

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2000/01

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2000/01 Abstract of Accounts

1 EXPLANATORY FOREWORD

1.1 Introduction

1.1.1 The Council's accounts for the year ended 31st March 2001 have been prepared to comply with statutory requirements and also with reference to the Code of Practice on Local Authority Accounting in the United Kingdom 2000.

1.2 Explanation of statements which follow, their purpose and relationships

1.2.1 The following statements are contained in this Abstract of Accounts:

2. Statement of Accounting Policies

This statement explains the basis of the figures in the accounts, with particular reference to the treatment applied where more than one approach is possible.

3. Consolidated Revenue Account

This statement reports the net cost for the year of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and local taxation.

The statement consolidates the income and expenditure in all other statements in this abstract with the exception of the Pension Fund and other Trust Funds.

The net cost of services was £86.6 million.

4. Consolidated Balance Sheet

This statement shows the balances and reserves at the disposal of the Council at the year end. It also shows the Council's long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

The Consolidated Balance Sheet includes the year end position of all funds covered in this abstract with the exception of the Pension Fund and other Trust Funds.

5. Total Movements in Reserves

This statement of total movements in reserves brings together all the recognised gains and losses of the Council during the year, and identifies those which have and have not been recognised in the Consolidated Revenue Account. It also separates these movements between the revenue and capital reserves of the Council.

6. Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. It excludes the Pension Fund and other Trust Funds, apart from cash transfers between the Pension Fund and other Council funds.

7. Housing Revenue Account

The Housing Revenue Account shows the major elements of expenditure relating to Council housing, which include maintenance, administration, rent rebates and capital financing costs. The statement also shows how this expenditure is met by Council house rents, Housing Support Grant and other forms of income.

8. DLO/DSO Accounts

The DLO/DSO Accounts meet the statutory obligation to account separately for the income and expenditure of Direct Labour Organisations/Direct Service Organisations.

9. Council Tax Income Account

The Council Tax Account shows the net income raised from Council taxes levied under the Local Government Finance Act 1992.

10. Non-Domestic Rate Income Account

The Non-Domestic Rate Income Account shows the income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property.

11. Pension Fund Account

This statement gives a stewardship report on the financial transactions of the Pension Fund during the year, and the disposition of its assets at the year end.

12. Responsibilities for the Statements of Accounts

This statement sets out the respective responsibilities of the Council and the Executive Director Corporate Services for the accounts of the authority.

1.3 **Overall comparison of expenditure with budget**

1.3.1 Overall, General Fund gross expenditure came in under budget. There were underspends of £5.0 million on capital financed from revenue, and employee costs were £0.8 million under budget. Drawings upon the Capital Fund and Repairs and Renewals Fund were £14.3m under budget. The overall effect of these factors was that the General Fund deficit for 2000/01 was £6.4 million. The General Fund therefore ended the year with a revenue balance in hand of £10.6 million.

1.3.2 The Housing Revenue Account's gross income was £0.4 million under budget, with Housing Support Grant being £0.3m less than budget. This meant that the contribution from the Housing Repairs and Renewals Fund was higher than anticipated.

1.3.3 Harbour Account income was £0.6 million less than budget and expenditure was £0.6m less than budget. This resulted in transfers to/from reserves being close to budget.

1.3.4 The Council's DLOs and DSOs had another satisfactory year.

1.4 **Material assets acquired or liabilities incurred**

1.4.1 The most significant major capital works during 2000/01 occurred at the development of a new pier for Cullivoe.

1.4.2 Other significant capital works were on the new Inter Island ferry and on the new Lerwick Care Centre, Taing House.

1.5 **Explanation of unusual material items**

1.5.1 The Council had submitted a claim in June 1994 to the International Oil Pollution Compensation Fund of £1.5 million for costs incurred by the Council in connection with the Braer tanker pollution incident, of which £1.2 million was recorded in the accounts at 31 March 1997. This balance had grown to £1.36m due to legal fees. The parties have now agreed a claim of £0.66m, of which £0.26m has been paid. The balance is expected to be paid once other legal matters are settled. The Council has written off £0.7m of the outstanding balance, utilising a bad debt provision of £0.63m created for that purpose.

1.6 **Comment on planned future developments, including a summary of revenue and capital investment plans**

1.6.1 The Council has reaffirmed its commitment to work towards its long-term financial policies of achieving:

1.6.1.1 a self-sustaining Capital Fund ;

1.6.1.2 a self-sustaining Repairs and Renewals Fund;

1.6.1.3 a self-sustaining Reserve Fund;

1.6.1.4 a standstill budget for the General Fund and of increasing the property Band D Council Tax charge by the estimated average percentage increase throughout Scotland, plus £33.

1.7 **Current borrowing facilities, actual borrowings, major financing transactions during the year**

1.7.1 The Council continued its Treasury Management policy in 2000/01 which consists of:

1.7.1.1 continuing to have external management arrangements for all major funds;

1.7.1.2 extending the maturity of its external borrowings within approved policy limits to take advantage of low interest rates;

1.7.1.3 operating to a stringent set of borrowing and lending guidelines.

1.7.2 Within the Treasury Management policy, the Council has borrowed to finance its Housing Revenue Account from either external sources or from internal funds and balances. No new external borrowing was made during the year and external repayments amounted to £16.95m.

1.7.3 During 1998/99 the Council conducted a tendering exercise with the result that a new banking contract was awarded to the Bank of Scotland from April 1999. The contract is for a period of five years and provides current overdraft facilities of £0.8m.

1.7.4 Major fixed asset acquisitions are mentioned in note 1.4. Major disposals during 2000/01 occurred on Council house sales.

1.8 **Summary of Council internal and external sources of funds**

1.8.1 The Council has prudently built up extensive reserves to meet future financial requirements, the main examples being the Capital Fund, Repairs and Renewals Fund, and the Reserve Fund, which have a combined Balance Sheet value at 31 March 2001 of £282 million (£269 million at 31 March 2000). The Council intends to preserve the value of these funds so far as is possible, so only the earnings on their investment are available to meet annual outgoings.

1.8.2 External sources of funds include the various forms of capital and revenue grant assistance available from the U.K. Government and the European Union, which provided some £59.3 million in cash in 2000/01. There is also a contribution from the National Non-Domestic Rates Pool of £7.7 million, but this is more than offset by the local contribution into that Pool of £12.6 million.

1.8.3 The remaining sources of Council funding are the charges levied locally, which include the various Council Taxes, rents, and a wide variety of charges for goods and services provided by the Council.

1.9 **Change in Accounting Policy**

1.9.1 The Council has changed its accounting policy in respect of the depreciation of fixed assets, in order to more fully comply with the Accounting Code of Practice.

1.9.2 The Council's policy is to provide depreciation on all assets with a finite useful life. Depreciation is not normally charged on freehold land or on non-operational investment properties. The previous policy was for the non-depreciation of assets, except for plant, vehicles and equipment, on the basis that the level of expenditure on maintenance was adequate to secure an ongoing lifespan for all assets.

1.9.3 This change of policy has resulted in an increased charge for depreciation of £5.88m in 2000/01, compared to £2m in 1999/00. No budget was provided for the policy change and it also increases the cost of total continuing services in the Consolidated Revenue Account. It however has no overall effect on the Consolidated Revenue Account as these entries are reversed out in the Asset Management Revenue Account. In the Consolidated Balance Sheet, the policy change will reduce the value shown of fixed assets more quickly than before.

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2 STATEMENT OF ACCOUNTING POLICIES

2.1 Introduction

2.1.1 The accounting policies presented below apply to all statements in this abstract, bar the Pension Fund which has a separate statement of accounting policies.

2.2 Debtors and creditors

2.2.1 All known and determinable amounts due to the Council have been brought into account. This is effected by taking into account all invoices raised by 4 April 2001, which relate to 2000/01, and accruing all other known material amounts not raised by that date which relate to 2000/01.

2.2.2 All known material amounts due by the Council have been brought into account. This is effected by taking into account payments made by 17 April 2001, which relate to 2000/01, and accruing other known material amounts not paid by that date which relate to 2000/01.

2.3 Administration and the treatment of overheads

2.3.1 The net cost of support services administration has been allocated in full to all their users, including services delivered to the public. Support services costs comprise all the costs of all central departmental headquarters, including all staff, office and central service costs (e.g. telephones, messenger service).

2.3.2 The costs of service management (i.e. the costs of service department headquarters) are also allocated in full, in their case to the activities and services managed by these departments.

2.3.3 Allocations, or recharges, are primarily based on estimates of staff time. There are exceptions, however. Telephone recharges are based on usage and number of extensions. The messenger service is recharged on the number of calls made. And computer operations are recharged on the basis of machine time utilised.

2.3.4 The costs of service strategy and regulation are recharged to the relevant services. The costs of the corporate and democratic core of the Council, and of unapportionable central overheads, are recharged to a separate General Fund account. They are not recharged from the General Fund to other funds of the Council.

2.4 **Capital charges**

2.4.1 The Code of Practice on Local Authority Accounting requires service revenue accounts to be charged with a capital charge for all fixed assets used in the provision of each service. As a minimum such charges should cover the annual depreciation of an asset, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the Balance Sheet. Exemptions to this general treatment have been applied to the Housing Revenue Account and the Harbour Accounts, as set out below.

2.4.1.1 **Redemption of debt and loan charges**

For the Housing Revenue Account the capital charges are repayments to the Loans Fund on advances made to finance capital expenditure, together with a charge for interest and Loans Fund management expenses. The annual repayments of principal are calculated on a straight line basis, written off over the estimated lifetime of the assets concerned. The Loans Fund interest is charged at an average rate over the year and expenses are charged proportionally on the outstanding debt.

Harbour Account capital charges are in the form of revenue contributions to finance capital expenditure in the year incurred. This treatment does not comply with the Code of Practice.

2.4.1.2 **Asset Rentals**

As mentioned, all funds other than the Housing Revenue Account and the Harbour Account require to carry a charge to the revenue accounts for all fixed assets used in the provision of a service.

The Council has changed its policy on the depreciation of assets to comply with the Code of Practice. Depreciation is now provided on all assets with a finite useful life. Depreciation is not normally charged on freehold land or on non-operational investment properties. Further detail can be found in Section 1.9.

The capital charges to the service revenue accounts have therefore been calculated at 6% of their value (for assets carried at current value on the Balance Sheet) and (for assets carried at historical cost) the asset rental has been calculated at 6% of value.

2.5 **Fixed assets**

2.5.1 The major change between the 1999/00 Balance Sheet entries and the 2000/01 figures is to make amendments to the valuations to take account of acquisitions and disposals during the year, up to date valuations and the inclusion of some minor assets omitted from previous year's figures.

2.5.2 All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This includes assets acquired under finance leases which have been capitalised and included in the balance sheet on the basis of the outstanding obligation to make future rental payments.

2.5.3 Operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value..

2.6 **Valuation Disclosure**

2.6.1 Except where noted below, most of the Council's properties were valued over a four month period from January 2000 to April 2000, and the effective date for the valuation was 1 April 2000. However, for properties below the de minimis level of £50,000, the effective date for valuation remains at 1 April 1994 and these will be updated on a rolling programme of revaluations. Where existing values have a valuation date later than 1 April 1994 these will be updated at the expiry of 5 years from that valuation date as part of the rolling programme.

2.6.2 Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. Non-operational properties were valued by reference to their open market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions.

2.6.3 Full details of the valuation of each property are contained in Valuation Certificates which form the basis for the summary information in these accounts.

2.6.4 The properties were valued by Alan Rolfe ARICS of the Property Services Section of the Council's Legal and Property Services Division.

2.7 **Valuation of other assets**

2.7.1 **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at cost.

2.7.2 **Investments**

All investments are shown at book cost, with allowances made for income due at the 31 March but not received by that date.

2.8 **Provisions**

2.8.1 The Council has made provision, where necessary, for bad and doubtful debts in respect of miscellaneous debtors, rate debtors, community charge debtors, council tax debtors and Housing Revenue Account debtors.

2.8.2 As at 31 March 2001 General Fund provisions for bad debt amounted to £562,000 (£1,303,000 as at 31 March 2000), and for the Housing Revenue Account amounted to £103,000 (£132,000 as at 31 March 2000).

2.8.3 During the course of 2000/01 £896,000 of bad debts were written off against the General Fund bad debt provision (£171,000 in 1999/00) and £84,000 against the Housing Revenue Account provision (£56,000 in 1999/0).

2.9 **Deferred charges**

2.9.1 The items treated as deferred charges in these statements are capital grants which do not create a fixed asset for the Council. The movements in 2000/01 are shown in a note to the Consolidated Balance Sheet.

2.9.2 Deferred charges are funded from revenue or reserves in the year expenditure is incurred, in accordance with the Council's overall debt repayment policy.

2.10 **Capital receipts**

2.10.1 Capital receipts are treated as capital income and have been applied in accordance with the Council policy on debt redemption on all funds.

2.10.2 All long term debtors on the Balance Sheet have been financed by the Capital Fund, creating a Deferred Capital Receipt. This means that when the debts are paid then the proceeds can be credited to the Capital Receipts Reserve, providing the potential for more flexible use than applies to the Capital Fund.

2.11 **Grants**

2.11.1 Revenue grants are treated as revenue income and credited to revenue in the year received, with adjustment by accrual at the year end in accordance with the principle of matching income to the year to which it is properly attributable.

2.11.2 Capital grants are treated as capital income and have been credited to capital in the year received, with adjustment by accrual at the year end where appropriate, for all funds.

2.12 **Interest on balances**

- 2.12.1 Interest on revenue balances is charged or credited at fund level at the average seven day money market interest rate for each month, calculated from daily quotes obtained from several brokers.
- 2.12.2 Interest is charged or credited to internally held balances of Council reserves at varying rates, dependent on the nature of the reserve.
- 2.12.3 The interest charged or credited to Funds is calculated on the basis of monthly surpluses or deficits on those Funds, with interest on internally held reserves capitalised half yearly.

2.13 **Leases**

- 2.13.1 Operating lease payments are treated as operating expenditure.
- 2.13.2 Finance lease payments are treated as part of the cost of financing capital on the revenue accounts.
- 2.13.3 Details of finance and operating leases are provided in notes to the Consolidated Balance Sheet and Consolidated Revenue Account.

2.14 **Provisions for pensions**

- 2.14.1 Shetland Islands Council's Pension Scheme is statutorily governed by the Local Government Superannuation (Scotland) Regulations 1987, as amended.
- 2.14.2 It is a fully funded defined benefit scheme with the pension calculated on the basis of one eightieth of the final year's pay for each year of membership of the scheme. The lump sum payable on retirement is three times the annual pension entitlement and is tax free.
- 2.14.3 Teachers are not covered by the Council's Pension Scheme, instead being covered by the national unfunded scheme.
- 2.14.4 The Council operates an early retirement scheme, which provided certain conditions laid down in the regulations are met, offers the opportunity for employees to retire early and receive pension benefits. Any additional cost of retirement under the early retirement scheme is met by the Council and does not fall on the Pension Fund.
- 2.14.5 Further information is provided in section 11 of this Abstract of Accounts.

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CONSOLIDATED REVENUE ACCOUNT

YEAR ENDED 31 MARCH 2001

1999/00		2000/01 Expenditure £000	2000/01 Income £000	2000/01 Net £000
£000				
	<u>NET COST OF SERVICES</u>			
	<u>CONTINUING SERVICES:</u>			
5,015	Development	7,725	(209)	7,516
27,462	Education	35,211	(5,000)	30,211
17,552	Environment & Transportation	21,779	(2,204)	19,575
(87)	Housing Revenue Account	9,808	(8,071)	1,737
1,288	Housing - General Fund	3,735	(2,739)	996
2,676	Community Services	2,644	(70)	2,574
1,787	Marine Operations	18,982	(14,020)	4,962
7,082	Policy and Resources	10,370	(356)	10,014
8,268	Social Work	11,296	(2,270)	9,026
<u>71,043</u>	TOTAL CONTINUING SERVICES	<u>121,550</u>	<u>(34,939)</u>	<u>86,611</u>
	<u>CORPORATE INCOME AND EXPENDITURE</u>			
(28,034)	Interest and investment income			(29,664)
(14,214)	Transfer from Asset Management Revenue Account			(16,487)
(468)	Total net surplus from DLOs/DSOs			(995)
<u>28,327</u>	NET OPERATING EXPENDITURE			<u>39,465</u>
	<u>APPROPRIATIONS</u>			
	Contribution to/(from) earmarked reserves:			
13,723	General Fund			18,500
732	Housing Revenue Account			(632)
8,654	Harbour Account			4,743
1,106	Contribution to/(from) Capital Financing Reserve			4,415
<u>52,542</u>	AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS			<u>66,491</u>
	<u>PRINCIPAL SOURCES OF FINANCE</u>			
(4,394)	Council Tax			(4,890)
(48,222)	Revenue Support Grant			(48,593)
(6,066)	Contribution from non-domestic rate pool			(7,650)
<u>(6,140)</u>	(SURPLUS)/DEFICIT FOR THE YEAR			<u>5,358</u>
	<u>BALANCES</u>			
(11,723)	Balance at 1st April			(17,418)
(6,140)	(Surplus)/Deficit for the year			5,358
445	Application of Balances in the year			468
<u>(17,418)</u>	Balance at 31st March			<u>(11,592)</u>

There were no acquired or discontinued operations during the year.

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3. NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

3.1 Revenue effects of acquiring assets using finance and operating leases

3.1.1 Finance leases are agreements where the major features of ownership of the asset pass to the Council, and these are subject to the government's capital expenditure controls. These leases are distinguished by longer duration, options to buy at the end of the primary period, and maintenance being the Council's responsibility.

3.1.2 Operating leases leave the major responsibilities of ownership with the leasing company, and these leases are not subject to capital controls.

3.1.3 The following table summarises 2000/01 payments made for assets acquired under finance and operating leases.

Finance and Operating Lease Payments:

1999/00		2000/01
£000		£000
175	Finance Leases	175
1,121	Operating Leases	1,113
<u>1,296</u>	Total	<u>1,288</u>

3.1.4 The future cash payments under operating leases are as follows:

2001/02	£831,843
2002/03 onwards	£6,100,793

3.2 Section 83 Expenditure

3.2.1 The provisions of Section 83 of the Local Government (Scotland) Act 1973 authorise a local authority to incur expenditure in the interest of their area, or any part of it, or all or some of its inhabitants, for which authorisation does not exist by virtue of any other enactment.

3.2.2 Expenditure under this section may not exceed the equivalent of the product of a rate of 2p in the £, amounting to approximately £800,000 for Shetland Islands Council. Actual 2000/01 expenditure, in the form of grants to charities and voluntary organisations, was £10,292 (1999/00 £9,630).

3.3 **Publicity expenditure**

3.3.1 Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2000/01 expenditure.

Publicity expenditure

1999/00		2000/01	
£000		£000	
161	Recruitment advertising	197	
134	Other advertising	123	
<u>295</u>	Total	<u>320</u>	

3.4 **Agency expenditure**

3.4.1 Below is a summary of Council income and expenditure under agency agreements, whereby the Council does work for other public bodies, or has work done on its behalf by other public bodies.

Agency expenditure and income (included in the Consolidated Revenue Account):

Net Expenditure 1999/00 £000		Expenditure 2000/01 £000	Income 2000/01 £000	Net Expenditure 2000/01 £000
1,412	Northern Joint Police Committee	1,522	0	1,522
860	Northern Fire Board	1,030	0	1,030
214	Orkney and Shetland Valuation Joint Board	221	0	221
25	Emergency Planning: Shetland Health Board	15	0	15
73	Accommodation Charges: Child Client	88	0	88
<u>2,584</u>	Total	<u>2,876</u>	0	<u>2,876</u>

3.5 **Expenditure and Income under Goods and Services Act**

3.5.1 The Council undertakes maintenance of police and fire properties on behalf of the Joint Boards. The table below shows the maintenance expenditure and the amounts billed to the Joint Boards by the Council.

Expenditure and income under the Local Authority (Goods and Services) Act 1970:

Net Expenditure 1999/00 £000		Expenditure 2000/01 £000	Income 2000/01 £000	Net Expenditure 2000/01 £000
	Northern Joint Police			
0	Committee	(6)	6	0
0	Northern Fire Board	4	(4)	0
<u>0</u>	Total	<u>(2)</u>	<u>2</u>	<u>0</u>

3.6 **Pension Costs (Teachers)**

3.6.1 In 2000/01 the Council paid £0.83 million (£0.81 million in 1999/00) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 6.9% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2000/01 these amounted to £0.23 million (£0.20 million in 1999/00), representing 1.91% of pensionable pay (1999/00 1.70%).

3.7 **Pension Costs (Other Employees)**

3.7.1 In 2000/01 the Council paid an employer's contribution of £3.10 million (1999/00 £2.60 million) into the Pension Fund, which represented 12% of APT&C pensionable pay, and 10% of Manual pensionable pay. The contribution rate is determined by the Fund actuary's triennial valuation, the last review being at 31 March 1999. Under Pension Fund regulations contributions are set to meet the overall liabilities of the Fund.

3.7.2 In addition the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2000/01 these amounted to £0.20 million (1999/00 £0.17 million), or 0.75 % of pensionable pay (1999/00 0.64%).

3.7.3 The capital cost in the year for discretionary lump sum payments was £130,000 and for increased pensions £867,000. The capital cost of increases awarded in prior years is £3.2m.

3.7.4 The pension cost that would have had to have been provided for in the year in order to meet future pension liabilities on a systematic and rational basis over the period during which the Council derives benefit from its employees' services is £4.8m, representing 18.5% of APT&C pensionable pay and 15.5% of manual pensionable pay. This comprises a regular cost of £4.5m with an increase of £0.3m in respect of amortisation over a period of approximately 10 years (representing the future service working lifetime of the active membership) of the deficit of assets over liabilities at the 1999 valuation. The actual contribution to the Pension Fund was £3.1m.

3.7.5 The most recent actuarial valuation was as at 31 March, 1999. Details of this are given in section 11.2 of this abstract.

3.8 **Treatment of surpluses/deficits**

3.8.1 A deficit of £6.4 million has been generated on the General Fund for the year ended 31 March 2001. This decreases the surplus that will be carried into 2001/02 to £10.6 million.

3.8.2 Any surplus or deficit on the Housing Revenue Account is eliminated by a balancing contribution to or from the Housing Repairs and Renewals Fund.

3.8.3 The Harbour Accounts balance, after making the appropriate transfer to the Reserve Fund to achieve the 15% rate of return on capital employed, is transferred to or from the Harbour Charge Equalisation Reserves.

3.8.4 The DLO/DSO surpluses accumulated in previous years have been transferred to the General Fund.

3.9 **Corporate and Democratic Core**

3.9.1 The CIPFA Best Value Accounting Code of Practice has introduced a new definition of Corporate and Democratic Core costs, covering Democratic Representation and Management and Corporate Management. No prior year figures for this new definition are available.

3.9.2 The Consolidated Revenue Account includes £5.76 million in respect of Corporate and Democratic Core costs for 2000/01.

3.10 **(Surplus)/Deficit for the Year**

3.10.1 The balance for the year is attributable to the following component parts of the Council:

(Surplus)/Deficit for the Year:

1999/00 £000		2000/01 £000
(468)	DLO/DSO	(995)
(5,672)	General Fund	6,353
<u>(6,140)</u>	Total	<u>5,358</u>

3.11 **Asset Management Revenue Account**

3.11.1 The transactions on the Asset Management Revenue Account are summarised as follows:

1999/00 £000		2000/01 £000	2000/01 £000
	Income		
(19,764)	Capital Charges		(26,356)
<u>(593)</u>	Government Grants Applied		<u>(524)</u>
(20,357)			(26,880)
	Expenditure		
2,003	Provision for Depreciation	5,878	
4,044	External Interest and Expenses	4,432	
<u>96</u>	Finance Lease Interest	<u>83</u>	
6,143			<u>10,393</u>
<u>(14,214)</u>	Balance to Consolidated Revenue Account		<u>(16,487)</u>

3.12 **Members' Allowances and Expenses**

3.12.1 Regulations made under section 50 of the Local Government (Scotland) Act 1973 require that the Council publish a record of Members' allowances and expenses. This is done annually in a local paper. Summarised information is given below.

1999/00 £000		2000/01 £000
316	Allowances	350
<u>97</u>	Expenses	<u>104</u>
<u>413</u>		<u>454</u>

3.13 **Officers' Emoluments**

3.13.1 The number of employees whose remuneration, excluding pension contributions, was £40,000 or more in bands of £10,000 were:

Remuneration Band	1999/00 No.	2000/01 No.
£40,000 - £49,999	22 (15)	18 (-)
£50,000 - £59,999	6 (2)	22 (16)
£60,000 - £69,999	1 (-)	3 (-)

The figures in brackets show the number of pilots, employed at the SullomVoe Harbour operation, included in the totals.

3.14 **Related Parties and Trusts**

3.14.1 The Council has a substantial legal and financial relationship with Central Government, mainly through the devolved Scottish Government. They provide the bulk of revenue finance, as can be seen in the consolidated revenue account and cash flow statement.

The Council also has substantial financial relationships with a number of bodies such as its Pension Fund, the Northern Joint Police Committee and the Orkney and Shetland Valuation Joint Board. Financial information on these relationships, and others, is shown elsewhere within this Report.

Shetland Islands Council Charitable Trust

This trust was originally established by the Council in 1976 for the benefit of the inhabitants of Shetland. The main source of capital funding of the Trust came from the operators of the Sullom Voe Oil Terminal.

Originally, all the Trustees were nominated by Shetland Islands Council. In 1990, the Trust was reconstituted and two non-council member Trustees were added.

The Council provides administrative support to the Trust and the Council's Chief Officers act as professional advisors. Charges of £0.4m were made in the year in respect of this. At the 31 March 2001, £0.4m was due to the Council from the Charitable Trust.

Shetland Development Trust

The Shetland Development Trust was established in 1996 to provide assistance to business in Shetland. The Trust is funded by grants from the Shetland Islands Council. In the year to 31 March 2001, these totalled £3.16m.

The Trustees comprise the twenty two Council Members plus two non-member Trustees.

The Council also provides administrative support to the Trust and the Council's Chief Officers act as professional advisors. Charges of £0.21m were made in the year in respect of this. At the 31 March 2001, £0.21m was due to the Council from the Shetland Development Trust.

3.15 **Interest and Investment Income**

3.15.1 The transactions comprising Interest and Investment income are as follows:

1999/00 £000		2000/01 £000
(656)	General Fund Interest on Revenue Balances	(1,052)
(8,727)	External Capital Fund	(8,032)
(5,606)	External Repairs & Renewals Fund	(9,082)
(8,759)	External Reserve Fund	(7,298)
(644)	External Housing Repairs & Renewals Fund	(1,105)
(3,624)	External Harbour Equalisation Funds	(3,067)
(18)	External Insurance Fund	(28)
<u>(28,034)</u>		<u>(29,664)</u>

3.16 **Contributions to/(from) Earmarked Reserves**

3.16.1 The table below shows the detail of the various transfers between the Consolidated Revenue Account and the various reserves.

1999/00 £000		2000/01 £000
	General Fund	
(445)	Contribution from DSO balances	(468)
8,727	Contribution to external funds-Capital	8,032
5,606	-Repairs & Renewals	9,082
8,759	-Reserve Fund	7,298
18	-Insurance Fund	28
(6,000)	Contribution from Repairs & Renewals Fund	0
(2,942)	Contribution from Reserve Fund	(5,472)
<u>13,723</u>		<u>18,500</u>
	Housing Revenue Account	
88	Contribution to external Housing Repairs & Renewals Fund	1,105
644	Contribution to/(from) Housing Repairs & Renewals Fund	(1,437)
0	Contribution from Reserve Fund	(300)
<u>732</u>		<u>(632)</u>
	Harbour Accounts	
3,624	Contribution to external Harbour Funds	3,067
9,421	Contribution to Reserve Fund	5,897
64	Contribution to Equalisation Funds	51
(4,585)	Contribution from Equalisation Funds	(4,384)
130	Contribution to Pilot Boat Revenue Fund	131
0	Contribution from Marine Fund	(19)
<u>8,654</u>		<u>4,743</u>

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****4. CONSOLIDATED BALANCE SHEET**

AS AT 31 MARCH 2001

31 March 2000 £000		31 March 2001 £000	31 March 2001 £000
	<u>LONG TERM ASSETS</u>		
	Operational assets		
49,015	Council dwellings	48,298	
83,305	Other land and buildings	98,049	
9,627	Vehicles, plant and equipment	10,407	
88,826	Infrastructure assets	91,990	
3,467	Community assets	3,569	
<hr/> 234,240			252,313
14,762	Non-operational assets: Investment properties		<hr/> 7,097
<hr/> 249,002	TOTAL FIXED ASSETS		<hr/> 259,410
238,403	Long-term investments		251,712
172	Long-term debtors:Housing Loans		116
48	Long-term debtors:Other		44
<hr/> 487,625	TOTAL LONG TERM ASSETS		<hr/> 511,282
	<u>CURRENT ASSETS</u>		
1,245	Stocks and work in progress	1,472	
6,220	Debtors, less bad debt provisions	7,939	
79,327	Short term investments	67,680	
16	Cash and bank	26	
			<hr/> 77,117
<hr/> 574,433	TOTAL ASSETS		<hr/> 588,399
	<u>CURRENT LIABILITIES</u>		
(13,315)	Borrowing due within one year	(3,605)	
(10,987)	Creditors	(11,812)	
188	Bank overdraft	(408)	
			<hr/> (15,825)
<hr/> 550,319	TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 572,574
	<u>LONG-TERM LIABILITIES</u>		
(3,500)	Borrowing due in excess of one year	0	
(664)	Deferred liabilities	(572)	
(220)	Deferred capital receipts	(160)	
			<hr/> (732)
<hr/> <hr/> 545,935	TOTAL ASSETS LESS LIABILITIES		<hr/> <hr/> 571,842

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****4. CONSOLIDATED BALANCE SHEET**

AS AT 31 MARCH 2001

31 March 2000 £000		31 March 2001 £000	31 March 2001 £000
	<u>REPRESENTED BY:</u>		
	Earmarked reserves		
(133,266)	Fixed Asset Restatement Reserve		(131,949)
(57,463)	Capital Financing Reserve		(70,853)
(27,838)	Usable Capital Receipts Reserve		(28,016)
	General Fund:		
(133,770)	Capital Fund	(142,172)	
(54,116)	Repairs and Renewals Fund	(63,293)	
(81,219)	Reserve Fund	(84,243)	
(203)	Insurance Fund	(195)	
54	Shetland College of Further Education Balance	184	
(79)	Devolved School Management Balances	(85)	
			(289,804)
	Housing Revenue Account:		
(7,392)	Housing Repairs and Renewals Fund		(7,346)
	Harbour Accounts:		
(25,077)	Harbour Charge Equalisation Funds	(23,333)	
(1,065)	Pilot Boat Renewal Fund	(1,269)	
(2,741)	Marine Fund	(2,992)	
			(27,594)
	DLOs/DSOs:		
(4,250)	DLO Reserve Fund	(4,589)	
(92)	Quarry Repairs and Renewals Fund	(99)	
			(4,688)
(528,517)			(560,250)
	Balances		
(16,950)	General Fund	(10,597)	
(468)	DLOs/DSOs	(995)	
			(11,592)
(545,935)	TOTAL EQUITY		(571,842)

.....
 Andrew J. Matthews B.A. (Hons.), C.P.F.A., I.R.R.V.
 EXECUTIVE DIRECTOR CORPORATE SERVICES

SHETLAND ISLANDS COUNCIL

2000/01 Abstract of Accounts

4. NOTES TO THE CONSOLIDATED BALANCE SHEET

4.1 Introduction

4.1.1 This statement shows the balances and reserves at the disposal of the Council at the year end. It also shows the Council's long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

4.2 Summary of capital expenditure and income for the year

4.2.1 The table below analyses the sources of finance utilised in 2000/01 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2000/01:

1999/00		2000/01
£000		£000
1,466	Loans	1,531
4,224	Capital receipts	657
593	Grant receipts	524
9,417	Revenue/Other	20,672
<u>15,700</u>	Total	<u>23,384</u>

4.2.2 The table below analyses capital expenditure and income on fixed assets over the various categories of assets.

Movements in fixed assets in 2000/01 were:

	Balance at 1/4/00	Opening Revaluations and Restatements	Expenditure in 2000/01	Disposals/ Revaluations in 2000/01	Balance at 31/03/2001
	£000	£000	£000	£000	£000
Operational assets					
Council dwellings	49,015	0	2,308	(3,025)	48,298
Other land, buildings	83,305	471	4,159	10,114	98,049
Vehicles, plant, equip	9,627	655	2,684	(2,559)	10,407
Infrastructure assets	88,826	(1,558)	6,060	(1,338)	91,990
Community assets	3,467	(24)	127	(1)	3,569
Non-operational assets	14,762	456	2,357	(10,478)	7,097
Total	249,002	0	17,695	(7,287)	259,410
1999/00	252,078	(110)	12,780	(15,746)	249,002

4.2.3 The table below analyses capital expenditure and income on deferred charge items in 2000/01. The expenditure consisted of capital grants.

Movements in deferred charges in 2000/01 were:

	Balance at 1/4/00	Expenditure in 2000/01	Charged to Revenue in 2000/01	Balance at 31/3/01
	£000	£000	£000	£000
Social Work	0	210	(210)	0
Roads & Transport Improvement	0	20	(20)	0
Community Services	0	248	(248)	0
Planning	0	93	(93)	0
Reserve Fund	0	407	(407)	0
Finance	0	4,665	(4,665)	0
	0	46	(46)	0
Total	0	5,689	(5,689)	0
1999/00	0	2,920	(2,920)	0

- 4.2.4 The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2001. These amounts relate to contracts commenced but not concluded by the end of the financial year.

**Significant commitments under capital contracts beyond
31 March 2001:**

	Outstanding Contractual Liability beyond 31/3/01 £000
Whalsay Ferry replacement	4,364
Northmavine road	2,040
Bixter Braes road	1,091
Skerries classroom	761
St Ringans	594
Aith School extra accommodation	575
IT Photo Image Digitising	379
Total	<u><u>9,804</u></u>

4.2.5 The Table below gives information on some of the Fixed Assets held by the Council as at 31 March 2001.

2,315	Council Dwellings	2,231
	Operational Buildings	
1	Town Hall	1
15	Other Offices	15
6	Social Services Homes	7
1	Libraries	1
35	Schools	35
26	Public Conveniences	26
3	Museums	3
2	Colleges	2
6	Leisure Facilities	2
4	Car Parks	4
1	Bus Station	1
1	Airstrips	1
	Operational Equipment	
277	Vehicles and Plant	281
	Computer Equipment:	
666	Personal Computers	817
94	Laptop Personal Computers	126
0	Mini Computers	2
1	UNIX Computers	1
309	Printers	329
0	Modems	1
19	Tape/DAT Units	20
13	Other	23
12	Ferries	12
	Infrastructure Assets	
1,028	Highways (km)	1,033
	Investment Properties	
250	Strategic Land Holdings (acres)	250

The increase in Social Services homes relates to Taing House in Lerwick whilst the decrease in Leisure Facilities relates to the sale of the two Islesburgh properties, the Garrison Theatre and the Firth Centre.

4.3 **Analysis of net assets employed by the various funds**

4.3.1 The table below analyses the net assets employed by the Council over the various accounts of the Council.

Analysis of net assets employed:

31 March 2000 £000		31 March 2001 £000
133,266	Fixed Asset Restatement Reserve	131,949
57,463	Capital Financing Reserve	70,853
27,838	Usable Capital Receipts Reserve	28,016
286,283	General Fund	300,401
7,392	Housing Revenue Account	7,346
28,883	Harbour Accounts	27,594
4,810	DLOs/DSOs	5,683
<u>545,935</u>	Total	<u>571,842</u>

4.4 **Analysis of borrowing repayable in excess of 12 months**

4.4.1 The table below analyses the borrowings of the Council of greater than twelve months duration by type or source, and also by length of time to maturity.

Analysis of borrowing >12 months :

31 March 2000 £000		31 March 2001 £000
	Analysis of loans by source:	
(3,500)	Banks	0
0	Building Societies	0
0	Other	0
<u>(3,500)</u>	Total Outstanding	<u>0</u>
	Analysis of loans by maturity:	
(3,500)	Between 1 and 2 years	0
0	Between 2 and 5 years	0
<u>(3,500)</u>	Total Outstanding	<u>0</u>

4.5 **Trust fund and third party funds administered by the Council**

- 4.5.1 The Council administers 23 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 Consolidated Balance Sheet.

Trust funds:

Fund Balance at 31/3/00		Fund Balance at 31/3/01
£000		£000
(240)	Zetland Educational Trust	(240)
(42)	Gilbertson Trust	(43)
(1)	Bremner Trust	(1)
(14)	Other	(14)
<u>(297)</u>	Total	<u>(298)</u>

4.6 **Devolved School Management**

- 4.6.1 In 1994/95, the Council introduced a scheme of Devolved School Management, in line with Scottish Office guidelines. The scheme allows schools to carry forward into the next financial year 10% of any surplus balance held on specific devolved budget heads. Conversely, schools must meet in full, in the next financial year, any deficit balance on these budget heads. The total unspent balances held by schools for 2000/01 amount to £99,456 (£89,557 in 1999/00) while the total overspent balances amount to £7,049 (£10,893 in 1999/00), giving an overall surplus balance of £92,407 (surplus of £78,664 in 1999/00), of which £78,976 can be carried forward.

4.7 **Details of insurance provisions and the risk carried**

4.7.1 The Council operates an insurance fund to offset any uninsured losses and excesses on claims. The fund is actuarially valued no less than triennially. The authority assesses its likely funding needs and this reflected in the internal recharges, which take account of insurance premia, and all other permitted insurance costs incurred.

4.7.2 The Council carries some uninsured risks. These are:

4.7.2.1 Theft cover (with the exception of computers and some specialised equipment);

4.7.2.2 Gradually occurring pollution;

4.7.2.3 Terrorism damage in excess of £100,000 per building.

4.8 **Assets held under finance leases**

4.8.1 The Council holds other land and buildings valued at £1,178,891 under finance lease. As at 31 March 2001 some £606,832 of this sum has been depreciated, leaving a net value on the Balance Sheet of £572,059.

4.9 **Contingent liabilities**

4.9.1 There are no contingent liabilities.

4.10 **Euro Costs**

4.10.1 The Council has considered the possible effect of the introduction of the euro into the United Kingdom.

4.10.2 Due to the uncertainty over entry into the euro, no commitments in respect of costs to be incurred have been made.

4.10.3 No firm assessment of the total costs likely to be incurred has been made. However, the Council's financial management system is a multi-currency system and should be capable of dealing with the euro at little extra cost.

4.11 **Movements in Provisions**

4.11.1 The Council has made provision for the risk of incurring bad debts on its General Fund and Housing Revenue Account.

4.11.2 The provision has been determined by the Council's Income and Recovery Manager, using his professional judgement and experience.

4.11.3 The tables below show the movement in the provision:

1999/00 £000		2000/01 £000
(996)	Opening balance-General Fund	(1,303)
0	Braer Incident costs	697
97	Miscellaneous Invoices	130
25	Non-domestic Rates	30
49	Council Tax	38
0	Tax received on debts written off	(45)
<u>(478)</u>	Charge to General Fund for new provision	<u>(109)</u>
<u>(1,303)</u>		<u>(562)</u>
(171)	Opening balance-Housing Revenue Account	(132)
15	Miscellaneous Income	25
41	Rents	58
<u>(17)</u>	Charge to HRA for new provision	<u>(54)</u>
<u>(132)</u>		<u>(103)</u>

4.12 **Depreciation Methodologies**

- 4.12.1 In accordance with its new depreciation policy, the Council provides for depreciation on all fixed assets with a finite useful life.
- 4.12.2 Depreciation is provided on a straight line basis with equal instalments charged over the useful life of the asset.
- 4.12.3 The useful life of an asset has been determined by the officers of the Council in charge of the relevant asset. The life of the operational and non-operational properties have been determined by Alan Rolfe ARICS of the Property Services Division.
- 4.12.4 The useful life of various classes of assets are given below:

Asset	Year
General Highways	50
Street Lighting	30
Airstrips	50
Burial Grounds	100
Museum Exhibits	100
Ferries	0-19
Operational Buildings	5-120
Non-operational Buildings	5-50
Vehicles, plant, equipment	Various

- 4.12.5 The depreciation for the year and cumulative depreciation is shown below:

Asset	Depreciation 2000/01 £000	Cumulative Depreciation £000
Other Land & Buildings	2,892	3,102
Vehicles, plant & equipment	1,998	8,692
Infrastructure assets	954	954
Non-operational assets	34	34
	<u>5,878</u>	<u>12,782</u>

5. TOTAL MOVEMENTS IN RESERVES

	Fixed Asset Restatement Reserve	Capital Financing Reserve	Capital Fund	Usable Capital Receipts Reserve	Pilot Boat Renewal Fund	Total
	£000	£000	£000	£000	£000	£000
CAPITAL RESERVES						
Earmarked Reserves						
Balances 1/4/2000	(133,266)	(57,463)	(133,770)	(27,838)	(1,065)	(353,402)
Net (surplus)/deficit for year	0	5,689	(8,402)	(2,225)	(204)	(5,142)
Unrealised gains from revaluation of fixed assets	(591)	0	0	0	0	(591)
Value of assets disposed of	1,908	0	0	0	0	1,908
Proceeds of disposal	0	0	0	(118)	0	(118)
Other capital receipts	0	0	0	(60)	0	(60)
Financing of fixed assets	0	(17,727)	0	2,225	0	(15,502)
Applied to repay Debt	0	(1,352)	0	0	0	(1,352)
Balance 31/3/2001	(131,949)	(70,853)	(142,172)	(28,016)	(1,269)	(374,259)
	Balance as at 1/4/00	Net (surplus)/deficit for Year	Financing of Assets	Balance as at 31/03/01		
	£000	£000	£000	£000		
REVENUE RESERVES						
Earmarked Reserves						
General Fund	(16,951)	6,354	0	(10,597)		
Housing Revenue Account	0	0	0	0		
DLO/DSO	(468)	(527)	0	(995)		
Reserve Fund	(81,219)	(10,943)	7,919	(84,243)		
Repairs & Renewals Fund	(54,116)	(9,177)	0	(63,293)		
Housing Repairs & Renewals Fund	(7,392)	46	0	(7,346)		
Harbour Charge Equalisation Funds	(25,077)	1,744	0	(23,333)		
Marine Superannuation Fund	(2,741)	(251)	0	(2,992)		
DLO Reserve Fund	(4,249)	(340)	0	(4,589)		
Insurance Fund	(203)	8	0	(195)		
Quarry Repairs & Renewals Fund	(93)	(6)	0	(99)		
Shetland College of F.E. Balance	55	129	0	184		
Devolved School Management Balance	(79)	(6)	0	(85)		
Total	(192,533)	(12,969)	7,919	(197,583)		

SHETLAND ISLANDS COUNCIL

1999/00 Abstract of Accounts

5. NOTES TO THE TOTAL MOVEMENTS IN RESERVES STATEMENT

5.1. Earmarked Reserves

5.1.1 The Fixed Asset Restatement Reserve and the Capital Financing Reserve were both created as a result of the new method of accounting for capital assets at current cost. Their balances vary with the accounting entries for capital expenditure and revaluation of assets. Neither reserve is available for use by the Council for its purposes.

5.1.2 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 fund can only fund expenditure each year to the limit of its returns in the year due to the unavailability of Section 94 consent. The fund is managed by Baillie Gifford and is mainly invested in trustee securities.

5.1.3 The Usable Capital Receipts Reserve was established for the purpose of financing capital expenditure and its capital can be applied for that purpose. Returns in the year are credited to the General Fund. The source of funding for the reserve is capital receipts not applied during the year and it is invested in the Council's Loans Fund.

5.2 Revenue Reserves

5.2.1 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 which is solely in the interest of the County and its inhabitants. The fund is managed by Phillips & Drew and is invested in securities and equities.

5.2.2 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 fund is managed by Schrodgers and is invested in securities and equities.

5.2.3 The Harbour Charge Equalisation Funds were established for the purpose of restricting the increase in harbour charges at Sullom Voe. They are funded by contributions from the Harbour Account. The funds are managed by Phillips & Drew and are invested in securities and equities.

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

5.3 Accounting Policies

5.3.1 The Reserves are subject to the same accounting policies defined for Council expenditure and income. These can be found in section 2 of this Abstract. Council policy concerning the use of certain reserves can be found in section 1.6.

5.4 Fund Managers

5.4.1 As mentioned in notes 5.1 and 5.2, the Council's funds are largely managed externally by fund managers.

5.4.2 On 22 March, 2001, the Council funds were transferred to new fund managers. The Reserve Fund, Repairs and Renewals Fund and Harbour charge Equalisation Funds were split between Henderson Global Investors, Baillie Gifford and Rothschilds. The Capital Fund remained with Baillie Gifford.

5.5 Internal Funds

5.5.1 Although the bulk of the Council's funds are invested externally by fund managers, the Council also holds a part of each fund internally to cover various transfers and expenses. These are invested in the Council's loans fund where they attract interest.

5.5.2 The table below shows the interest earned by the funds invested in the Council's Loans Fund.

1999/00 £000		2000/01 £000
(222)	Capital Fund	(375)
(1,918)	Usable Capital Receipts Reserve	(2,225)
(46)	Pilot Boat Renewal Fund	(73)
(24)	Reserve Fund	(135)
(259)	Repairs & Renewals Fund	(106)
(24)	Housing Repairs & Renewals Fund	(38)
(78)	Harbour Charge Equalisation Funds	201
(6)	Marine Superannuation Fund	(9)
(315)	DLO Reserve Fund	(340)
(1)	Insurance Fund	(1)
(5)	Quarry Repairs & Renewals Fund	(6)
<u>(2,898)</u>		<u>(3,107)</u>

5.6 Housing Revenue Account

- 5.6.1 It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund.
- 5.6.2 In 2000/01, a contribution of £1.186m was made to the Housing Revenue Account from the Housing Repairs and Renewals Fund. In 1999/00 there was a contribution of £0.087m from the Housing Revenue Account to the Housing Repairs and Renewals Fund.

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****6. CASHFLOW STATEMENT**

1999/00		2000/01	2000/01
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
51,798	Cash paid to and on behalf of employees	51,508	
34,837	Other operating cash payment	44,543	
284	Housing Benefit paid out	281	
6,799	National Non-Domestic Rates:payment to Pool	4,886	
		<hr/>	101,218
	Cash Inflows		
(3,485)	Rent (after rebates)	(3,393)	
-	Community Charge income (after rebates)	-	
(4,077)	Council Tax income (after rebates)	(4,686)	
(13,616)	Non-domestic rates receipts	(12,251)	
	National Non-Domestic Rates:receipts from Pool		
(48,222)	Revenue Support Grant	(48,593)	
(261)	DSS grants for benefits	(264)	
(8,709)	Other government grants	(9,897)	
(75)	Other operating cash receipts	(11,895)	
(29,590)	Cash received for goods & services	(16,484)	
		<hr/>	(107,463)
(14,317)	NET REVENUE CASH (IN)/OUTFLOW		(6,245)
	SERVICING OF FINANCE		
	Cash Outflows		
1,384	Interest Paid	1,046	
96	Interest element of finance leases	83	
		<hr/>	1,129
	Cash Inflows		
(3,083)	Dividends received	(3,012)	
(13,797)	Interest received	(14,052)	
		<hr/>	(17,064)
(29,717)	BALANCE c/f		(22,180)

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****6. CASHFLOW STATEMENT (continued)**

1999/00		2000/01	2000/01
£000		£000	£000
(29,717)	BALANCE b/f		(22,180)
CAPITAL ACTIVITIES			
Cash Outflows			
12,687	Purchase of fixed assets	18,004	
274,747	Purchase of long-term investments	143,644	
2,949	Other capital cash payments	5,689	
			167,337
Cash Inflows			
(7,117)	Sale of fixed assets	(2,142)	
(263,239)	Sale of long-term investments	(143,429)	
(766)	Capital grants received	(595)	
(2,343)	Other capital cash receipts	(60)	
			(146,226)
(12,799)	Net cash inflow/outflow before financing		(1,069)
(5,599)	MANAGEMENT OF LIQUID RESOURCES Increase/(decrease) in short term investments		(11,647)
FINANCING			
Cash Outflows			
SERVICING OF FINANCE			
Cash Outflows			
79	Repayments of amounts borrowed-finance leases	92	
4,372	Repayments of amounts borrowed-other	13,210	
	New loans issued	-	13,302
Cash Inflows			
0	Repayments of amounts loaned	-	
0	New loans raised	0	
(13,947)	(INCREASE)/DECREASE IN CASH		586

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****6. NOTES TO THE CASH FLOW STATEMENT****6.1 Analysis of and Reconciliation to Net Debt****6.1.1 Reconciliation to Net Debt:**

1999/00 £000		2000/01 £000
(2,749)	(Increase)/decrease in Cash	586
(4,373)	Decrease in Debt Financing	(13,210)
(5,599)	(Increase)/decrease in Liquid Resources	11,647
(12,721)		(977)
(49,995)	Opening Net Debt	(62,716)
<u>(62,716)</u>	Closing Net Debt	<u>(63,693)</u>

6.1.2 Analysis of Net Debt

	Balance at 31/3/00 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/01 £000
Cash in hand	(16)	(10)	0	(26)
Overdraft	(188)	596	0	408
		586		
Debt due after 1 year	3,500	0	(3,500)	0
Debt due within 1 year	13,315	(13,210)	3,500	3,605
		(13,210)		
Current Investments	(79,327)	11,647	0	(67,680)
Total	<u>(62,716)</u>	<u>(977)</u>	0	<u>(63,693)</u>

6.2 Reconciliation of Consolidated Revenue Account surplus to Net Cashflow from revenue activities

1999/00 £000	2000/01 £000	2000/01 £000
(6,140) (Surplus)/Deficit for Year		5,358
<u>Non cash transactions</u>		
3,824 Contributions to/from reserves	5,514	
445 Transfer from DLO/DSO surplus	468	
(1,953) Loans Fund principal repayments	(1,753)	
(3,576) Capital from current revenue	<u>(13,914)</u>	(9,685)
<u>Items on an accruals basis</u>		
(160) Movement in stocks	227	
(5,364) Movement in debtors	1,746	
1,171 Movement in creditors	<u>(1,333)</u>	640
<u>Items classified elsewhere</u>		
(79) Finance lease capital	(92)	
(96) Finance lease interest	(83)	
(3,073) Interest paid	(3,077)	
684 Other	694	(2,558)
<u>(14,317)</u>		<u>(6,245)</u>

6.3 **Analysis of government grants****Government grants received in 2000/01:**

1999/00 £000		2000/01 £000	2000/01 £000
(48,222)	Revenue Support Grant		(48,593)
	Rebates Grants		
(381)	Council Tax Rebate	(471)	
(1,726)	Rent Rebate	(1,713)	
(261)	Rent Allowance	(264)	
			(2,448)
	Other Revenue Grants		
(2,708)	Housing Support Grant	(2,759)	
(1,376)	Further Education Grant	(1,415)	
(284)	Training Grants	(302)	
(42)	Civil Defence Grant	(50)	
(16)	Milk Subsidy	(16)	
(16)	Housing Benefit Administration	(20)	
(17)	Council Tax Administration	(23)	
(2,143)	Other	(3,208)	
			(7,793)
<u>(57,192)</u>	Total Revenue Grants		<u>(58,834)</u>
(766)	Capital Grants		(539)
<u>(57,958)</u>	Total		<u>(59,373)</u>

6.4 **Reconciliation of Relevant Movements within Financing and Management of Liquid Resources**

	Balance at 31/3/00 £000	Balance at 31/3/01 £000	Movement 2000/01 £000
Management of Liquid Resources			
Short Term Investments	79,327	67,680	11,647
Financing			
Bank Loans	13,815	3,605	10,210
Building Society Loans	3,000	0	3,000
	<u>16,815</u>	<u>3,605</u>	<u>13,210</u>
Principal element of finance lease rental			<u>92</u>
			<u><u>13,302</u></u>

6.5 **Definition of Liquid Resources**

Liquid resources are defined as short term investments

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****7. HOUSING REVENUE ACCOUNT**

1999/00		2000/01	2000/01
£000		£000	£000
	EXPENDITURE		
1,970	Repairs and maintenance	2,184	
677	Supervision and management	828	
5,891	Capital financing costs	6,148	
18	Bad or doubtful debts	54	
685	Other expenditure	293	
<u>87</u>	Contribution to R&R	<u>0</u>	
9,328			9,507
	INCOME		
(4,910)	Dwelling rents (gross)	(4,960)	
(240)	Non-dwelling rents (gross)	(236)	
(3,889)	Housing Support Grant	(2,929)	
0	Contribution to/(from) Housing Repairs and Renewals Fund	(1,186)	
<u>(289)</u>	Other income	<u>(196)</u>	
(9,328)			(9,507)
<u><u>0</u></u>	TOTAL		<u><u>0</u></u>

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****7. NOTES TO THE HOUSING REVENUE ACCOUNT****7.1. Number and types of dwelling****Housing stock:**

31 March 2000		31 March 2001	
No.		No.	
75	1 Apartment	67	
408	2 Apartment	415	
650	3 Apartment	621	
994	4 Apartment	939	
53	5 Apartment	51	
<u>0</u>	8 Apartment	<u>1</u>	
<u>2,180</u>	Total	<u>2,094</u>	

7.2. Rent charged for each type of dwelling**Rent charged:**

(See Note) £ per week		(See Note) £ per week
	Lerwick:	
23.87	1 Apartment	25.04
31.86	2 Apartment	33.42
39.74	3 Apartment	41.69
47.73	4 Apartment	50.07
55.61	5 Apartment	58.34
	Non-Lerwick:	
22.67	1 Apartment	23.78
30.27	2 Apartment	31.75
37.75	3 Apartment	39.61
45.35	4 Apartment	47.57
52.83	5 Apartment	55.42
-	8 Apartment	84.98

Note: A rent charging system was introduced in 1994/95 which charges a different rent according to the location and size of property and the facilities provided, e.g double glazing, central heating. The above figures are therefore averages in each case.

7.3. **Amount of rent arrears**

7.3.1. The table below summarises the rent arrears position.

7.3.2. The total amount of arrears has fallen by £32,000 during 2000/01 to £149,000. Arrears as a share of gross rents have fallen to 2.76%.

7.3.3. The number of properties in arrears has decreased by 65 over the period.

Rent arrears:

31 March 2000		31 March 2001
181	Amount (£000)	149
3.38	Amount as share of gross rents (%)	2.76
642	Number of properties in arrears (No.)	577
24.0	Properties in arrears as share of total stock (%)	23.00
282	Average amount per property in arrears (£)	257

7.4 **Provision for bad debts**

7.4.1 The following table summarises the movements on the bad debt provision during 2000/01

Bad debt provision:

1999/00 £000		2000/01 £000	2000/01 £000
(170)	Balance as at 1st April		(132)
	Bad rent debt written off		
38	Over £1,000 (Council approved)	29	
3	Under £1,000 (delegated authority)	29	
			58
15	Miscellaneous bad debt written off		25
(114)			(49)
(18)	Contribution to/(from) Housing Revenue Account		(54)
(132)	Balance as at 31st March		(103)

7.5. Housing Support Grant clawback

- 7.5.1. Housing Support Grant (HSG) is a form of deficit grant. The Scottish Executive estimate expenditure and income for each local authority from data supplied by the Council. Any deficit thus arrived at is the basis for payment of HSG. The estimate for capital charges is adjusted four years later to reflect the actual charges, and the amount of HSG is subsequently adjusted. For example, the 2001/02 HSG payable to the Council will be adjusted for any difference between estimated and actual Capital charges in 1997/98.
- 7.5.2. The Shetland Islands Council's capital charges are consistently below the Scottish Executive estimate. This is due to the achievement of a borrowing rate which is consistently below the Scottish local authority average. This means that the grant received by the Council in the first instance exceeds its eventual entitlement, giving rise to a downward adjustment four years hence. At 31st March 2001 the estimated provision for the four years 1997/98 to 2000/01 is £1.1199million.
- 7.5.3. The Council is pursuing the Scottish Executive's New Housing Partnership (NHP) Initiative to transfer its stock to an alternative landlord. In the event of a stock transfer taking place, the Scottish Executive has pledged to repay or service the massive outstanding debt on the HRA. The outcome of the NHP initiative is subject to a tenants ballot later in 2001. In the event of a stock transfer taking place, the Council's entitlement to HSG would end.

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****8. SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT**

1999/00		2000/01	2000/01
£000		£000	£000
	EXPENDITURE		
5,398	Labour	5,752	
3,184	Materials	3,139	
1,374	Sub-contractors	1,539	
745	Transport and plant	998	
548	Capital charges	579	
607	Overheads	446	
40	Interest payable on stock balances	36	
0	Movement on work in progress	0	
(88)	Movements on loss provisions	0	
11,808			12,489
	INCOME		
(12,276)	Charges to other Council accounts		(13,484)
(468)	Surplus or deficit for the year		(995)
	APPROPRIATIONS		
468	Contribution to/(from) DLO/DSO Reserves		995
0	TOTAL		0

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****8. NOTES TO SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT****8.1. Turnover and surplus for each DLO/DSO****DLO/DSO revenue accounts 2000/01**

1999/00 Turnover		2000/01 Turnover	2000/01 Surplus
£000		£000	£000
(4,877)	Highways DLO	(5,746)	(581)
(3,605)	Building DLO	(3,823)	(167)
(838)	Building Cleaning DSO	(889)	(26)
(1,145)	School and Welfare Catering DSO	(1,166)	(30)
(692)	Vehicle Maintenance DSO	(707)	(44)
(565)	Refuse Collection DSO	(594)	(83)
(254)	Ground Maintenance DSO	(238)	(21)
(300)	Other Cleaning DSO	(321)	(43)
<u>(12,276)</u>	Total	<u>(13,484)</u>	<u>(995)</u>

8.2. Financial objective

8.2.1. The financial objective for each Direct Labour Organisation and each Direct Service Organisation is to break even.

8.3. Further information

8.3.1. The Council operates two DLOs and six DSOs under the provisions of the Local Government Planning and Land Act 1980 and the Local Government Act 1988. The above statements summarise their operations. Full reports and accounts of their operations are produced separately and may be obtained from:

Executive Director Corporate Services,
Breiwick House,
15 South Road,
Lerwick,
Shetland ZE1 0TD

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****9. COUNCIL TAX INCOME ACCOUNT**

1999/00		2000/01	2000/01
£000		£000	£000
	Gross Council Tax levied		
(5,232)	Council Tax	(5,798)	
<u>(5,232)</u>			<u>(5,798)</u>
23	Council Tax benefits (net of Government grant)		22
53	Provision for bad and doubtful debts		31
741	Other deductions		829
21	Prior year adjustments		26
<u>(4,394)</u>	Net Council Tax income		<u>(4,890)</u>

SHETLAND ISLANDS COUNCIL

2000/01 Abstract of Accounts

9. NOTES TO COUNCIL TAX INCOME ACCOUNT

9.1. Council tax base

9.1.1. Overleaf is the analysis of the Council Tax base used to set the 2000/01 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.

9.2. Charge setting

9.2.1. The analysis then sets out the tax yield and the charge per property in each band, split into the General Fund and Sewerage Account elements.

9.3. Deductions

9.3.1. The gross charge to a given property may be affected by the following deductions:

9.3.1.1. Exemptions: Properties are exempted from Council Tax if wholly occupied by students or persons under 18. Exemption also applies to certain vacant properties, but in most cases for a limited period only.

9.3.1.2. Discounts: Discounts on Council Tax are awarded at 25% if only one adult is in residence, and at 50% if there is no adult occupant. Students, some nurses, apprentices, YT trainees and persons who are severely mentally impaired are excluded from the count of adult residents.

9.3.1.3. Reliefs: A property adapted for the disabled will have its Council Tax band reduced by one band, unless it is valued in band A.

9.4. Provision for bad debts

9.4.1. The following table summarises the movements on the bad debt provision during 2000/01.

Bad debt provision:

1999/00 £000		2000/01 £000
(144)	Balance as at 1st April	(148)
49	Bad debt written off	38
<hr/>		<hr/>
(95)		(110)
(53)	Contribution from General Fund	(31)
<hr/>		<hr/>
<u>(148)</u>	Balance as at 31st March	<u>(141)</u>

COUNCIL TAX VALUATION BANDS 2000/01

	(£0 to £26,999.99)	(£27,000.00 to £34,999.99)	(£35,000.00 to £44,999.99)	(£45,000.00 to £57,999.99)	(£58,000.00 to £79,999.99)	(£80,000.00 to £105,999.99)	(£106,000.00 to £211,999.99)	(£212,000.00 to infinity)	
Council Tax Weighting per Band	6	7	8	9	11	13	15	18	
Total Properties per Register (No.)	3,305	1,763	2,391	1,376	857	148	28	2	9,870
Gross Tax Base (Properties x Weighting)	19,830	12,341	19,128	12,384	9,427	1,924	420	36	75,490
Adjusted Properties (Band D Equivalents)	2203.33	1371.22	2125.33	1376.00	1047.44	213.78	46.67	4.00	8,388
Vacant Properties (No.):									
Mandatory Standard Exemptions	(252)	(122)	(73)	(23)	(6)	(2)	0	(2)	(480)
Chargeable Dwellings subject to Disabled Reduction (No.)	0	(6)	(10)	(9)	(6)	0	0	0	(31)
Dwellings Effectively Subject to Tax by Virtue of									
Disabled Relief (No.)	6	10	9	6	0	0	0	0	31
Class 18 (MoD) Dwellings (No.)	0	0	0	72	0	0	0	0	72
Revised Total Properties (No.)	3,059	1,645	2,317	1,422	845	146	28	0	9,462
Types of Property (No.):									
Single Discount (25%)	1,175	642	798	252	99	13	2	0	2,981
Double Discount (50%)	380	80	51	29	7	2	0	0	549
No Discount (0%)	1,504	923	1,468	1,069	739	131	26	0	5,860
	3,059	1,645	2,317	1,350	845	146	28	0	9,390
Properties Subject to Council Tax (No.)	2,575.25	1,444.50	2,092.00	1,272.50	816.75	141.75	27.50	0.00	8,370.25
Net Tax Base (Properties x Weighting)	15,452	10,112	16,736	11,453	8,984	1,843	413	0	64,991
Adjusted Properties (Band D Equivalents)	1,716.8	1,123.5	1,859.6	1,272.5	998.3	204.8	45.8	0.0	7,221.2
COUNCIL TAX 1999/00:									
General Fund Charge									
Tax Yield (£)	1,174,314	768,474	1,271,936	870,390	682,803	140,049	31,350	0	4,939,316
Charge per Property (£)	456.00	532.00	608.00	684.00	836.00	988.00	1,140.00	1,368.00	

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****10. NON-DOMESTIC RATE INCOME ACCOUNT**

1999/00		2000/01	2000/01
£000		£000	£000
	Gross rates levied		
(15,407)	General Rate		(14,858)
<u>(15,407)</u>			<u>(14,858)</u>
95	Provision for bad and doubtful debts		82
0	Payment of interest		20
2,419	Reliefs and other deductions (net)		2,302
6,419	Contribution to national non-domestic rate pool		4,741
<u>(6,474)</u>	Net non-domestic rate income		<u>(7,713)</u>

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****10. NOTES TO NON-DOMESTIC RATE INCOME ACCOUNT****10.1. Analysis of rateable values**

10.1.1. The table below sets out the gross rateable values and the deductions used to arrive at estimates of effective rateable values for 2000/01.

10.1.2. The General Fund rate in the pound is determined by the Scottish Office and the budgeted yield is the product of rate in the pound and the effective rateable value.

Rateable values 2000/01

	Fund 00/01 £000
Gross Rateable Value	32,639
Void Relief	(2,325)
Disabled Relief	(378)
Discretionary/Mandatory Relief	(2,258)
Statutory Exemptions	(169)
Estimated Effective Rateable Value	<u>27,509</u>
Amount to be raised by Rates	12,599
Amount of 2000/01 charge:	
Rate in £ (p)	45.8

10.2. Provision for bad debts

10.2.1. The following table summarises the movements on the bad debt provision during 2000/01.

Bad debt provision:

1999/00 £000		2000/01 £000	2000/01 £000
(59)	Balance as at 1st April		(128)
	Bad rate debt written off		
25	Over £250 (Council approved)	29	
1	Under £250 (delegated authority)	1	
			30
		<hr/>	
<hr/>			<hr/>
(33)			(98)
(95)	Contribution to/(from) General Fund		(82)
<hr/>			<hr/>
<u>(128)</u>	Balance as at 31st March		<u>(180)</u>

SHETLAND ISLANDS COUNCIL**2000/01 Abstract of Accounts****11. PENSION FUND ACCOUNT 2000/01****FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2001**

1999/00		2000/01	2000/01
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable		
(3,113)	Employers	(3,801)	
0	Employers - Strain on fund	(116)	
<u>(1,845)</u>	Employees	<u>(1,960)</u>	
(4,958)		(5,877)	
(396)	Transfers in	(789)	
<u>(17)</u>	Other income	<u>(22)</u>	
(5,371)			(6,688)
	Benefits Payable		
1,973	Pensions	2,202	
713	Lump sums	885	
	Payments to and on account of leavers		
10	Refunds of contributions	14	
527	Transfers out	535	
126	Administrative expenses	146	
<u>55</u>	Interest on revenue balances	<u>67</u>	
3,404			3,849
<u>(1,967)</u>	NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(2,839)</u>
	RETURNS ON INVESTMENTS		
(3,546)	Investment income	(3,785)	
(6,262)	Change in market value of investments- Realised and unrealised	(1,244)	
<u>323</u>	Investment management expenses	<u>353</u>	
(9,485)	Net returns on investments		<u>(4,676)</u>
(11,452)	Net increase in the fund during the year		(7,515)
(92,373)	Opening net assets of the scheme		(103,825)
<u>(103,825)</u>	Closing net assets of the scheme		<u>(111,340)</u>

SHETLAND ISLANDS COUNCIL

2000/01 Abstract of Accounts

11. NOTES TO PENSION FUND ACCOUNT

11.1. Introduction

The Council is Trustee for a Pension Fund covering 2,428 members (including 481 who are members of other admitted bodies), 578 pensioners and 425 deferred members. These figures do not include teachers, who are covered by the Scottish Office Pension Agency.

The admitted bodies are:

- Lerwick Port Authority
- Shetland Amenity Trust
- Shetland Arts Trust
- Shetland Recreational Trust
- Shetland Fisheries Training Centre Trust
- Shetland Islands Tourism
- Shetland Enterprise Company
- Shetland Welfare Trust
- Shetland Alcohol Trust
- Shetland Careers Service
- ABA Services
- Shetland Youth Information Service
- Islesburgh Trust
- Shetland Seafood Quality Control Ltd
- Shetland Business Innovation Centre Ltd
- Shetland Heat Energy and Power

11.2. Administration, operation, management of the Fund

11.2.1. The Pension Fund is funded by contributions from employees and employers, as well as investment income, and pays pensions and lump sum benefits to members. The contributions from employees are fixed by statute and the employers contributed, during 2000/01, an additional £2.00 for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 1999 indicated a funding level of 98%. As a result, the rate of employer's contribution rose to £2.00 at 1 April 2000 and to £2.25 at 1 April 2001 and will rise to £2.45 at 1 April 2002. The method of calculating the employer's rate of contribution is known as the "Projected Unit" method.

This method determines the future contribution rate required by considering the benefits accruing over the next three years. The employer's contribution rate is set to ensure that the assets of the Fund are sufficient to cover the expected benefits. In order to determine the contribution rate, a number of assumptions are made based on the historical performance of the Fund and on forecasts for the future.

These assumptions were:

Investment returns	6.3% p.a.
Salary increases	4.3% p.a.
Pension increases	2.8% p.a.
Inflation	2.8% p.a.

11.2.2. The Council manages the Fund in terms of the Local Government (Superannuation) (Scotland) Regulations 1987, as amended. The Council discharges this duty by appointing a Pension Fund Management Committee comprising three councillors, one representative of the Admitted Bodies' employers, three employee representatives (one representing the Admitted Bodies' employees) and a retired beneficiary. The Management Committee is advised by relevant officers of the Council as appropriate and meets at least twice a year.

11.2.3. Actuarial valuations and fund management advice are provided by Hymans Robertson. The next valuation to 31 March 2002 should be available in late 2002.

11.2.4. At the date of the last actuarial valuation (31 March 1999) the market value of the Scheme's assets was £92.4m.

11.2.5. The Fund's investments are currently managed by Phillips & Drew. In addition to making presentations to the Management Committee at least annually they provide detailed quarterly reports and weekly valuations of all assets to the Finance Service, which are used to monitor Fund activity and performance on an ongoing basis.

11.3. **Accounts preparation**

11.3.1. The accounts, which have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom 2000, summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pension and other benefits in the future.

11.3.2. The transactions of the Fund are accounted for on an accruals basis, thereby taking into account all known and determinable amounts due by and due to the Fund in 2000/01.

11.4. **Valuation of investments**

11.4.1. Valuations of all the investments have been carried out by the fund managers, Phillips & Drew, at mid market values on 31 March 2001.

11.5. **Foreign currency translations**

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2001.

11.6. **Purchases and sales during the year**

11.6.1. The value of purchases and sales in 2000/01 were £46.9 million and £47.0 million respectively as compared to £52.5 million and £44.3 million in 1999/00.

11.7. **Fund administration costs**

11.7.1. Expenses of the Fund in 2000/01 include an administration charge from the Council of £123,469 (1999/00 £118,411). This represents the time spent by the staff of the Council (principally in Finance Services) in administering the Fund.

11.7.2. Phillips & Drew's management fee for the year amounted to £329,062, paid on the basis of 0.85% on the first £10 million invested, 0.4% on the next £15 million, 0.3% on the next £25 million, and 0.2% on the remainder, plus a discount of £10,000 per annum.

11.8. **Investment return**

11.8.1. The Fund achieved a return of 4.9% versus the benchmark return of -8.8% during 2000/01.

11.9. **Investments**

11.9.1. The investments of the Fund are held approximately as follows:

Government securities	2%
U.K. equities and securities	60%
Overseas equities and securities	28%
Property funds	-
Unit Trusts	8%
Other	2%

11.9.2. The table below gives further details of investments held, and of movements during the year.

Investments held:

	Market Value at 31/3/00	Net (Purchases) /Sales during 2000/01	Realised (Profits)/ Losses	Unrealised (Profits)/ Losses	Market Value at 31/3/01
	£000	£000	£000	£000	£000
Fixed interest securities					
UK	(3,166)	1,617	(37)	(55)	(1,641)
Other	(7,712)	(1,697)	(77)	(664)	(10,150)
Equities					
Quoted-U.K.	(60,354)	(2,341)	(6,820)	7,828	(61,687)
-Other	(14,433)	(1,829)	(480)	888	(15,854)
Unquoted-U.K.	(33)	0	0	6	(27)
Index linked					
UK	0	0	0	0	0
Other	(4,558)	2,622	(653)	(187)	(2,776)
Property funds	(763)	730	(322)	198	(157)
Unit Trusts					
Property	(2,761)	(460)	(132)	(126)	(3,479)
Other	(4,819)	0	0	(358)	(5,177)
Other	(3,429)	1,445	1	(254)	(2,237)
Total investment assets	<u>(102,028)</u>	<u>87</u>	<u>(8,520)</u>	<u>7,276</u>	<u>(103,185)</u>

11.10. Contributions receivable and benefits payable

11.10.1. The total contributions receivable and benefits payable during the year were as follows:-

	Administering Authority £000	Admitted Bodies £000
Contributions receivable		
employers	(3,167)	(750)
employees	(1,580)	(380)
Benefits payable		
pensions	2,150	52
lump sums	860	25

SHETLAND ISLANDS COUNCIL

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12. RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

12.1. The Council's Responsibility

12.1.1. The Council is required:

12.1.1.1. to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director Corporate Services;

12.1.1.2. to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

12.2. The Executive Director Corporate Services's Responsibilities

12.2.1. The Executive Director Corporate Services is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2001.

12.2.2. In preparing this statement of accounts, the Executive Director Corporate Services has:

12.2.2.1. selected suitable accounting policies and then applied them consistently;

12.2.2.2. made judgements and estimates that were reasonable and prudent;

12.2.2.3. complied with the Code of Practice, in so far as local circumstances and the overriding requirement to present fairly the financial position and transactions of the Council permit;

12.2.2.4. kept proper accounting records which were up to date;

12.2.2.5. taken reasonable steps for the prevention and detection of fraud and other irregularities.

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ACCRUALS

The concept that income and expenditure is recognised as it is earned or incurred, not as money is received or paid. Accrual is the process by which income and expenditure is matched to the financial year to which it relates.

ACQUIRED OPERATIONS

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

A, P, T & C

These are staff employed in either an administrative, professional, technical or clerical capacity.

CAPITAL CHARGE

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

CONTINGENCY

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

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CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to individual services, and they are therefore collected and declared on a single General Fund account.

DEFERRED CHARGES

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples of deferred charges are expenditure on items such as improvement grants.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

DIRECT LABOUR ORGANISATION (DLO)/DIRECT SERVICE ORGANISATION (DSO)

These are the parts of the Council which operate by winning Council contracts in competition with external contractors, as required by the relevant legal provisions governing Compulsory Competitive Tendering. They include the Highways DLO and the School Meals DSO.

DISCONTINUED OPERATIONS

Operations comprise services and division of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- a) the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- b) the activities related to the operation have ceased permanently;
- c) the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in

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a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;

- d) the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXPENDITURE

Employee Costs

Includes wages, salaries, bonus, overtime, employer's national insurance and superannuation contributions as well as staff training, travelling and subsistence expenses.

Operating Costs

Includes expenditure on property and plant, supplies and services, transport, administration, and agency payments (i.e. payments to other bodies to carry out functions on the Council's behalf).

Transfer Payments

Includes bursaries to students, Housing Benefits, Council Tax rebates and grants to individuals or other organisations.

Financing Costs

The costs of financing assets owned or controlled by the Council, which include loan repayments, interest charges, debt management expenses and bank charges.

Recharges In

Can be for centrally provided services such as accommodation, telephone, messenger and internal audit. They can also be from the Commercial Services department for information technology work or legal services. Recharges may

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also originate from the central Finance and Chief Executive's departments, or from the service departments such as Education or Social Work.

GLOSSARY OF TERMS

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

FIXED ASSETS

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

FULL TIME EQUIVALENT

Full time equivalence is a way of measuring staff numbers which takes into account part time workers in a properly comparable way to full time workers. For example two part time workers working half the hours of a full time worker are counted as one Full Time Equivalent. The FTE figure is calculated by how much of the Islands Allowance an employee receives in a given period as a proportion of the full Islands Allowance.

GOING CONCERN

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

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GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

INCOME

Grants and Reimbursements

Grants include Revenue Support Grant, Police Grant, Housing Support Grant, and other government and EC revenue and capital grants.

Reimbursements include monies repaid to the Council, staff contributions for private phone calls on the Council telephone system, and contributions towards accommodation costs by residents of Council homes for the elderly.

Client Income

Client income includes charges for goods and services provided by the Council plus the various taxes payable to the Council.

Financing And Contributions

These cover principal, interest and expenses on loans the Council has made, plus contributions from, for example, the Capital Fund or Repairs and Renewals Fund to the General Fund.

Recharges Out

These are the costs of a particular department or service of the Council which are charged out to another Council department or service.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investment should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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Investments which do not meet the above criteria should be classified as current assets.

INVESTMENT PROPERTIES

Interest in land and/or buildings:

- a) in respect of which construction work and development have been completed; and
- b) which is held for its investment potential, any rental income being negotiated at arm's length.

LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, ie the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

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OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

RESEARCH AND DEVELOPMENT

Expenditure falling into one or more of the following broad categories:

- a) pure (or basic) research: experimental or theoretical work undertaken primarily to acquire new scientific or technical knowledge for its own sake rather than directed towards any specific aim or application;
- b) applied research: original or critical investigation undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective; and
- c) development: use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

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STOCKS

Comprise the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long-term contract balances; and
- f) finished goods.

UNAPPORTIONABLE CENTRAL OVERHEADS

These are overheads from which no user now benefits and are not, therefore, apportioned to services.

USEFUL LIFE

The period over which the local authority will derive benefits from the use of a fixed asset.

To the Members of Shetland Islands Council and the Accounts Commission for Scotland

As auditor, appointed under statute by the Accounts Commission for Scotland, we have audited the accounts of Shetland Islands Council for the year ended 31 March 2001, an abstract of which is set out on pages 8 to 61.

Respective responsibilities of management and auditors in relation to the accounts

As described on page 62 the management of the Council is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

Basis of Opinion

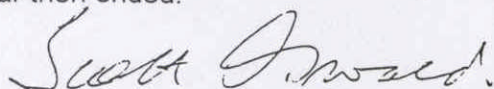
We have conducted our audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the accounts and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit of the accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

Qualified opinion arising from disagreement about accounting treatment

The Usable Capital Receipts Reserve is overstated by £7.56 million and the General Fund Balance understated by an equivalent amount. This is important as the two can be used for different purposes.

Except for the disagreement about the accounting treatment of the Capital Receipts and General Fund Balance in our opinion the abstract of accounts presents fairly, in accordance with the accounting policies set out on pages 8 to 12, the financial position of the Council as at 31 March 2001 and its income and expenditure for the year then ended.



Scott Oswald
10 Ardross Street
INVERNESS IV3 5NS

28 September 2001

Scott Oswald is a trading name of Blueprint Audit Limited, a Registered Auditor.