31 March 2016 £000
23,000	10-20 years	23,000
7,000	20-30 years	7,000
1,000	Over 40 years	1,000
31,000	**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 2016 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 £1.2m for 2015/16.

The Council at 31 March 2016 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 £286.6m of investments as at 31 March 2016 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 £9.2m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2015/16.

c) Foreign Exchange Risk

The Council has £146.0m 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.

36. Cash Flow Statement – Operating Activities

Cash flows for operating activities include the following:

31 March 2015 £000		31 March 2016 £000
(616)	Interest received	(966)
2,262	Interest paid	2,687
(2,286)	Dividends received	0
(640)	**Total**	**1,721**

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

31 March 2015 £000		31 March 2016 £000
(15,376)	Depreciation	(17,615)
(7,757)	Impairment and downward valuations	(7,812)
(68)	Amortisation	(1,128)
9	(Increase)/decrease in impairment for bad debts	22
(2,310)	(Increase)/decrease in creditors	(6,330)
(3,614)	Increase/(decrease) in debtors	1,767
(368)	Increase/(decrease) in inventories	(615)
(8,397)	Movement in pension liability	(9,152)
(2,550)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(13,544)
16,272	Other non-cash items charged to the net surplus or deficit on the provision of services	5,379
(24,159)	**Total**	**(49,028)**

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

31 March 2015 £000		31 March 2016 £000
1,368	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0
2,404	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	9,166
9,794	Any other items for which the cash effects are investing or financing cash flows	7,907
13,566	**Total**	**17,073**

37. Cash Flow Statement – Investing Activities

31 March 2015 £000		31 March 2016 £000
12,348	Purchase of property, plant and equipment, investment property and intangible assets	13,837
47,139	Purchase of short-term and long-term investments	13,035
(2,475)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9,159)
(1,720)	Proceeds from short-term and long-term investments	(1,513)
(8,096)	Other receipts from investing activities	(7,996)
47,196	**Total**	**8,204**

38. Cash Flow Statement – Financing Activities

31 March 2015 £000		31 March 2016 £000
(31,082)	Cash receipts of short and long term borrowing	(48)
84	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	89
6	Repayments of short and long term borrowing	14
(30,992)	**Total**	**55**

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

2014/15 £000		2015/16 £000	2015/16 £000
	Expenditure		
2,625	Repairs and maintenance	2,751	
669	Supervision and management	568	
3,368	Depreciation and impairment of non-current assets	2,220	
14	Movement in the allowance for bad debts	32	
146	Other expenditure	137	
6,822	**Total expenditure**		**5,708**
	Income		
(6,538)	Dwelling rents	(6,534)	
(141)	Non-Dwelling rents	(187)	
(41)	Other Income	(30)	
(6,720)	**Total income**		**(6,751)**
102	**Net (income)/ cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**(1,043)**
206	HRA services' share of Corporate and Democratic Core		54
308	**Net Cost/(Income) of HRA Services**		**(989)**
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(253)	(Gain) or loss on sale of HRA non-current assets		(581)
694	Interest payable and similar charges		632
(206)	Interest and investment income		(281)
121	Pension interest cost and expected return on pension assets		101
356	**Net HRA share of operating expenditure**		**(129)**
664	**(Surplus) or deficit for the year on HRA services**		**(1,118)**

c) Movement on the Housing Revenue Account Statement

2014/15 £000		2015/16 £000
0	**Balance on the HRA at the end of the previous year**	0
664	(Surplus) or deficit on the HRA Income and Expenditure Statement	(1,118)
	Adjustment between accounting basis and funding basis under statute	
(2,179)	Charges for depreciation and impairment of non-current assets	(2,151)
(1,189)	Revaluation losses on property, plant and equipment	(44)
0	Amortisation of intangible assets	(25)
(1,049)	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	(1,093)
1,101	Statutory provision for the financing of capital investment	1,200
985	Capital expenditure charged against HRA balances	0
1,302	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,674
(378)	Reversal of items relating to retirement benefits debited and credited to the Comprehensive Income and Expenditure Statement	(369)
214	Employer's pensions contributions and direct payments to pensioners payable in the year	198
(39)	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	18
(568)		(1,710)
568	Transfers to or (from) reserves	1,710
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.

2014/15 Number	Housing Stock	2015/16 Number
107	1 Apartment	104
411	2 Apartment	411
539	3 Apartment	533
651	4 Apartment	637
37	5 Apartment	37
1	6 Apartment	1
2	8 Apartment	2
1,748	**Total**	**1,725**

2) Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. The trend shown below is a slight increase in the amount of arrears per property.

2014/15 £000		2015/16 £000
206	**Rent Arrears**	**221**

2014/15		2015/16
437	Number of properties in arrears	437
25.0%	Properties in arrears as share of total stock (%)	25.3%
£471	Average amount per property in arrears (£)	£506

3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2015/16:

2014/15 £000		2015/16 £000
(54)	**Balance as at 1 April**	**(49)**
	Bad rent debt written off:	
0	Council approved *	0
19	Delegated authority *	31
19		31
0	Miscellaneous bad debt written off	
(35)		(18)
0	Transfer of provision to cover general fund rents	11
(14)	Contribution to/(from) Housing Revenue Account	(32)
(49)	**Balance as at 31 March**	**(39)**

* 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 2015/16. These amounts are included in the Other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2014/15 £000		2015/16 £000
79	General needs void rents and charges	59
27	Sheltered housing void rents and charges	29
18	Refurbishment properties void rents and charges	0
124	**TOTAL**	**88**

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

2014/15 £000		2015/16 £000
(10,227)	**Gross Council Tax levied and contributions in lieu**	**(10,333)**
637	Council Tax Reduction Scheme	616
1,165	Other discounts and reductions	1,167
49	Write-offs of uncollectable debts	32
(10)	Allowance for impairment of uncollectable debts	0
35	Adjustment to previous years' Community Charge and Council Tax	26
(8,351)	**Transfer to General Fund**	**(8,492)**

a) Council Tax Base

Overleaf is the analysis of the Council Tax base used to set the 2015/16 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 2015/16

	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	2,982	1,822	2,736	1,765	1,327	258	59	1	**10,950**
Gross Tax Base (Properties x Weighting)	0	17,892	12,754	21,888	15,885	14,597	3,354	885	18	**87,273**
Adjusted Properties (Band D Equivalents)	0	1,988	1,417	2,432	1,765	1,622	373	98	2	**9,697**
Vacant Properties (Number.)										
Mandatory Standard Exemptions	0	(122)	(65)	(87)	(42)	(18)	(5)	(3)	(1)	**(343)**
Chargeable Dwellings subject to Disabled Reduction (Number)	0	(13)	(3)	(9)	(9)	(3)	(1)	0	0	**(38)**
Dwellings Effectively Subject to Tax by Virtue of :										
Disabled Relief (Number)	13	3	9	9	3	1	0	0	0	**38**
Class 18 (MoD) Dwellings (Number)	0	0	0	0	0	0	0	0	0	**0**
Revised Total Properties (Number)	13	2,850	1,763	2,649	1,717	1,307	252	56	0	**10,607**
Types of Property (Number):										
Single Discount (25%)	4	1,129	679	946	352	186	22	8	0	**3,326**
Double Discount (50%)	0	326	94	87	55	25	3	3	0	**593**
No Discount (0%)	9	1,395	990	1,616	1,310	1,096	227	45	0	**6,688**
	13	2,850	1,763	2,649	1,717	1,307	252	56	0	**10,607**
Properties Subject to Council Tax (Number)	12	2,405	1,546	2,369	1,602	1,248	245	53	0	**9,480**
Net Tax Base (Properties x Weighting)	60	14,430	10,822	18,952	14,418	13,728	3,185	795	0	**76,390**
Adjusted Properties (Band D Equivalents)	7	1,603	1,202	2,106	1,602	1,525	354	88	0	**8,487**
COUNCIL TAX 2015/16:										
General Fund Charge										
Tax Yield (£)	8,424	1,688,310	1,266,174	2,217,384	1,686,906	1,606,176	372,645	93,015	0	**8,939,034**
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

2014/15 £000		2015/16 £000
21,152	Gross rates levied and contributions in lieu	22,438
(4,344)	Reliefs and other deductions	(4,901)
(10)	Write-offs of uncollectable debts	(7)
26	Allowance for impairment of uncollectable debts	0
16,824	Net non-domestic rate income	17,530
(246)	Adjustment to previous years' national non-domestic rates	(76)
16,578	**Contribution to non-domestic rate pool**	**17,454**
(17,602)	Distribution from non-domestic rate pool	(16,882)
0	Adjustment for years prior to the pool	0
(17,602)	**Transfer to Comprehensive Income & Expenditure Statement**	**(16,882)**

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	560	7,592
Industrial	498	23,467
Other	936	13,039
TOTAL	**1,994**	**44,098**

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 2015/16 is 48.0p (up from 47.1p) with a large business supplement of 1.3p (up from 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 £18k 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.

2014/15 £000		2015/16 £000
(275)	Shetland Development Trust - Bare Trust	(268)
(663)	Zetland Educational Trust	(666)
(3)	Others (3 Trusts)	(3)
(941)	**Total**	**(937)**

The Bare Trust was set up following the cessation of the Shetland Development Trust on 28 February 2015. It holds a number of loans and equity investments which were not considered 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 £5k and expenditure of £2k, pays bursaries to university students, aids apprentices and supports educational trips.

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 2015/16 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 2015/16.

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.

There are no entities which fall under the criteria of subsidiaries at 31 March 2016.

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 2016. These are:

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

- Shetland Charitable Trust.

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The Shetland Health and Social Care Partnership meets this definition and, as such, it has been included in the group accounts a joint venture as at 31 March 2016.

2) Method of Consolidation

The three associates and the joint venture have been consolidated at their financial year-ends of 31 March 2016 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 2015/16 that share was as follows:

- Orkney and Shetland Valuation Joint Board – the Council contributed 48.7% of the Board's operating costs (50.3% in 2014/15);
- Zetland Transport Partnership – the Council contributed 93.9% of the Partnership's operating costs (94.1% in 2014/15); and
- Shetland Charitable Trust – the Council held 46.7% of the voting rights for the Trust (46.7% in 2014/15).
- Shetland Health and Social Care Partnership – the Council contributed 47.5% of the Board's operating costs (N/A in 2014/15).

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 2015/16. The accounts of the Shetland Charitable Trust have been prepared in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Group Movement in Reserves Statement 2015/16

	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 2015	**(14,446)**	**0**	**(73,840)**	**(643)**	**(152,026)**	**(115,357)**	**(356,312)**	**(251,790)**	**1,564**	**(250,226)**	**(606,538)**
Movement in Reserves during 2015/16											
(Surplus) or deficit on the provision of services	25,117	(1,118)	0	0	0	3,845	**27,844**	0	0	**0**	**27,844**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	(39,345)	(379)	**(39,724)**	**(39,724)**
Total Comprehensive Income and Expenditure	**25,117**	**(1,118)**	**0**	**0**	**0**	**3,845**	**27,844**	**(39,345)**	**(379)**	**(39,724)**	**(11,880)**
Adjustments between accounting basis & funding basis under regulations	(17,661)	(592)	(7,610)	590	0	(67)	**(25,340)**	25,273	67	**25,340**	**0**
Adjustment for a change in the Council's share of equity in Associates	0	0	0	0	0	0	**0**	0	(27)	**(27)**	**(27)**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**7,456**	**(1,710)**	**(7,610)**	**590**	**0**	**3,778**	**2,504**	**(14,072)**	**(339)**	**(14,411)**	**(11,907)**
Transfers to/from Earmarked Reserves	(8,260)	1,710	(3,723)	0	10,273	0	**0**	0	0	**0**	**0**
(Increase)/Decrease in 2015/16	**(804)**	**0**	**(11,333)**	**590**	**10,273**	**3,778**	**2,504**	**(14,072)**	**(339)**	**(14,411)**	**(11,907)**
Balance at 31 March 2016	**(15,250)**	**0**	**(85,173)**	**(53)**	**(141,753)**	**(111,579)**	**(353,808)**	**(265,862)**	**1,225**	**(264,637)**	**(618,445)**

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	**(15,270)**	**0**	**(71,783)**	**(1,920)**	**(151,899)**	**(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	514	568	(955)	0	(127)	(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	**824**	**0**	**(2,057)**	**1,277**	**(127)**	**3,194**	**3,111**	**(12,672)**	**67**	**(12,605)**	**(9,494)**
Balance at 31 March 2015	**(14,446)**	**0**	**(73,840)**	**(643)**	**(152,026)**	**(115,357)**	**(356,312)**	**(251,790)**	**1,564**	**(250,226)**	**(606,538)**

Group Comprehensive Income and Expenditure Account for year ended 31 March 2016

2014/15 Net Expenditure £000		2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
46,806	Education Services	48,882	(4,571)	44,311
1,306	Housing Services	5,502	(3,691)	1,811
102	Housing Revenue Account	5,708	(6,751)	(1,043)
4,885	Cultural and Related Services	6,144	(981)	5,163
5,608	Environmental Services	13,396	(3,047)	10,349
16,412	Roads and Transport Services	14,433	(3,251)	11,182
12,011	Trading Services	35,292	(22,983)	12,309
3,170	Planning and Development Services	7,016	(2,731)	4,285
28,187	Social Work - Provision of Services	35,175	(14,464)	20,711
0	Social Work - Contribution to IJB	7,756	0	7,756
1,558	Central Services to the Public	1,536	(146)	1,390
2,198	Corporate and Democratic Core	2,248	0	2,248
678	Non Distributed Costs	223	0	223
3,953	Associates and Joint Ventures Accounted for on an Equity Basis	16,452	(10,728)	5,724
126,874	**Cost of Services**	**199,763**	**(73,344)**	**126,419**
146	Other operating expenditure			4,378
3,051	Financing and investment income and expenditure			2,527
(126,616)	Taxation and non-specific grant income			(103,601)
(11,583)	Share of (surplus) or deficit on provision of services by Associates			(1,879)
(8,128)	**(Surplus) or Deficit on Provision of Services**			**27,844**
	Items that will not be reclassified to the (surplus) or deficit on the provision of services			
(14,714)	(Surplus) on revaluation of property, plant and equipment assets			3,322
(25,000)	(Surplus) on revaluation of available for sale financial assets			(8,689)
26,437	Remeasurement of the net defined benefit liability			(49,419)
(14)	Share of other comprehensive income and expenditure of Associates and Joint Ventures			(406)
(13,291)				**(55,192)**
	Items that may be reclassified to the (surplus) or deficit on the provision of services			
1,020	Amounts recycled from AFS reserve upon derecognition			15,441
(12,271)	**Other Comprehensive Income and Expenditure**			**(39,751)**
(20,399)	**Total Comprehensive Income and Expenditure**			**(11,907)**
10,905	**SDT assets written out of Group Accounts**			**0**
(9,494)	**Movement on Balance Sheet**			**(11,907)**

Group Balance Sheet as at 31 March 2016

31 March 2015 £000 Restated		Notes	31 March 2016 £000
390,468	Property, Plant and Equipment		374,296
4,730	Heritage Assets		4,925
20,173	Intangible Assets	4	19,043
277,997	Long-term Investments		286,632
114,659	Investment in Associates / Joint Ventures		111,042
3,438	Long-term Loans		5,680
30	Other Long-term Debtors		29
811,670	**Long-Term Assets**		**801,647**
12,577	Assets Held for Sale		654
5,179	Inventories		4,564
20,212	Short-term Debtors		21,833
2,823	Cash and Cash Equivalents		2,520
40,616	**Current Assets**		**29,571**
(18,157)	Short-term Creditors		(24,458)
(5,537)	Provisions		(6,102)
0	Grant Receipts in Advance - Revenue		(40)
(23,694)	**Current Liabilities**		**(30,600)**
(728)	Provisions		(1,357)
(31,000)	Long Term Borrowing		(31,000)
(6,000)	Finance Lease Liability		(5,906)
(183,396)	Pension Liability		(143,129)
(866)	Liabilities in Associates/Joint Ventures		(688)
(64)	Other Long-term Liabilities		(93)
(222,054)	**Long-Term Liabilities**		**(182,173)**
606,538	**Net Assets**		**618,445**
(356,312)	Usable Reserves		(353,808)
(250,226)	Unusable Reserves		(264,637)
(606,538)	**Total Reserves**		**(618,445)**

The audited Annual Accounts were authorised for issue on 21 September 2016.

……………………………………….
Jonathan Belford, CPFA
Executive Manager – Finance

21 September 2016

Group Cash Flow Statement for the year ended 31 March 2016

2014/15 £000		2015/16 £000	2015/16 £000
	OPERATING ACTIVITIES		
(8,128)	Net (surplus) or deficit on the provison of services	23,999	
(16,529)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	(49,028)	
13,566	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 10)	17,073	
(11,091)	**Net cash flows from Operating Activities**	**(7,956)**	
47,196	Investing Activities	8,204	
(30,992)	Financing Activities	55	
5,113	**Net (increase) or decrease in cash and cash equivalents**		**303**
11,920	Cash and Cash Equivalents at 1 April		2,823
(5,113)	Net movement of Cash and Cash Equivalents during the year		(303)
(3,984)	Removal of ZetTrans and SDT no longer classed as subsidiaries		0
2,823	**Cash & Cash Equivalents at 31 March**		**2,520**

Notes to the Group Accounts

1) Subsidiaries

No Subsidiaries have been identified for inclusion in the 2015/16 group accounts.

2) Associates

The Group financial statements include the consolidation of the investments in Orkney & Shetland Valuation Joint Board (O&SVJB), 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 48.7% of the Board's operating costs (50.3% in 2014/15). 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 £0.7m as at 31 March 2016 (£0.9m in 2014/15). The table below details Shetland Islands Council's share of O&SVJB's financial results for the year:

Orkney & Shetland Valuation Joint Board	2014/15 £000	2015/16 £000
Gross Income	(311)	(337)
Gross Expenditure	450	364
Net (Surplus)/Deficit	**139**	**27**
Non-Current Assets	0	0
Current Assets	32	37
Current Liabilities	(39)	(43)
Non-Current Liabilities	(860)	(683)
Capital and Reserves	866	689

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2016 (nil in 2015).

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 2015/16 the Council contributed 93.9% of the Partnership's income (94.1% in 2014/15). 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 2016 (nil in 2014/15). The table below details Shetland Islands Council's share of ZetTrans' financial results for the year:

Zetland Transport Partnership	2014/15 £000	2015/16 £000
Gross Income	(2,106)	(2,022)
Gross Expenditure	2,106	2,022
Net (Surplus)/Deficit	**0**	**0**
Non-Current Assets	0	0
Current Assets	2,106	2,022
Current Liabilities	(2,106)	(2,022)
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. Seven of the fifteen 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	2014/15 £000	2015/16 £000
Gross Income	(14,389)	(4,864)
Gross Expenditure	6,606	8,481
Net (Surplus)/Deficit	**(7,783)**	**3,617**
Non-Current Assets	110,694	107,360
Current Assets	5,600	5,192
Current Liabilities	(877)	(913)
Non-Current Liabilities	(758)	(597)
Capital and Reserves	(114,659)	(111,042)

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

3) Joint Ventures

Integration Joint Board (IJB)

The Integration Joint Board (IJB) was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board. This represents a Joint Venture between these two bodies.

Integration Joint Board	2014/15 £000	2015/16 £000
Gross Income	0	7,756
Gross Expenditure	0	(7,756)
Net (Surplus)/Deficit	**0**	**0**
Non-Current Assets	0	0
Current Assets	0	7,756
Current Liabilities	0	(7,756)
Non-Current Liabilities	0	0
Capital and Reserves	0	0

4) Group Intangible Assets

31 March 2015 £000		31 March 2016 £000
	Balance at start of year:	
20,996	Gross carrying amounts	22,103
(14,084)	Accumulated amortisation	(1,930)
6,912	**Net carrying amount at start of year**	**20,173**
19,491	Purchases and transfers from SDT	0
(18,687)	Disposals and transfers to SIC	(2)
12,154	Amortisation for the period	(1,128)
303	Other changes	0
20,173	**Net carrying amount at end of year**	**19,043**

Fishing quota and fishing licences were held by the Shetland Development Trust until 31 December 2014 when they were transferred to the Council as part of the wind-up of the Development Trust.

5) Financial Impact

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

The Group net worth at £618.4m is an increase of £110.4m from the Council's net worth of £508.1m. This is mainly due to the inclusion of the Shetland Charitable Trust which added £111.0m to the Balance Sheet.

6) Remuneration Report

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

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 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-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 2015/16 (the 2015/16 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 circumstances of the council and its group 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 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group 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 2015/16 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
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G2 1BT

September 2016

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.

Agenda Item
3

Shetland Islands Council

Audit Committee **21 September 2016**
Pension Fund Committee/Pension Board **21 September 2016**

Shetland Islands Council Pension Fund - Annual Audit Report on the 2015/16 Audit	
F-058-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 2015/16 Audit.

2.0 Decision Required

2.1 That the Audit Committee:

a) NOTE Audit Scotland's Annual Audit Report on the 2015/16 Audit.

2.2 That the Pension Fund Committee and Pension Board RESOLVE to:

a) NOTE Audit Scotland's Annual Audit Report on the 2015/16 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 the Committee/Board 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 2016.

3.5 The 2015/16 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 2015/16 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 2016.

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 2015/16
Appendix 2: Audit Scotland Annual Audit Report 2015/16

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

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The Pension Fund Committee, Pension Board and Members
of Shetland Islands Council Pension Fund
Shetland Islands Council

September 2016

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 2015/16 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 21 September 2016 (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: 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 2016 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 2015/16 (the 2015/16 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 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 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 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
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G2 1BT

21 September 2016

Appendix B: ISA 580 - Letter of Representation

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

21 September 2016

Dear David

Shetland Islands Council Pension Fund

Annual Accounts 2015/16

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 2016 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 2016, 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 2016.

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 2015/16 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 2016.

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 2015/16.

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 2015/16.

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 2016.

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

Johnathon Belford, Executive Manager - Finance

Section 95 Officer

Shetland Islands Council Pension Fund

2015/16 Annual audit report to Members and the Controller of Audit

September 2016

Key contacts

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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/about/).

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.

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.

Contents

Key messages

Audit of financial statements	• An unqualified auditor's report has been issued on the 2015/16 financial statements. • No adjustments were required to the Fund's financial statements.
Financial management and sustainability	• Net assets of the scheme increased by £8m (2.1%) to £375.7m. • The fund has an investment strategy to achieve a fully funded position by 2027. • The annual actuarial statement projects that funding levels will have decreased and deficits increased in the period since the 2014 valuation. • The fund currently receives more in contributions from employers and members than it pays in benefits to pensioners. • Income and expenditure in the year were £3.9m and £3.3m higher than had been budgeted. • The fund's budgetary arrangements have been revised for 2016/17 and we conclude that satisfactory financial management arrangements are in place.
Governance and transparency	• The fund has coped well with the introduction of new governance arrangements which arise from LGPS 2015. • The pension board was established in May 2015 and meets concurrently with the pension fund committee. • Systems of internal control operated effectively throughout the year. • Training of councillors and board members will continue to play an important role in ensuring effective governance going forward. • Arrangements for the prevention and detection of fraud and corruption are satisfactory. • Arrangements are in place for all stakeholders to access Committee and Board papers, but can be improved.

Best Value	• The fund achieved a return on investments of 1% against a target of 2%. • 2015/16 represented the first full year of investments being managed by 5 fund managers in accordance with the revised investment strategy. • Investment management costs have risen as a result of the revised investment strategy. • The fund has received positive feedback from both Member and Employer Satisfaction Survey's carried out in the year.
Outlook	• The aftermath of the UK vote to leave the EU has led to volatility in the markets. The global investment outlook remains uncertain. A period of on-going uncertainty will increase the challenge for investment strategy and performance. • Investment performance and scheme management costs are likely to come under increasing scrutiny and Scottish Ministers have already expressed an interest in the views of the national Scheme Advisory Board on fund structure and asset pooling. The Scheme Advisory Board have convened a working group with a view to producing an options paper in December 2016.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Shetland Islands Council Pension Fund (the Pension 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 its affairs
   - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Shetland Islands Council Pension 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. Appendix I lists the audit risks that we identified in our planning of the audit, and reported in the annual audit plan issued in March 2016.
6. Appendix II 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 Pension Fund understands its risks and has arrangements in place to manage these risks. The pension fund committee 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. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Shetland Islands Council Pension Fund will be Deloitte. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	• 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.
Annual report & other information	• We review the annual report and information published with the financial statements, including the management commentary, investment policy and performance report, and annual governance statement. We have nothing to report as a result of our review.

Submission of financial statements for audit

10. We received the unaudited financial statements on 27 June 2016, 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

11. 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 1 March 2016.

12. 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 2015/16 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.

13. 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.

14. 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

15. 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).

16. 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.

17. 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 for 2015/16 at £1.68million (10% of contributions).

18. Performance materiality was calculated at £1.18 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. We report all errors greater than £17,000.

19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and reduced performance materiality to £1.16m.

Evaluation of misstatements

20. No significant misstatements were identified during the audit.

21. 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

22. 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.

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

Future accounting and auditing developments

Code of Audit Practice

24. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
    - Financial sustainability
    - Financial management
    - Governance and transparency; and
    - Value for money

25. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website. This is irrespective of whether the body meets in public or makes documents such as Audit Committee papers routinely available on its own website.

Code of Practice on Local Authority Accounting

26. The financial statements of pension funds are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are amendments to the Code in respect of:
    - Amendments to the format of the accounts to be consistent with the new Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015.
    - New disclosure requirements for investments measured at fair value.
    - Recommendations for a new disclosure on investment management transaction costs.

Financial management and sustainability

Net Assets	Contributions & Benefits	Investment Performance
Increase in net assets £7.9m 2.1%	Contributions Received 16.627m	1% Return on investments 2015/16
Closing net assets £375.7m	Benefits Paid £11.890m	6.3% Return on investments over 5 years

Financial management

27. In this section we comment on the Pension Fund's financial outcomes and assess financial management arrangements.

28. Pension fund finances are independently assessed every three years by the Pension Fund actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming 3 year period and takes account of the strength of employer covenants and the Pension Fund's investment strategy.

29. In 2014 the Pension Fund actuary reported that the Pension Fund's assets were sufficient to meet 92% of its liabilities. The next evaluation will be completed in 2017.

30. Setting the Pension Fund's investment strategy and monitoring performance against it are key aspects of financial management.

Investment strategy is a complex area and has to take account of factors such as the overall fund deficit, cash flows from dealing with members and the maturity of fund membership. Balancing the risks and rewards from various asset types and approaches is something that the Pension Fund takes advice on from professional advisors.

Financial outcomes

31. The Pension Fund increased its net assets by £7.9m in the year, to £375.7m. This increase is significantly less than the £34.9m increase reported in 2014/15, and mainly reflects a much more modest increase in the market value of investments in the year.

32. Profits and losses on disposal of investments and changes in market value of investments reduced from a return of £30.0m in 2014/15 to £1.6m in 2015/16. This increase was supported by investment income of £2.9m across the 5 funds, and a combined net return on investments of £4.5m.

33. An excess of contributions from members over benefits payable in the year contributed an additional £3.3m to the Pension Fund's net assets.

34. Investment strategies at different funds can be said to be broadly similar but there are differences in asset allocations, fund manager approaches and ultimately risk. Pension funds set a benchmark locally for investment return based on the risk associated with their strategy and Shetland Islands Council Pension Fund missed its benchmark for the year by 1%.

Financial management arrangements

35. As auditors, we need to consider whether the pension fund has established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer and fund manager have sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and adhered to
- reports monitoring performance against budgets are accurate and provided regularly to members
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge on significant variances and under performance.

36. 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".

37. Our review noted that the proper officer (the Executive Manager – Finance) has sufficient status to deliver good financial management of the Pension Fund.

38. We also concluded that the Pension Fund complies with the statement's five principles

39. The financial regulations of the administering authority apply to the Pension Fund. These should be reviewed by the pension fund committee as part of its review of internal financial control

arrangements. We note that the Financial Regulations have not been updated for several years but updated regulations are being considered for approval in November 2016.

40. Investment and administration performance reports are submitted to the pension fund committee on a quarterly basis. Reports are comprehensive and we have observed a good level of review and scrutiny by councillors and board members at the meetings we attended.

41. Fund managers are invited to attend meetings of the pension fund committee which provide board members the opportunity to scrutinise the investment strategies adopted by the fund managers on their behalf, and to assess returns against benchmarks.

Budget setting

42. Total income and total expenditure of the Pension Fund were both considerably higher than had been budgeted.

The higher than budgeted expenditure is attributed to Death Benefits, Lump Sums and Transfers Out in the year. No budget was set for these costs, on account of their unpredictability. The unbudgeted income is attributed to additional employer contributions.

43. While we note that there is a degree of unpredictability due to the nature of pension fund activities, budgeting should attempt to reflect the most likely movements in to and out of the Pension Fund using historical data. No budget was set in 2015/16 for Death Benefits, Lump Sums and Transfers Out in the year, as noted above, or for Transfers in. Transfers in to the Pension Fund from other pension funds in 2015/16 totalled £0.5m.

44. We have been advised that the 2016/17 budget setting process has taken into account these additional factors, following a detailed exercise assessing historical spend and assumptions.

45. Notwithstanding the unpredictable nature of some elements of the Pension Fund's income and expenditure, as noted above, Management should continue to review the revised budget setting process to ensure it provides the best estimates of income and expenditure of the Pension Fund.

Action Plan Point No. 1

Financial sustainability

46. The pension fund is a multi-employer fund with 2 scheduled bodies and 15 admitted bodies. Given the nature of these employers the funding risk associated with default is seen as relatively low.

47. The pension fund did however recognise an impairment loss of £0.941m in the year, following the cessation of trade of one of the admitted bodies.

48. The new LGPS includes a cost sharing arrangement which will cap employer costs in relation to current service and help ensure that the scheme remains affordable for employers. Additionally, the retirement age for most LGPS members going forward is linked to the state retirement age and this may also act to limit scheme liabilities for active members.

49. The pension fund is currently in a deficit position, with the 2014 triennial valuation assessing the Pension Fund as having assets to cover 92% of liabilities. The actuarial statement for 2015/16 refers to the dramatic fall in real bond yields, increasing the level of liabilities.

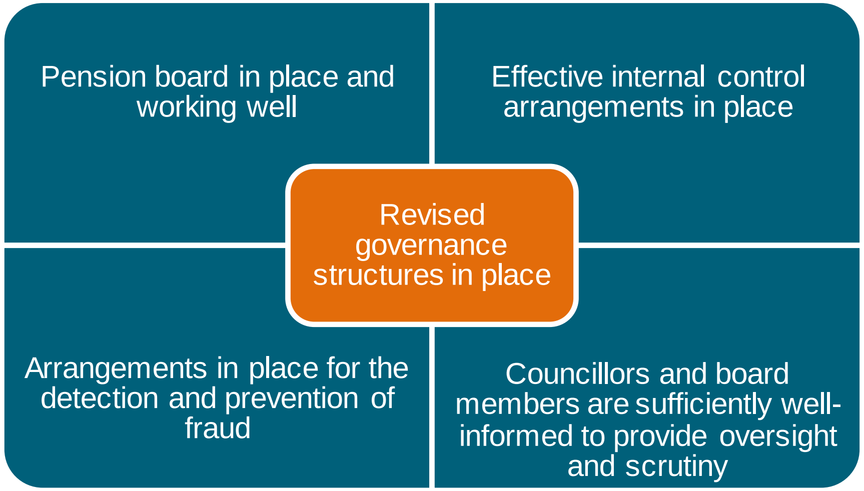
50. The funding policy for the Pension fund is set out in the Shetland Islands Council Pension Fund Investment Strategy 2014-2027. This strategy aims to ensure the long-term solvency of the Pension Fund, and that there are sufficient funds to meet all benefits as they fall due for payment.

Outlook

51. The financial outlook across the public sector and in local government in particular remains challenging. Recent revisions to the LGPS should help ensure that the scheme is affordable to employers going forward whilst the scheme remains attractive to employees.

52. It is perhaps inevitable that management costs and investment performance will come under increasing scrutiny given the financial pressures faced by employers and employees alike. And pension funds may need to be more radical in their approaches to administration and investment going forward.

Governance and transparency



53. Members and management of the council, supported by the pension board, are responsible for establishing arrangements to ensure the proper conduct of the affairs of the Shetland Islands Council pension fund in accordance with the law and proper standards and for monitoring the adequacy and effectiveness of these arrangements.

54. As part of our work we reviewed various aspects of governance that apply to the Pension Fund including standing orders, financial regulations, Codes of Conduct for officers and members, anti-fraud and corruption arrangements, and arrangements for reporting to the Pension Regulator on breaches of regulation.

55. Overall, we concluded that there are open and transparent arrangements in place, although as noted previously, financial regulations require to be updated.

Governance structure

56. The Public Service Pension Act 2013 introduced new governance arrangements for LGPS pension funds and from 1 April 2015 funds were required to introduce local pension boards. The remit of the Pension Board is to support the Pension Fund Committee in compliance with regulations and with requirements imposed by the Pension Regulator. Shetland Islands Pension Committee and Pension Board met concurrently throughout 2015-16.

57. The Pension Board consists of 4 employer representatives and 4 union representatives and each side appoints a joint secretary. Other attendees are at the discretion of the chair. The Pension Board made no requests to review decisions in 2015/16.

Pension Regulator public service code

58. The Pension Regulator issued a code on the governance and administration of public service pension schemes in January 2015. The pension fund has undertaken an in-depth / high level review against the code in 2015-16 and is compliant in all major respects.

Annual Governance Statement and Governance Compliance Statement

59. Local Government Pension Scheme Regulations require pension funds to include a governance compliance statement in addition to the Annual Governance Statement.

60. The governance compliance statement is designed to compare the Pension Funds' governance arrangements against the standards set out in the guidance issued by the Scottish Ministers. We reviewed the governance compliance statement and are satisfied that it complies with the guidance issued by the Scottish Ministers.

Internal control

61. The Accounts Regulations 2014 require the Pension committee to consider the findings of an annual review of the system of internal control and to approve the Annual Governance Statement for the pension fund.

62. 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.

63. 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.

64. We note, however, that the council financial regulations have not been updated since 2012, and the scheme of administration and delegation contain outdated references. These should be revised to ensure that policies remain relevant for the pension fund.

Action Plan Point No. 2

Internal audit

65. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes for the Pension Fund.

66. 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. We concluded that IA was provided in accordance with Public Sector Internal Audit Standards which enabled us to take assurance from their documentation and reporting procedures.

67. Internal Audit did not carry out any specific work on the Pension Fund during 2015/16. We have, however, taken assurance from the work carried out by internal audit in evaluating the internal controls in place at Shetland Islands Council, as the administering body. Specific work on the pension fund systems would give members additional assurance over risk management and governance

processes for the Pension Fund. This was raised as a recommendation in our 2014/15 report, and is repeated here.

Action Plan Point No. 3

ICT audit

68. Our ICT audit work during 2015/16 generally found that the ICT controls are satisfactory. We note that following the successful completion of a revision to the information backup process, the ICT department is planning an upgrade to their business continuity provision.

Standards of conduct and arrangements for the detection and prevention of fraud and corruption

69. A register of training for committee members is maintained by the Pension Fund. Our review noted that Pension Board and Pension Committee members had received appropriate training, with further training sessions scheduled.

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

Transparency

71. Information regarding the pension fund is published on the council's website. However, we have previously noted that information about the Pension Fund and its committee members are located in different areas of the website, making navigation difficult for members. Shetland Islands Council intends to update the website during 2016/17 to improve navigation and transparency of information in relation to the Pension Fund.

72. The annual report and accounts is comprehensive and helps ensure a good level of financial scrutiny and accountability. However more detail could be disclosed in relation to administration costs.

Outlook

73. The change to CARE and the introduction of new governance arrangements have been major changes for the pension fund which demand on-going investment in terms of governance and administration.

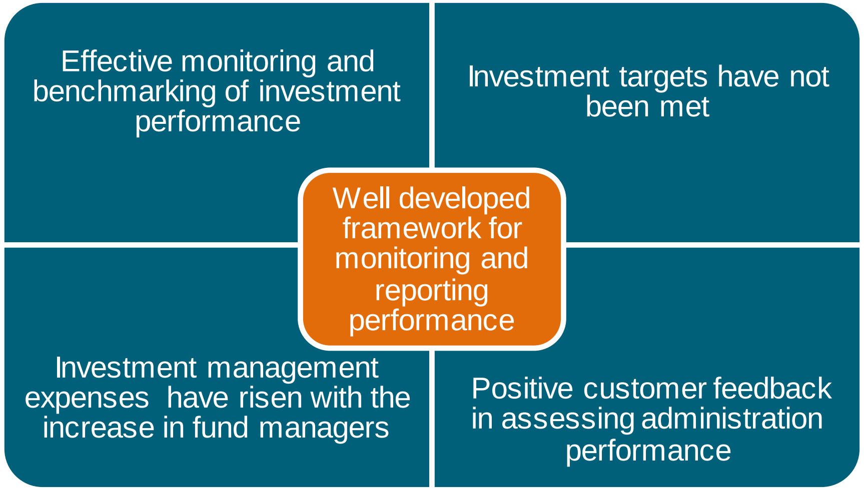
74. Changes to the state pension arrangements and the need for Guaranteed Minimum Pension reconciliations have also added to workloads.

75. Going forward the operation of cost sharing mechanisms may well increase levels of interest and scrutiny in pension fund business. We understand that the Government's Actuary Department (GAD) is currently undertaking a review in relation to cost sharing on behalf of Scottish Ministers.

76. There is a move towards the pooling of fund assets through collective investment vehicles south of the border and Scottish Ministers have already indicated that this is an area where the views

of the national Scheme Advisory Board may be requested in due course.

Best Value



77. Administering authorities have a duty to ensure best value in the provision of services and to report performance publicly so that pension fund members, employers and other stakeholders know the quality of service being delivered and what they can expect in the future.

78. Best value requires clear strategic goals and priorities and these are well developed and articulated for the pension fund.

Investment performance

79. As a result of adverse market conditions the Pension Fund's investments failed to meet its bench mark in 2015/16.

80. The pension fund has also failed to meet both the 3 and 5 Year Annualised benchmarks as illustrated below:

Exhibit 1: Fund Investment Performance

Description	2015/16 %	3 Year %	5 Year %
Fund Return	1.0	5.4	6.3
Benchmark	2.0	6.0	6.7
Performance	**-1.0**	**-0.6**	**-0.4**

Source: Shetland Islands Council Pension Fund 2015/16 financial statements

81. The pension fund's revised investment strategy was implemented in 2014, and 3 new fund managers were appointed. 2015/16 has been the first full year with the 5 fund managers in place. It is difficult to gauge the performance of fund managers over single years, and performance over the longer term is a more reliable benchmark of performance. The pension fund will be better placed to assess the returns of each fund in the coming years.

82. Individual investment manager performance is reported on a quarterly basis to the pension fund committee and the pension fund

makes use of professional investment advisors to help with a more comprehensive review of performance on an annual basis.

83. Scrutiny arrangements are in place within Shetlands Islands Council. Fund managers are invited to attend committee meetings and present reports on the performance of their investments. Fund managers are then challenged on the performance of their investments by members.

Management Expenses

84. There are three main categories of management expense, with the largest being investment management costs. Other significant expenses are the cost of staff time allocations and support services and system costs provided by the council.

85. In 2015/16 the investment management costs of the pension fund rose from £871k to £1,442k. 2015/16 is the first full year of accounts for which management fees have been charged for the additional 3 fund managers, and these account for the increased costs reported.

86. Quarterly reports received by members assess the performance of investments against benchmarks and targets. It will be important going forward for the pension fund to monitor investment management expenses to ensure that the additional expenditure is providing value to the Pension Fund through improved investment returns.

Action Plan Point No. 4

Administrative performance

87. The Pension Fund again reports high levels of member satisfaction and good performance against administrative targets during this difficult period. 71% of retiring members completing a customer satisfaction summary rated the customer care provided as excellent. Two thirds of employers also rated the Pension Fund's administrative performance as excellent, with the remaining third rating it as good.

Outlook

88. With financial austerity within the public sector set to continue and increased pressure from employers to keep costs and contributions down makes it imperative for funds to be able to demonstrate best value and continued improvement. Just as councils themselves are having to look to new models of service deliver so pension funds may need to reconsider the costs and benefits of, for example, shared services and asset pooling..

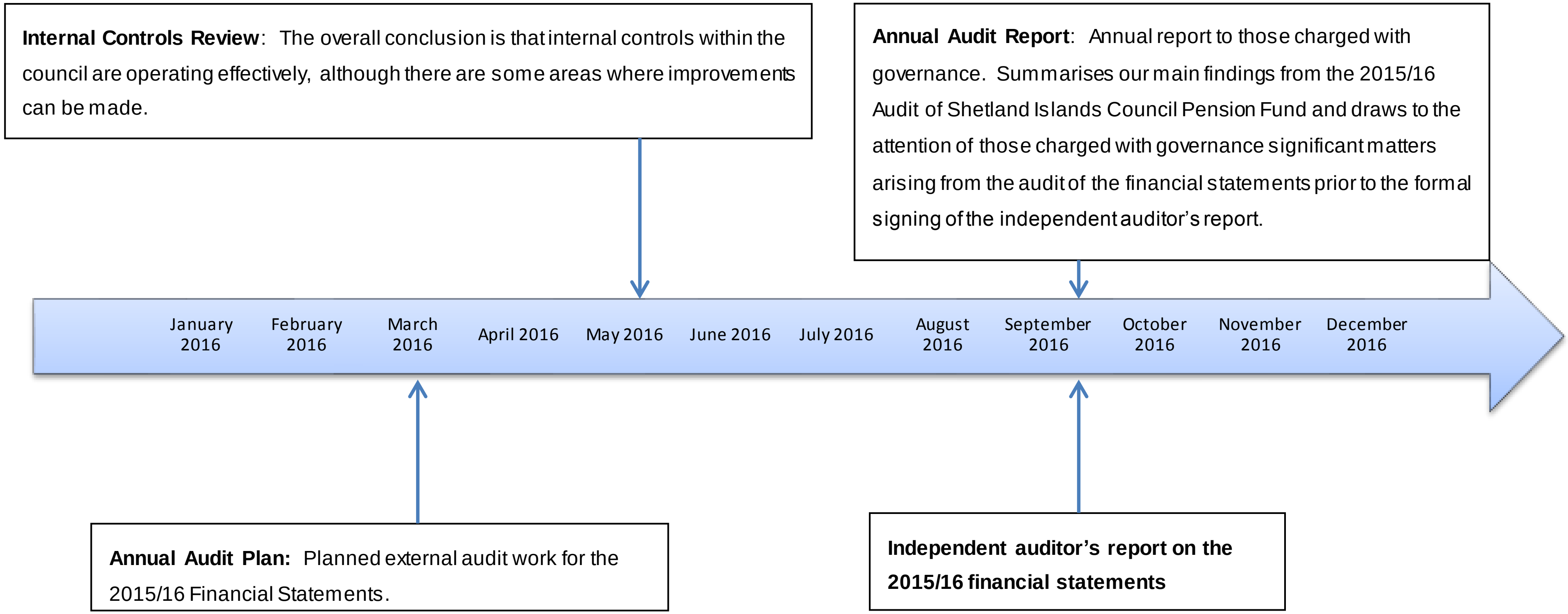
Appendix I: Significant audit risks

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
Financial statement issues and risks		
Risk of management override of control 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. **Risk** Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	• 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	We did not identify any issues to be reported.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
Pension Scheme Benefits Calculations The Public Service Pension Act 2013 and associated regulations replaced a final salary scheme with a career average revalued earnings (CARE) scheme from 1 April 2015 **Risk**	• Review of control procedures in place to ensure the review and accuracy of calculations of pension benefits • Review of pension fund administration team capacity to	From the reviews undertaken we conclude that the pension fund administration team had the required capacity, experience, and controls in place to meet the demands of the change to the CARE system.

Audit Risk	Assurance procedure	Results and conclusions
Increased demand on the workload of fund administration to accommodate the increased complexity in performing benefits payable calculations	accommodate the move to the CARE system.	
Pension Fund Governance Arrangements Financial Regulations have not been subject to review since 2012, while the Scheme of Administration & Delegation contains outdated reference to the former committee arrangement. **Risk** Without updating the governance policies, they may not remain relevant to the pension fund.	Review of progress by Shetland Islands Council, as Administering Authority, in delivering revised policies and regulations, through review of committee minutes, and attendance at meetings.	• The Financial Regulations have been updated and are due to be approved by the Council on 2 November 2016 • The Scheme of Administration & Delegation is also in the process of being updated and will be reported to the Council on 2 November2016.
Pension Board The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 required the Pension Fund to establish a Pension Board to assist it in complying with scheme regulations **Risk** The Pension Board may not have the required skills and experience to provide sufficient scrutiny and assistance.	• Review the operation of the Pension Board through review of minutes of meetings held. • Attendance at meetings to assess the contribution made by pension board members • Assessment of training provision and attendance by members	• From review of committee minutes and attendance at pension fund meetings, we found evidence of pension board members participating in the scrutiny of reports presented. • Adequate training has been provided for the new pension board members, and this was well attended.

Appendix II: Summary of Shetland Islands Council Pension Fund local audit reports 2015/16



Appendix III: Action plan

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	11/45	**Issue** The Pension Fund has revised its budget process in 2016/17, to include elements of income and expenditure not previously accounted for. **Risk** The revised budget setting process may still provide inaccurate estimates of expenditure and income due to the unpredictability of costs and income. **Recommendation** The accuracy of budgets should be closely monitored to ensure Management are informed as early as possible if actual outturn is expected to vary significantly from the budgeted outturn.	Pension Fund budgets are monitored monthly and forecasts are reported quarterly to the Pension Fund Committee and Board.	Jonathan Belford, Executive Manager – Finance Ongoing

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	**14/64**	**Issue** Financial Regulations have not been updated since 2012, and the Scheme of Administration and Delegation contains outdated references. **Risk** Governance policies may not be relevant to the activities of the pension fund. **Recommendation** Governance policies should be revised to ensure they are relevant to the activities of the pension fund.	The Financial Regulations and Scheme of Administration and Delegation are due to be reported to the Council on 2 November 2016.	Jonathan Belford, Executive Manager – Finance Jan Riise, Executive Manager – Governance and Law November 2016

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	**14/67**	**Issue** Internal audit did not carry out any specific work on the Pension Fund during the year. **Risk** Insufficient assurance may be provided over the operation of systems of internal control without more targeted work. **Recommendation** Internal audit should undertake specific work on pension fund systems to supplement the general controls currently assessed.	Internal Audit undertake their audit work taking account of a number of risk factors. With regard to an audit of Payroll and Pensions, this was last undertaken in 2013/14 and controls in place were satisfactory at that time. Taking account of available Internal Audit resource, stability of staff and systems within Payroll & Pensions, previous positive audit findings and previous discussion with Audit Scotland, at this time it is intended that a further audit in this area will be undertaken in financial year 2017/18.	Crawford McIntyre, Executive Manager – Audit, Risk and Improvement

No.	Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	**17/86**	**Issue** Investment performance reporting does not currently include an appraisal of value in relation to the investment management expense incurred. **Risk** There is a risk that the increase in investment management expenditure does not result in an increase in investment returns. **Recommendation** The pension fund should monitor investment management expenses to assess whether these are providing value for money for members.	Fund manager fees are calculated quarterly and are based on a % of the value of the investments at that point in time. Every three years the Pension Fund Investment Strategy is reviewed following the tri-annual valuation. At this point the performance of the strategy, fund managers and the level of fees being paid is assessed to ensure that the strategy and value for money is being achieved.	Jonathan Belford, Executive Manager – Finance Tri-annually

Agenda Item
4

Shetland Islands Council

Audit Committee	**21 September 2016**
Pension Fund Committee/Pension Board	**21 September 2016**

Shetland Islands Council Pension Fund - Final Audited Accounts 2015/16	
F-058-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present the 2015/16 audited Annual Accounts for approval.

2.0 Decision Required

2.1 That the Audit Committee:

a) CONSIDER the Shetland Islands Council Pension Fund audited Annual Accounts for 2015/16 (Appendix 1); and

2.2 That the Pension Fund Committee and Pension Board RESOLVE to:

a) APPROVE the Shetland Islands Council Pension Fund audited Annual Accounts for 2015/16 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 the Committee/Board to consider the audited annual accounts and approve them for signature by 30 September 2016, and publish them no later than 31 October 2016.

3.3 The regulations also require the Committee/Board 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's report on 'Financial Reporting and Scrutiny: Why the Accounts Matter', recommended that Committee and Board members consider the following information when scrutinising the accounts:

- The Management Commentary is included at page 3 of the Annual Accounts. This includes a section on Financial Performance which shows the budgeted and actual outturn for the year. This differs from the Pension Fund Account in relation to the Profit on disposal of investments and change in market value of investments.

- The Management Commentary also includes a section on Funding Strategy. This notes that the net assets of the Pension Fund has increased to £376m. The triennial valuation of the Pension Fund, which was carried out on 31 March 2014, showed that the Pension Fund is 92% funded, with a deficit of £30m. The deficit had increased since the previous triennial valuation, due to adverse market conditions.

- The funding policy for the Pension fund is set out in the Funding Strategy Statement dated March 2015. This strategy aims to ensure the long-term solvency of the Pension Fund, and that there are sufficient funds to meet all benefits as they fall due for payment.

3.5 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2015/16 accounts. The overall conclusion being that the 2015/16 Annual Accounts:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the Fund during the year ended 31 March 2016 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 2015/16 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.

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 and Pension Board.

4.4 Risk Management – There are no significant issues in relation to the audited Annual Accounts. Audit Scotland's Annual Report on the 2015/16 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 the Committee/Board to approve the accounts for signature by 30 September 2016.

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 2016.

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 2015/16

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Shetland Islands Council

Pension Fund
Annual Report and Accounts
2015-16

Securing the Best for Shetland

Contents

Inside cover photograph by Kevin A Jones

Introduction

I am pleased to present the Annual Report and Accounts for the Shetland Islands Council Pension Fund for the year ended 31 March 2016.

This document contains the reporting obligations of the Pension Fund in respect of Regulation 55 (1) of The Local Government Pension Scheme (Scotland) Regulations 2014 that the Council, as administering authority of the Pension Fund, prepare an Annual Report and Annual Accounts.

It is my aim to ensure that the information contained in the document is as clear and understandable as possible in order to make them accessible to the widest audience possible.

In that regard I draw your attention to the Management Commentary and Investment Policy and Performance report, which are on pages 3 to 12, which will assist in understanding the financial performance during the year.

While the success of the Pension Fund in meeting its long term obligations will be measured by its long term investment returns and implementation of its Investment Strategy, it is encouraging that an annual return on investments was achieved (1%). This follows a major restructuring of the investment mandates and despite the extremely volatile global markets.

The triennial valuation of the Fund was last carried out as at 31 March 2014 and was used to determine the employer contribution rates for the period 1 April 2015 to 31 March 2018.

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 2015/16 Annual Report and Accounts

Jonathan Belford, CPFA
Executive Manager – Finance
September 2016

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 2015/16 and year-end financial position as at 31 March 2016.

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 The Local Government Pension Scheme (Scotland) Regulations 2014, The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 and The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. 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 with active members at 31 March 2016

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 Islands Tourism	Admitted Body
Shetland Amenity Trust	Admitted Body
Shetland Seafood Quality Control	Admitted Body
Shetland Charitable Trust	Admitted Body
Shetland Arts Development Agency	Admitted Body
Crossroads Shetland Care Scheme	Admitted Body
Community Alcohol & Drugs Services Shetland (CADSS)	Admitted Body

Employers with no active members at 31 March 2016

Shetland Enterprise Co Ltd	Admitted Body
ABA Services Ltd	Admitted Body
Shetland Youth Information Services	Admitted Body
Advocacy Shetland	Admitted Body
Atlantic Ferries	Admitted Body

In general Employers pay regular monthly contributions to the Pension Fund based on the salary costs of those staff who are Pension Fund members (active members). Where there are no active members then a lump sum is calculated by the actuary to cover the cost of ongoing and future pension payments.

Until 31 March 2015 the defined benefits were calculated based upon a member's final salary, however this changed with the implementation of The Local Government Pension Scheme (Scotland) Regulations 2014.

From 1 April 2015, the Pension Scheme moved away from a final salary pension scheme to a career average related earnings scheme (CARE). The changes were introduced to ensure the Pension Scheme is sustainable and affordable for the future.

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 the Finance Service.

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

The Pension and Payroll Sections ensure that members of the Scheme are kept up-to-date of Scheme changes by means of regular mail-shots which includes relevant information, for example, revised tiered employee contribution rates, revised Pension Scheme booklets/factsheets, 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 made aware of the benefits of the Local Government Pension Scheme (LGPS).

Investment Managers	**- Appointed**
Blackrock	Nov 2008
Schroders	Mar 2007
M & G Investments	Nov 2014
Kleinwort Benson	Nov 2014
Newton	Nov 2014

Investment Advisor
Hymans Robertson

AVC Providers
Prudential
Equitable Life (closed to new members)

Banker
Bank of Scotland

External Auditor
Audit Scotland

Custodian
Northern Trust

Performance Measurement
State Street

Fund Actuary
Hymans Robertson

The overview of the financial performance of the Pension Fund rests with the Pension Fund Committee. The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administrating authority for the Shetland Islands Council Pension Fund. This includes overseeing the administration of the Pension Scheme, managing the Pension Fund's investments and preparing and maintaining the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement and Pension Administration Strategy. The Pension Fund Committee is made up of the Councillors who currently sit on the Policy & Resources Committee.

The Pension Board is the body responsible for assisting the Scheme Manager (the Council) in relation to compliance with scheme regulations and the requirements of the Pensions Regulator. The Pension Board is made up of three Councillors, one Admitted Body employer and four union representatives.

At an operational level, the Global 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 Pension Fund Committee and Pension Board receive quarterly investment performance reports covering all of the Pension Fund's investment managers. These reports are in addition to the statutory Annual Review and Mid Year Review.

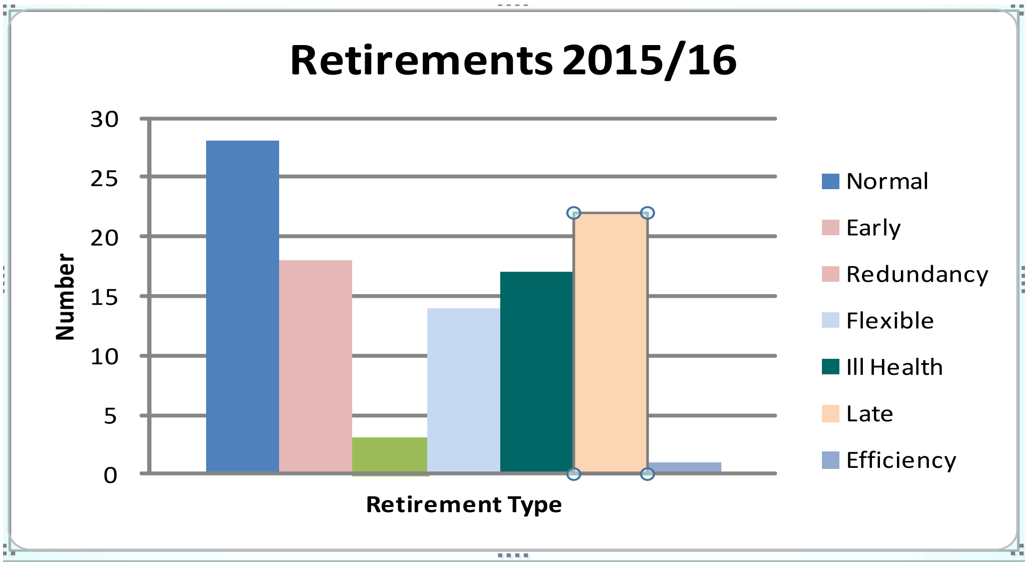
Valuation and Membership

At 31 March 2016, the value of the Pension Fund stood at £376m, an increase of £8m 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 345 to 6,567 members, this includes active members (147), deferred members (95) and pensioners (103).

The increase in active members was primarily due to an increase in part time-employees in the Council. There was also an increase in deferred members. A deferred pensioner is someone who has paid into the Pension Scheme for a period of greater than two years. They either cease employment with one of the Pension Fund employers and do not transfer their pension value into a new employment, or they opt out of the Pension Scheme and cease paying contributions. The pension value that is built up during the time a member was paying into the Pension Scheme is held until they reach normal retirement age, or the pension value can be transferred out into another pension scheme.

The table below shows the breakdown of the 103 new pensioners following retirement during the year:



Risk

As part of improving governance of the Pension Fund, a separate risk register was produced for the Pension Fund during 2015/16. The risk register identified a total of 35 risks. The key risks are summarised below:

- Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities;
- Fall in bond yields, leading to risk in value placed on liabilities:
- Employers leaving scheme/closing to new members due to cost/going into liquidation;
- Failure to recover unfunded payments from employers, cross subsidy by other employers;
- Failure in world stock markets;
- Under performance by active fund managers.

All risk cannot be eliminated, however every effort is made to mitigate the impact that risks present the Pension Fund, whether it be by active administration, diversification of investment mandates, engagement with employers, or implementation of policies and procedures.

Funding Strategy

The Net Assets Statement shows an increase in net assets of the Pension Fund to £376m. 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.

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 16.

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 market 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 liability, recognising the value of future pension benefits, is the primary driver for this increase.

The Statement of Investment Principles

The Pension Fund Committee and the Pension Board meetings of 26 October 2015 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 the Finance Service, 8 North Ness, Lerwick, during normal working hours. It can also be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18529 – Appendix A.

Performance Management

The Annual Accounts summarises the Pension Fund's transactions for the year and satisfies the requirement of the Local Government Pension Scheme (Scotland) Regulation 55 (1) of The Local Government Pension Scheme (Scotland) Regulations 2014) to prepare a Pension Fund Annual Report for the financial year from 1 April 2015 to 31 March 2016.

Primary Financial Statements

The Annual Accounts summarise the Pension Fund's transactions for the year and its year-end position at 31 March 2016. 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 2016 include a description of their 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 2015/16

The Pension Fund Account presents the full economic cost of providing Pension Fund services in 2015/16. This shows a net income of £7.869m. This differs from the draft outturn position, shown below, which was reported to the Pension Fund Committee and Pension Board on 24 May 2016, 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	2015-16 Annual Budget £'000	2015-16 Draft Outturn £'000	2015-16 Draft Outturn Variance Under/(Over) £'000
Total Expenditure	10,460	13,760	(3,300)
Total Income	(17,756)	(21,632)	3,876
Net Income	**(7,296)**	**(7,872)**	**576**

Expenditure was higher than budgeted due to Death Benefits, Lump Sums and Transfers Out. Due to lack of prior year information and their unpredictable nature, no budgets were set for these costs. There was also an increase in benefit payments to pensioners, due to an increase in retirements. Income was higher than budgeted due to better than expected results for investment income, aided by the financial markets picking up at the end of the year. As with the Death Benefits, Lump Sums and Transfers Out, no budgets were set for Transfers In. Contributions Received were higher than expected, primarily due an increase in employer contribution rates, and full employer contributions now being required on reduced pay due to sickness absence.

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.

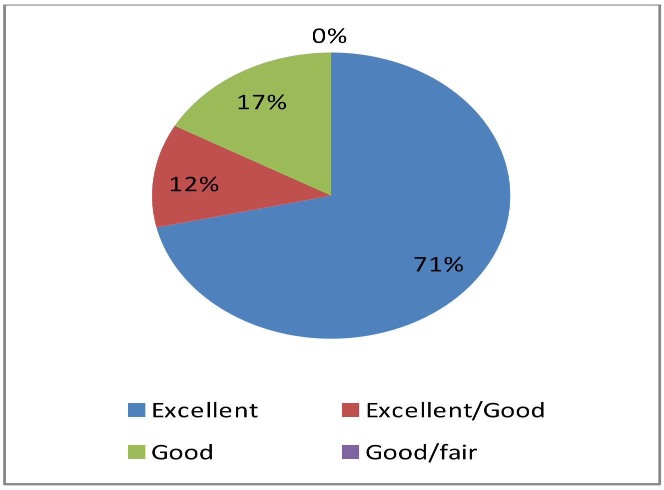
It is vital that employers provide prompt information to the Pension Fund so that timely and accurate information can be provided to the Scheme members. Performance is monitored on a regular basis. The information that the Pension Fund received during the year was delivered in a timely manner by all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

Administration Performance

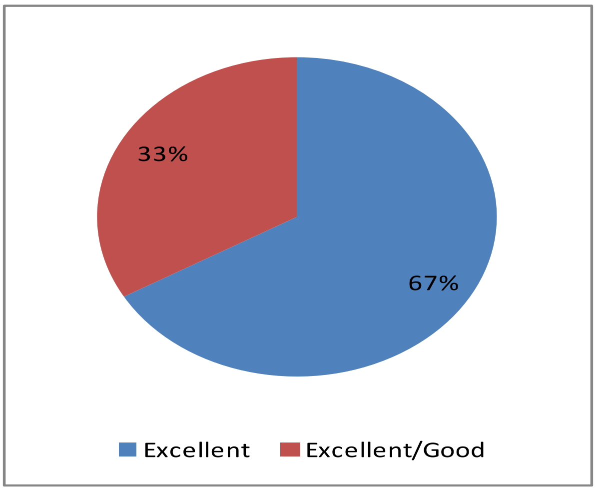
Shetland Islands Council as a Pension Administering Authority, is also committed to providing a high quality pension service to both members and employers and to ensure members receive their correct pension benefit entitlement.

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 2015/16
Number of surveys received 77



Employer Satisfaction Survey 2015/16
Number of surveys received 6



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 Pension Fund Committee and Pension Fund Board receive regular updates on performance and the Committee papers and minutes are available via the Council committee management system website http://www.shetland.gov.uk/coins/.

Reports are prepared on a quarterly basis giving an overview of the position of the Pension Fund's external investments and present a summary of each fund manager's performance for the quarter and over a three year period.

In order to increase awareness and understanding of performance a greater amount of time has been made available at the Committee meetings. This means that fund managers are now invited to attend to present their performance information face to face. As a new fund manager for the Pension Fund Newton attended a meeting on 2 March 2016 to give a presentation on their first year performance, and Kleinwort Benson and M&G attended a meeting on 24 May 2016 to do the same.

Visits were made in December 2015 to each fund manager to review the six monthly investment positions. The Council also received audited quarterly performance review reports.

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.

Remuneration Report

There is no requirement for 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 are reimbursed by the Pension Fund. The Councillors who are members of the Pension Fund Committee and the Pension Fund 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/.

Pension Fund Outlook

Administrative: 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 on 1 May 2013, until 30 September 2017.

Investment: The Pension Fund is a little under two years into a new investment strategy and undertook to make a considerable investment in creating mandates for three new fund managers on the basis of managing risk while investing to achieve the Funding Strategy of having a fully funded Pension Scheme by 2027. With current global economic climate being substantially affected by low interest rates and low growth forecasts there is cause to remain vigilant and regularly review the investment returns to ensure that the Strategy is being met.

The Pension Fund remains cash positive, with income from contributions and investment returns exceeding pensions and administrative costs. While this remains the case the Pension Fund seeks to take advantage of this and grow the assets, while taking an appropriate view on the risks. As the Fund matures and expenditure begins to exceed income then work will have to be undertaken to address the requirement for cash to be achieved from the assets so that the cost of pensions can be met for the long term. It is estimated that the Pension fund will remain cash positive until 2027, which is the basis for the Funding Strategy.

……………………………..........	……………………………..........	……………………………..........
Gary Robinson Leader of the Council Chair of the Pension Fund Committee	Mark Boden Chief Executive	Jonathan Belford, CPFA Executive Manager – Finance
21 September 2016	21 September 2016	21 September 2016

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 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. The Fund Managers have all signed up to the United Nations Principles on Responsible Investment Management. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty.

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. 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 has five Fund Managers as follows:

Manager	Mandate	% of Pension Fund at March 2016 %
Blackrock	Passive UK Global Equities	39
Schroders	Active Property	13
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, however the longer term performance of the Fund Managers is the ultimate measure of achievement.

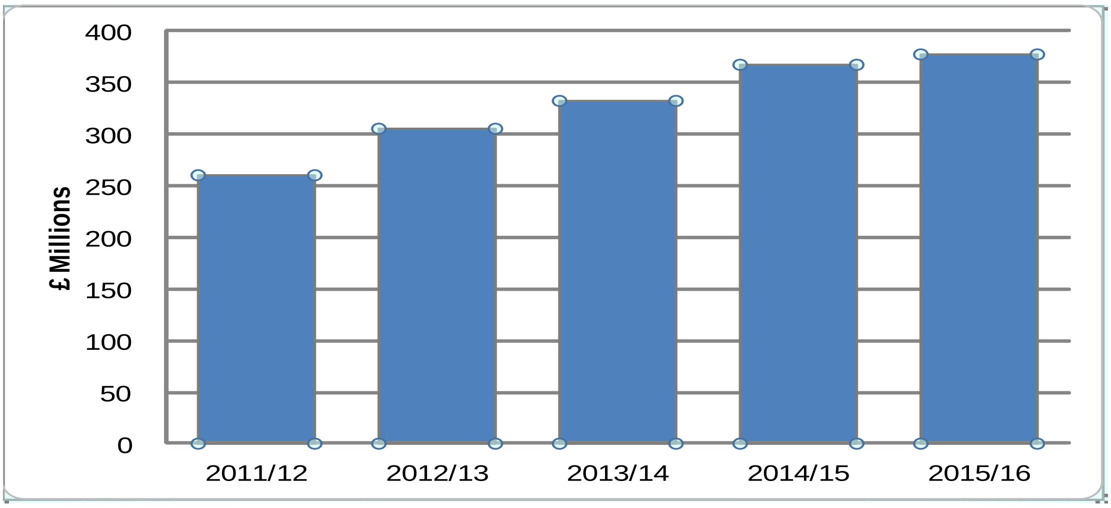
For the year to 31 March 2016 the Pension Fund had a return of 1% compared to the benchmark return of 2%.

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

	2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	3 Year Annualised %	5 Year Annualised %
Fund Return	0.9	15.0	6.5	8.8	1.0	5.4	6.3
Benchmark	1.3	14.6	6.7	9.5	2.0	6.0	6.7
Performance	-0.4	0.4	-0.2	-0.7	-1.0	-0.6	-0.4

Over the longer term the Pension Fund assets have continued to grow at a healthy rate, over 5% annually. The table above does reveal a slowing down of the returns which are substantially affected by the 2012/13 gains and this is not unexpected in light of the global economic conditions and also the change in Investment Strategy put in place last year.

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



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 2014. The objectives are discharged through the Pension Fund Committee. The Administering Authority is assisted in its duties by the Pension Board.

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 internally and externally audited and assessed on an annual basis).

The effective arrangements include:

- an appropriate level of knowledge for Pension Fund Committee and Pension Board 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 (risk register), 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 2015/16 no areas of weakness or concern were raised.

In relation to the effectiveness of the Council's arrangements 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 Pension Fund Committee was created for 2015/16 to oversee the business of the Pension Fund, the Administering Authority being supported by the Pension Board. 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 & Performance 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 a minor carry forward of work into the 2016/17 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, the Pension Fund Commitee has been delegated responsiblity for overseeing the management and administration of the LGPS and managing the investments of the Pension Fund.
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, the Pension Board, which meets concurrently with the Pension Fund Committee, includes representatives from employers (Councillors), admitted bodies (a Board Member) and scheme members (Trade Unions).
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes, the Pension Fund Committee and Pension Board meet concurrently to aid easy and open communication.
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.	The Pension Board is not a secondary committee, both the Pension Fund Committee and Pension Board meet concurrently and have access to the same agenda papers. There is no need for a Pension Board member to be on the Committee.
Committee Membership and Representation	
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and expert advisors (on an ad-hoc basis).	i) Yes - Pension Fund Committee and Pension Board ii) Yes, Pension Board iii) Yes, e.g. engaging with an actuary or investment manager when professional advice required.
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, Pension Board members have the same access to information, papers and training
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, training provided during 2015/16

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, 'Declarations of Interest' is a standing item on all agendas.
Principle	**Compliance and Comments**
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, these are contained in the Terms of Reference for both Pension Fund Committee and Pension Board.
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 Pension Fund Committee and Pension Board meets at least four times per annum and is wholly focused on Pension Fund business.
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, the Pension Board sits concurrently with the Pension Fund Committee.
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.

Principle	Compliance and Comments
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, committee papers are sent out to all Pension Fund Commitee and Pension Board members, and all agenda items and subsequent minutes are available on the Shetland Islands Council Committee Information Pages (COINS).
Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes, full scope of the Pension Fund Committee and Pension Board are found in their Terms of Reference
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
Chair of the Pension Fund Committee

21 September 2016

………………………………….
Mark Boden
Chief Executive

21 September 2016

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 21 September 2016.

Signed on behalf of Shetland Islands Council

…………………………………… 21 September 2016

Gary Robinson
Leader of the Council
Chair of the Pension Fund Committee

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 2016.

……………………………………
Jonathan Belford, CPFA 21 September 2016
Executive Manager – Finance

Pension Fund Account 2015/16

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

2014/15 £000		Notes	2015/16 £000	2015/16 £000
	Dealings with members, employers and others directly involved in the scheme			
(16,800)	Contributions	7	(16,627)	
(353)	Transfers in from other pension funds	8	(529)	
(28)	Other income		(886)	
(17,181)				(18,042)
10,689	Benefits payable	9	11,890	
579	Payments to and on account of leavers	10	133	
1,313	Management expenses	11	1,736	
4	Other payments		946	
12,585				14,705
(4,596)	**Net (additions)/withdrawals from dealing with members**			**(3,337)**
	Returns on investments			
(2,358)	Investment income	12	(2,887)	
(27,985)	(Profits) and losses on disposal of investments and change in market value of investments	14b	(1,645)	
(30,343)	**Net returns on investments**			**(4,532)**
(34,939)	**Net (increase)/decrease in the net assets available for benefits during the year**			**(7,869)**
(332,899)	**Opening net assets of the scheme**			**(367,838)**
(367,838)	**Closing net assets of the scheme**			**(375,707)**

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Net Assets Statement as at 31 March 2016

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.

2014/15 £000		Notes	2015/16 £000	2015/16 £000
365,677	Investment Assets	13	375,105	
511	Cash Deposits	13	44	
366,188				375,149
	Current Assets	18		
1,471	Debtors		1,102	
1,832	Bank current accounts		1,178	
3,303				2,280
	Current Liabilities	19		
(614)	Sundry creditors		(1,497)	
(1,039)	Benefits payable		(225)	
(1,653)				(1,722)
367,838	**Net assets of the fund available to fund benefits at the period end**			**375,707**

The audited accounts were issued on 21 September 2016.

……………………………………

Jonathan Belford, CPFA 21 September 2016

Executive Manager – Finance

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 and by the Public Service Pensions Act 2013. The Pension Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2014;
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014;
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015; 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 Board and Pension Fund Committee.

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

31 March 2015		Shetland Islands Council Pension Fund	31 March 2016	
	19	**Number of employers with active members**		12
		Number of employees in scheme:		
2,614		Shetland Islands Council	2,763	
384		Other employers	382	
	2,998	**Total**		**3,145**
		Number of pensioners/dependants		
1,410		Shetland Islands Council	1,493	
106		Other employers	126	
	1,516	**Total**		**1,619**
		Deferred pensioners		
1,465		Shetland Islands Council	1,538	
243		Other employers	265	
	1,708	**Total**		**1,803**
	6,222	**Scheme Total**		**6,567**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014 and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2016. 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 calculated as per the table below:

Service pre 1 April 2009	Service post 31 March 2009	Service Post 31 March 2015
Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x final pensionable salary.
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.	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, ill health retirement and death benefits. For more details, please refer to http:\\www.scotlgps2015.org/ or contact Shetland Islands Council Pension Section on 01595 744644.

Benefits in payment are index-linked in line with the consumer price index.

2. Basis of Preparation

The Statement of Accounts summarises the Pension Fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, 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 17 of these accounts.

a) Accounting Standards Issued, not Adopted

Accounting standards issued but not adopted by the code in 2015/16 are:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions);
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis;
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 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 17).

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 21).

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 16. 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 2016 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 £60m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £22m, and a one-year increase in assumed life expectancy would increase the liability by approximately £16m.

6. Events after the Balance Sheet Date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category:

31 Mar 2015 £000		31 Mar 2016 £000
(12,801)	Employers - normal	(12,781)
(366)	Employers - augmentation	(186)
(3,633)	Members - normal	(3,660)
(16,800)	**Total**	**(16,627)**

By authority:

31 Mar 2015 £000		31 Mar 2016 £000
(14,473)	Administering authority	(14,160)
(119)	Scheduled bodies	(129)
(2,208)	Admitted bodies	(2,338)
(16,800)	**Total**	**(16,627)**

8. Transfers in from Other Pension Funds

The total transfers received during the year are as follows:

31 Mar 2015 £000		31 Mar 2016 £000
(353)	Individual transfers in	(529)
(353)	**Total**	**(529)**

The Pension Fund received 35 transfers in during 2015/16 with an average value of £15,100 compared to 23 transfers in during 2014/15 with an average value of £15,300.

9. Benefits Payable

By category:

31 Mar 2015 £000		31 Mar 2016 £000
8,430	Pensions	8,920
1,682	Commutation and lump sum retirement benefits	2,690
577	Lump sum death benefits	280
10,689	**Total**	**11,890**

By authority:

31 Mar 2015 £000		31 Mar 2016 £000
9,501	Administering authority	10,353
78	Scheduled bodies	191
1,110	Admitted bodies	1,346
10,689	**Total**	**11,890**

10. Payments to and on Account of Leavers

31 Mar 2015 £000		31 Mar 2016 £000
18	Refunds to members leaving service	20
18	Payments for members joining state scheme	31
543	Individual transfers	82
579	**Total**	**133**

11. Management Expenses

31 Mar 2015 £000		31 Mar 2016 £000
198	Staff time allocations	170
185	Support services and system costs	81
5	Printing and publications	5
0	Governance costs	4
871	Investment management expenses	1,442
21	Actuarial fees	1
33	External audit fees	33
1,313	**Total**	**1,736**

Investment management expenses have been included here, and are no longer subject to a separate note.

12. Investment income

31 Mar 2015 £000		31 Mar 2016 £000
(369)	Fixed Income Unit Trusts	(925)
(1,130)	Pooled property unit trusts - UK	(1,277)
(737)	Pooled property unit trusts - Overseas	(527)
(44)	Interest on cash deposits	(6)
(78)	Other	(152)
(2,358)	**Total**	**(2,887)**

13. Investments

Market Value 31 Mar 2015 £000		Market Value 31 Mar 2016 £000
293,336	Pooled funds	294,476
34,059	Fixed income unit trusts	33,926
38,277	Pooled property unit trusts	46,668
511	Cash deposits	44
5	Property income due	35
0	Cash income due	0
366,188	**Total investment assets**	**375,149**

13a. Reconciliation of movements in investments

	Market Value 01/04/2015 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31/3/2016 £000
Investment assets					
Pooled funds	293,166	2,000	(1,000)	41	294,207
Fixed income unit trusts	34,059	825	0	(958)	33,926
Pooled property unit trusts	38,277	7,263	(1,435)	2,562	46,667
	365,502	10,088	(2,435)	1,645	374,800
Investment Income Due					
Fixed income income due	170				270
Property income due	5				35
	365,677				375,105
Other investment balances:					
Cash deposits	511				44
Cash income due	0				0
Net investment assets	**366,188**	**10,088**	**(2,435)**	**1,645**	**375,149**

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

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

13b. Analysis of investments

31 Mar 2015 £000		31 Mar 2016 £000
	Additional analysis	
70,161	Pooled funds (UK)	67,159
152,441	Pooled funds (Overseas)	153,482
70,564	Diversified Growth	73,565
34,059	Alternative Credit	33,926
36,522	Pooled property unit trust (UK)	45,021
1,755	Pooled property unit trust (Overseas)	1,647
365,502	**Total investment assets**	**374,800**

13c. Analysis by Fund Manager

Market Value 31 Mar 2015 £000	%		Market Value 31 Mar 2016 £000	%
150,247	41	BlackRock	147,159	39
38,821	11	Schroders	46,774	12
70,564	19	Newton Asset Management	73,566	20
72,327	20	Kleinwort Benson	73,454	20
34,229	9	M & G Investments	34,196	9
366,188	**100**	**Total investment assets**	**375,149**	**100**

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

Market Value 31 Mar 2015 £000	%		Market Value 31 Mar 2016 £000	%
70,131	19	Aquila Life UK equity index	67,128	18
34,059	9	M & G Alpha Opp Fd AGBP	33,926	9
72,327	20	Kleinwort Benson 1 Dividend Plus	73,454	20
70,564	19	Newton Real Rtrn X ACC NAV	73,566	20
80,113	22	Aquila Life World EX UK Fund Series 1	80,028	21

14. Financial Instruments

14a. 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 2015				31 Mar 2016		
Fair value through profit and loss £000	Receivables £000	Financial liabilities £000		Fair value through profit and loss £000	Receivables £000	Financial liabilities £000
			Financial assets			
293,336	-		Pooled funds	294,476	-	
34,059	-		Fixed income unit trusts	33,927	-	
38,277	-		Pooled property unit trusts	46,667	-	
-	2,343		Cash	-	1,222	
5	-		Property income due	35	-	
-	1,471		Debtors	-	1,102	
365,677	**3,814**	**0**		**375,105**	**2,324**	**0**
			Financial liabilities			
-	-	(1,653)	Creditors	-	-	(1,722)
0	**0**	**(1,653)**		**0**	**0**	**(1,722)**
365,677	**3,814**	**(1,653)**		**375,105**	**2,324**	**(1,722)**

14b. Net gains and losses on financial instruments

31 Mar 2015 £000		31 Mar 2016 £000
	Financial assets	
(27,985)	Fair value through profit and loss	(1,645)
(27,985)	**Total**	**(1,645)**

14c. Value of financial instruments

31 Mar 2015			31 Mar 2016	
Book value £000	Market value £000		Book value £000	Market value £000
		Financial assets		
314,903	365,677	Fair value through profit and loss	323,479	375,105
314,903	**365,677**	**Total**	**323,479**	**375,105**

15. 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 2015/16 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	10.61%
Overseas Equities	9.43%
Total Bonds & Index Linked	4.77%
Cash	0.01%
UK Property	1.98%
Overseas Property	20.37%

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 2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	44	0.01%	44	44
Investment portfolio assets:				
UK Equities	67,159	10.61%	74,285	60,033
Overseas Equities	227,047	9.43%	248,458	205,636
Total Bonds & Index Linked	34,196	4.77%	35,827	32,565
UK Property	45,048	1.98%	45,940	44,156
Overseas Property	1,655	20.37%	1,992	1,318
Total assets	**375,149**		**406,546**	**343,752**

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 Propert	1,755	11.18%	1,951	1,559
Total assets	**366,188**		**397,201**	**335,175**

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 2015 and 31 March 2016 are set out below:

31 Mar 2015 £000		31 Mar 2016 £000
	Asset type	
511	Cash and cash equivalents	44
1,832	Cash balances	1,178
2,343	**Total**	**1,222**

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 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	44	0	0
Cash balances	1,178	12	(12)
Total change in assets available	**1,222**	**12**	**(12)**

Asset Type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	511	5	(5)
Cash balances	1,832	18	(18)
Total change in assets available	**2,343**	**23**	**(23)**

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 2016 and as at the previous period end:

31 Mar 2015 £000		31 Mar 2016 £000
	Asset type	
223,004	Pooled Funds - overseas equities	227,047
1,755	Pooled Property Unit Trusts - overseas	1,655
224,759	**Total**	**228,702**

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 6.15%.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 6.15% 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 2016	Change to net assets available to pay benefits	
		+6.15%	-6.15%
	£000	£000	£000
Pooled Funds - overseas equities	227,047	241,010	213,084
Pooled Property Unit Trusts - overseas	1,655	1,757	1,553
Total change in assets available	**228,702**	**242,767**	**214,637**

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

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 2016 was £1.222m (31 March 2015: £2.343m). This was held with the following institutions:

31 Mar 2015 £000		31 Mar 2016 £000
	Fund manager deposits	
509	Schroders cash	42
2	BlackRock cash	2
	Bank current accounts	
1,832	Bank of Scotland Plc	1,178
2,343	**Total**	**1,222**

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 2016 the value of illiquid assets was £46.7m, which represented 12.4% of the Pension Fund assets (31 March 2015: £38.3m, which represented 10.5% 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.

16. Funding Arrangements

In line with the Local Government Pension Scheme (Scotland) Regulations 2014, 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 2015/16 to meet a funding shortfall arising from the transfer of pension benefits associated with former Shetland Towage employees.

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

Principal actuarial assumptions and method used to value the liabilities

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

Method

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

Assumptions

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

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

	31 March 2014	
Financial assumptions	**% p.a. Nominal**	**% p.a. Real**
Discount rate	5.2%	2.5%
Pay increases *	4.5%	1.8%
Price inflation/Pension increases	2.7%	0.0%

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

Mortality assumptions

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

Mortality assumption at age 65	Males	Females
Current Pensioners	22.8 years	23.8 years
Future Pensioners	24.9 years	26.7 years

Historic mortality assumptions

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

Year Ended	Prospective Pensioners	Pensioners
31 March 2014	year of birth, medium cohort and 1% p.a. minimum improvements from 2008	year of birth, medium cohort and 1% p.a. minimum improvements from 2008

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

Commutation assumption

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

17. 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 16). 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 2016 was £517 million (31 March 2015: £551 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 2015 % p.a.	Year ended	31 March 2016 % p.a.
2.4%	Inflation/pension increase rate	2.2%
4.3%	Salary increase rate	4.2%
3.2%	Discount rate	3.5%

18. Current Assets

31 Mar 2015 £000		31 Mar 2016 £000
	Debtors:	
301	• Contributions due - employees	25
1,096	• Contributions due - employers	1,038
57	• Transfer values receivable	27
5	• Sundry debtors	2
2	Prepayments	0
10	Accrued Income	10
1,832	Bank current accounts	1,178
3,303	**Total**	**2,280**

Analysis of debtors

31 Mar 2015 £000		31 Mar 2016 £000
8	Central government bodies	0
1,207	Other local authorities	38
1	Public corporations & trading funds	1
255	Other entities and individuals	1,063
1,471	**Total**	**1,102**

19. Current Liabilities

31 Mar 2015 £000		31 Mar 2016 £000
(614)	Sundry creditors	(1,497)
(1,039)	Benefits payable	(225)
(1,653)	**Total**	**(1,722)**

Analysis of creditors

31 Mar 2015 £000		31 Mar 2016 £000
(1)	Central government bodies	(1)
(875)	Other local authorities	(484)
(22)	Public corporations and trading funds	(36)
(755)	Other entities and individuals	(1,201)
(1,653)	**Total**	**(1,722)**

20. Unfunded Pension

31 Mar 2015 £000		31 Mar 2016 £000
702	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.
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Additional pension in respect of added years' enhancement is awarded from the body or service where the employee retired and costs are paid directly.

21. Additional Voluntary Contributions

31 Mar 2015 £000		31 Mar 2016 £000
4,406	Prudential	4,704
91	Equitable Life	91
4,497	**Total**	**4,795**

AVC contributions of £0.582m were paid directly to Prudential during the year (2014/15 £0.470m).

22. 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 £0.261m (2014/15 £0.409m) 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 £0.051m (2014/15 £0.058m) 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 £8.920m (2014/15 £8.429m) 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 £11.077m to the Pension Fund (2014/15 £11.423m).

All monies owed to the Council, and due from the Pension Fund to the Council, were paid in the year.

Governance

There are two members of the Pension Fund Committee who are 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 Committee and Pension Board 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.

23. Impairment Losses

During the year, the Pension Fund has recognised an impairment loss of £0.941m for possible non recovery of cessation values where the employer is not backed by a guarantee.

Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 55(1) (d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the 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
5 May 2016

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 2016 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 2015/16 (the 2015/16 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 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 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 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

21 September 2016

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

Agenda Item
5

Shetland Islands Council

Audit Committee **21 September 2016**
Shetland Islands Council **21 September 2016**

Zetland Educational Trust – ISA 260 Report on the 2015/16 Audit	
F-060-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 2015/16 Audit.

2.0 Decision Required

2.1 That the Audit Committee and Shetland Islands Council:

a) NOTE Audit Scotland's ISA 260 Report on the 2015/16 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 the Committee/Council 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 2016.

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 2015/16 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 2016.

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 2015/16

Background documents:

The Local Authority Accounts (Scotland) Regulations 2014

END

Zetland Educational Trust

Report to those charged with governance on the 2015/16 audit

AUDIT SCOTLAND

Prepared for the members of Shetland Islands Council
September 2016

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

Contents

Introduction

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

2. 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 2015/16 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. Satisfactory responses have been received for all matters raised.

5. We received the unaudited financial statements by 27 June 2016, 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 5 August 2016.

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 1 March 2016, 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 2015/16 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 21 September 2016 (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 2015/16. 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 2016 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 applicable law and 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 2016 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 Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

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

September 2016

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

Appendix B: ISA 580 - Letter of Representation

September 2016

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 2015/16

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 2016 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 2016, 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 2016.

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 2016.

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 2016.

Trustee Expenses

I confirm that no expenses were paid to any trustee during the period to 31 March 2016.

Assets

The cash fund and investments shown in the statement of balances at 31 March 2016 were owned by Zetland Educational Trust. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value of classification of the assets within the financial statements.

Yours sincerely

Jonathan Belford

Executive Manager - Finance

Agenda Item
6

Shetland Islands Council

Audit Committee **21 September 2016**
Shetland Islands Council **21 September 2016**

Zetland Educational Trust - Final Audited Accounts 2015/16	
F-061-F	
Report Presented by Executive Manager - Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present Zetland Educational Trust's 2015/16 audited Annual Accounts for approval.

2.0 Decision Required

2.1 That the Audit Committee:

a) CONSIDER the Zetland Educational Trust's audited Annual Accounts for 2015/16 (Appendix 1); and

2.2 That the Council RESOLVE to:

a) APPROVE the Zetland Educational Trust's audited Annual Accounts for 2015/16 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 the Committee/Council to consider the audited annual accounts and approve them for signature by 30 September 2016, and publish them no later than 31 October 2016.

3.3 The regulations also require the Committee/Council to consider the report issued by the appointed auditor as a communication to those charged with governance on the audit of the financial statements. This was presented as a separate item on the agenda.

3.4 Audit Scotland's report 'Financial Reporting and Scrutiny: Why the Accounts Matter' recommended that Members consider the following information when scrutinising and approving the annual accounts:

- The Trustee's Annual Report on page 2 of the accounts. This provides a summary of the Trust's performance during 2015/16.

- The Statement of Receipts and Payments on page 6 of the accounts, which shows all the incoming and outgoing financial resources during 2015/16, along with the year-end surplus.

- The Statement of Balances on page 7 of the accounts. This provides a snapshot of the financial position as at 31 March 2016.

3.5 Audit Scotland has confirmed it will be issuing an unqualified audit opinion of the 2015/16 accounts. The overall conclusion being that the 2015/16 Annual Accounts:

- properly present the receipts and payments of the charity for the year ended 31 March 2016 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 2015/16 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 the Committee/Council are required to approve the accounts for signature by 30 September 2016.

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 2016.

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

16 September 2016

List of Appendices

Appendix 1: Zetland Educational Trust Annual Report and Accounts 2015/16

Background documents:

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

The Local Authority Accounts (Scotland) Regulations 2014

END

Zetland Educational Trust Schemes 1961 to 1965

Scottish Charity No SC001146

Annual Report & Financial Statements

For the Year Ended 31 March 2016

(Audited)

Contents

Trustee's Annual Report
For the Year Ended 31 March 2016

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 2016.

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 2016 of £665,741 (2015: £662,548). The only source of funding of the Trust is bank interest.

In the year, the Trust earned £5,193 (2015: £7,209) from bank investments and made payments of £2,000 (2015: £2,745) on grants and donations resulting in a surplus balance of £3,193 (2015 deficit of £1,737) on the unrestricted funds.

Investment options are currently being explored for the capital fund of £655,000. This is currently shown as an investment in the financial statements.

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 ten 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 six and four recipients respectively with payments in the year totalling £2,000 (2015: £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 2016 this totalled £0 (2015: £345).

A breakdown of the total expenditure on grants and donations of £2000 (2015: £2,745) is shown at Note 4.

Reserves Policy

In previous years the Trust's cash has been placed into fixed term investments, however for 2015/16 this is being reviewed in order for alternative investment options to be explored. This is currently shown as an investment in the financial statements.

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

From 2015/16 there is no separate audit fee for the Trust as this is now absorbed by Shetland Islands Council.

Declaration

Approved by the trustee on 21 September and signed on their behalf by:

Jonathan Belford CPFA
Executive Manager – Finance

21 September 2016

Statement of Receipts and Payments - For the Year Ended 31 March 2016

	Note	Unrestricted Funds	Total 2016	Total 2015
		£	£	£
Receipts				
Income from bank investments		5,193	5,193	7,209
Total receipts		5,193	5,193	7,209
Payments				
Investment management costs	(5)	-	-	1
Auditor's Fee		-	-	1,200
Grants and donations	(4)	2,000	2,000	2,745
Transfer to Investment		-	-	5,000
Total payments		2,000	2,000	8,946
Net receipts / (payments)		3,193	3,193	(1,737)
Surplus / (deficit) for year		3,193	3,193	(1,737)

The Notes on page 8 form an integral part of these accounts

Statement of Balances - As at 31 March 2016

	Unrestricted Funds	Total 2016	Total 2015
Cash Funds	£	£	£
Cash and bank balances at start of year	7,548	7,548	9,285
Surplus / (deficit) shown on receipts and payments account	3,193	3,193	(1,737)
Cash and bank balances at end of year	10,741	10,741	7,548

	Market valuation	Last year
Investments	£	£
Bank of Scotland - Fixed Term Deposit	-	655,000
Bank of Scotland - Current Account	655,000	-
Total	655,000	655,000

Trust balances at 31 March 2016

	£	£
Cheque Account	10,741	7,548
Fixed Term Deposit	655,000	655,000
Total	665,741	662,548

The Notes on page 8 form an integral part of these accounts

Approved by the trustee on 21 September and signed on their behalf by:

Jonathan Belford CPFA
Executive Manager – Finance

21 September 2016

Notes to the Accounts – For the Year Ended 31 March 2016

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 were maintained in a fixed interest account however, for 2015/16 this is being reviewed in order for alternative investment options to be explored.

3 Related Parties Transactions
There were no related party transactions during 2015/16

4 Bursaries & Grants made

Type of activity or project supported

	Total 2016		**Total 2015**	
	Number	£	Number	£
Arthur Anderson Bursaries	4	800	4	800
E & M Gair Bursaries	6	1,200	8	1,600
Educational Excursion	0	0	1	345
Special Equipment	-	-	0	0
Swimming	-	-	-	-
Knowledge of Shetland	-	-	0	0
Experiments and Research	-		0	0
<u>Previous Grants Repaid</u>				
Educational Excursion	-	-	0	0
Special Equipment	-	-	0	0
Knowledge of Shetland	-	-	0	0
		2,000		**2,745**

During 2015/16 no grants were paid to any external bodies. (0 bodies in 14/15).

5 Costs
There were no additional costs to the Trust during 2015/16.

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 2016 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 applicable law and 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 2016 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 Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

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

September 2016

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