

SHETLAND ISLANDS COUNCIL

Abstract of Accounts

2006/07

SHETLAND ISLANDS COUNCIL - 2006/07 ABSTRACT OF ACCOUNTS

Contents

Page

Abstract of Accounts	
Explanatory Foreword	3
Statement of Accounting Policies	6
Financial Statements	
Income and Expenditure Account	9
Statement of Movement on General Fund Balance	10
Statement of Total Recognised Gains and Losses	12
Balance Sheet	13
Cash Flow Statement	15
Notes to the Core Financial Statements	17
Housing Revenue Account	36
Council Tax Income Account	39
Non-Domestic Rate Income Account	41
Pension Fund Account	42
Statement of Group Accounting Policies	48
Group Income and Expenditure Account	49
Group Statement of Total Recognised Gains and Losses	50
Group Balance Sheet	51
Group Cash Flow Statement	53
Reconciliation of Council Deficit to Group Deficit	55
Notes to the Group Accounts	55
Responsibilities for the Statement of Accounts	57
Statement on the System of Internal Financial Control	58
Audit Certificate	59

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

EXPLANATORY FOREWORD

1. **Introduction**

The Council's accounts for the year ended 31st March 2007 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 2006.

The 2006 Code of Practice introduced a number of changes to the presentation of the financial statements that required the previous year's figures to be restated to reflect the new presentation.

2. **Explanation of statements which follow, their purpose and relationships**

The following statements are contained in this Abstract of Accounts:

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.

Income and Expenditure Account

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

The net cost of services was £98.1m.

Statement of Movement on the General Fund Balance

This statement together with its accompanying note shows the adjustments required to the Income and Expenditure account for the statutory and non-statutory proper practices taken into account when determining the Council's budget and council tax demand.

Statement of Total Recognised Gains and Losses

This statement shows the gains and losses that do not arise from the Council's operating performance and are not included in the Income and Expenditure Account.

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 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.

Cash Flow Statement

This 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.

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.

Council Tax Income Account

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

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.

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

Group Financial Statements

These statements include an Income & Expenditure Account, Statement of Total Recognised Gains & Losses, Balance Sheet, Cash Flow Statement, Reconciliation of Council Deficit to Group Deficit and relevant notes that reflect the totality of service delivery undertaken by the Council and those entities in which it has a relevant interest.

Responsibilities for the Statements of Accounts

This statement sets out the respective responsibilities of the Council and the Head of Finance for the accounts of the authority.

Statement on the System of Internal Financial Control

This statement sets out the framework within which financial control is managed and reviewed.

3. **Overall comparison of expenditure with budget**

The revised budget for the year on the General Fund envisioned a draw on reserves of £7.17m. In the event the draw was limited to £4.92m which included a one-off unbudgeted cost of £1.82m in respect of Equal Pay settlements. Overall, departments had achieved savings of £2.279 against budget.

Housing Revenue Account net expenditure was slightly over budget due to higher repair costs and lower interest on revenue balances. This required a higher than anticipated contribution from the Housing Repair and Renewal Fund.

Harbour Account income was £1m lower than expected, mainly on the towage service but this was partly offset by cost reductions and a lower than anticipated capital programme.

Overall, the Council's trading undertakings had another satisfactory year. The significant undertakings are judged on a three year rolling basis and both have achieved the break-even target.

4. **Material assets acquired or liabilities incurred**

Significant major capital work during 2006/07 included work at the Kantersted respite unit (£0.99m).

Other major capital spend included an initial payment for new tugs for Sullom Voe (£1.5m).

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

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

a self-sustaining Capital Fund;

a self-sustaining Repairs and Renewals Fund;

a self-sustaining Reserve Fund;

investment in infrastructure by utilising reserves down to a minimum of £250m.

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

The Council continued its Treasury Management policy in 2006/07 which consists of:

continuing to have external management arrangements for all major funds;

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

operating to a stringent set of borrowing and lending guidelines.

Within the Treasury Management policy, the Council currently finances its Housing Revenue Account from internal funds and balances and has no external borrowing.

During 2004/05 the Council conducted a tendering exercise with the result that a new banking contract was awarded to the Bank of Scotland from April 2005. The contract is for a period of five years and provides current overdraft facilities of £0.8m.

Major fixed asset acquisitions are mentioned in note 4 on page 4. Major disposals during 2006/07 occurred on Council house sales.

7. **Summary of Council internal and external sources of funds**

The Council has prudently built up extensive reserves of £304m to meet future financial requirements. As can be seen in the note on Movements in Reserves, the main individual reserves are the Capital Fund, Repairs and Renewals Fund and the Reserve Fund, which have a combined value at 31 March 2007 of £287.5m (£295m at 31 March 2006). 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.

The Council received from the Scottish Executive £76.6m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £2.15m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.66m to fund the payment of rent rebates and allowances.

The remaining sources of Council funding are levied locally, the most significant being the Council Tax which raised £7.9m, £5.2m from rents and charges to Council house and hostel tenants and £13.4m in charges to the users of Council harbours, principally Sullom Voe.

8. **Pension Liability**

In order to comply with Financial Reporting Standard no. 17 (Retirement Benefits), a valuation of the Council's Pension Fund was made by the Fund Actuary as at 31 March 2007. This indicated a net pension liability of £35.1m compared to a net liability of £55.5m as at 31 March 2006.

It is important to recognise that FRS 17 is an accounting standard that details the pension information to be included in these accounts. It prescribes a method of calculation and some of the assumptions used and reflects the position of the Fund only on one particular day, 31 March 2007.

The pension fund is a long term commitment and the triennial actuarial valuation uses an approach that reflects that. The last valuation at 31 March 2005 in fact recorded a funding level of 99% and the contributions the Council makes to the pension fund are in line with the actuary's valuation and recommendations.

9. **Statutory Trading Accounts**

The Local Government in Scotland Act 2003 repealed legislation relating to DSOs/DLOs and introduced new requirements to maintain trading accounts for significant trading operations which are required to break even over a rolling three year period. Further information is shown in note 6 to the Core Financial Statements.

10. **Trusts**

At 1 April 2006, the Council took over most of the assets and operations provided by the Islesburgh Trust in order to bring these services under Council control and to avoid duplication. This covered the services provided at Islesburgh Community Centre and Islesburgh House, including youth work.

STATEMENT OF ACCOUNTING POLICIES

1. **Introduction**

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

The accounts have been prepared on a historic cost basis, other than changes resulting from the revaluation of certain categories of fixed assets.

2. **Debtors and creditors**

All known debtors and creditors have been provided for, on an actual or estimated basis, in the accounts as at 31 March 2007.

3. **Allocation of Central Support Costs**

All central support costs are fully allocated to services. Allocations are primarily done on the basis of estimates of staff time.

4. **Capital Charges**

General Fund services have been charged for the use of assets. This charge covers the annual depreciation of the asset only, following the removal of the requirement to make a capital financing charge in respect of notional interest in the 2006 SORP.

The charge to the Housing Revenue Account is equal to the principal, interest and expenses charged by the Council's Loans Fund.

Although the Harbour account, shown under Trading Services includes depreciation, the charges to the users of Council harbours and the balancing of the account by Reserve Fund contributions are based on actual capital charges as the account operates on a commercial basis with the oil industry.

5. **Fixed Assets and Depreciation**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis, subject to a de-minimis limit for capital expenditure of £10,000. 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.

Capital expenditure that does not provide a fixed asset or continuing benefit to the Council is written off to revenue in the year it is incurred.

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 investment assets and surplus assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value. Infrastructure, community assets and assets under construction have been included at historic cost.

Depreciation is charged to revenue, to the services that use the asset, on a straight-line basis over the useful life of the asset. Depreciation is not normally charged on freehold land, non-operational investment properties or assets under construction.

6. **Valuation Disclosure**

Except where noted below, most of the Council's properties which were due to be revalued this year were valued over a four month period to April 2007, and the effective date for the valuation was 1 April 2006 unless the property became operational after that date. However, for properties with a value below £7,500, the effective date for valuation remains at 1 April 1996 and these will be updated on a rolling programme of revaluations.

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 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. Council dwellings were revalued each year on an average cost calculated following the disposal of individual properties during the year. In 2003/04, this method was refined to take account of geographical variations along the lines of the 'Beacon Principle'. This method has been updated to take account of disposals in the year. Non-operational properties were valued by reference to their

market value which has regard to both the existing use and any alternative use which may be sanctioned by planning permissions. Outstanding life and residual values have also been reviewed for all assets that have been revalued this year.

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

The valuations of operational and non-operational properties were carried out by Alan Rolfe MRICS of the Asset and Property Unit of the Council's Legal and Administration Services.

7. **Stocks and Work in Progress**

Stock and work in progress brought into account is valued at average cost, except for Ferry and Port stock (latest price), fuel (FIFO basis) and aggregates (lower of selling price/production cost). Some of these bases are not in accordance with the SORP.

8. **Investments**

All investments are shown at book cost less provision, where appropriate, for loss in value.

9. **Interest in Companies**

Any interest in a company or other entity that have the nature of subsidiaries, associates or joint ventures is recorded in the Council's single entity accounts as an investment.

The Council has shareholdings in Shetland Towage and Viking Energy but as neither company is operational and the remaining assets of Shetland Towage were formally transferred to the Council during the year, these are valued at zero.

10. **Provisions**

The Council has made provision, where necessary, for bad and doubtful debts in respect of miscellaneous debtors, non-domestic rate debtors, council tax debtors and housing rent debtors. The Council has also provided for possible equal pay costs where staff rejected the Council's offer of settlement.

11. **Reserves**

The Council has set aside specific amounts as reserves for future policy purposes. These reserves are listed in and further information is provided in note 19 in the Notes to the Core Financial Statements.

Any expenditure that is to be financed from a reserve is charged to the appropriate service revenue account in the Net Cost of Services in the Income and Expenditure Account. The reserve contribution is then made back into the General Fund balance so that there is no net charge against council tax for the expenditure.

The Fixed Asset Restatement Account and Capital Financing Account are kept for the purposes of fixed asset accounting and the Pension Reserve for the purpose of retirement benefits. These reserves do not represent usable resources for the Council.

Other than those mentioned above, reserves are invested in the Council's Loans fund and/or are invested by fund managers in bonds, equities and cash.

12. **Capital receipts**

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

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.

13. **Grants**

Revenue grants are treated as revenue income and credited to revenue in the year received.

Capital grants are treated as capital income, credited to the Government grants deferred account and released to individual service revenue accounts to match the charge for depreciation.

14. **Interest on balances**

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.

Interest is charged or credited to internally held balances of Council reserves at varying rates, dependent on the nature of the reserve.

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.

15. **Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Assets acquired are capitalised together with a liability to pay outstanding rentals. Payments are apportioned between the finance charge and the reduction of the outstanding obligation with the finance charge being charged to revenue over the term of the lease.

Other leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to revenue in accordance with the terms of the lease.

16. **Provisions for pensions**

Pension assets and liabilities have been included in the accounts on the basis of Financial Reporting Standard No. 17. Assets of the Pension scheme have been included at fair value, generally mid-market value, and liabilities have been measured on an actuarial basis using appropriate estimates and assumptions. In particular, scheme liabilities have been discounted at a rate linked to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Details are in note 28.

17. **Prior Year Adjustments**

In 2006/07, the Council has adopted three new accounting policies that required the restatement of the comparative figures for 2005/06. These are:

- Notional interest charges for fixed assets are no longer charged to revenue accounts,
- Government grants deferred credits are posted to individual service accounts rather than being held centrally, and
- Gains and losses on the disposal of fixed assets are shown in the Income and Expenditure account.

These are technical accounting changes and they have no impact on the services delivered by the Council, the level of real reserves available or the level of Council Tax set.

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2007

2005/06		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
£000				
2,625	Central services	3,028	(252)	2,776
35,974	Education services	45,884	(8,007)	37,877
4,802	Environmental services	8,144	(3,220)	4,924
953	Housing services	6,783	(6,118)	665
4,982	Cultural and related services	6,513	(507)	6,006
5,938	Planning and development services	6,188	(1,531)	4,657
9,711	Roads and transport services	10,981	(908)	10,073
9,915	Trading services	26,434	(17,376)	9,058
15,192	Social work	24,045	(6,726)	17,319
5,679	Corporate and democratic core	6,049	0	6,049
1,267	Non distributed costs	(3,909)	0	(3,909)
1,685	Police	2,077	(1)	2,076
2,402	Fire	2,042	0	2,042
(7,208)	Housing revenue account	4,966	(7,606)	(2,640)
-	Services acquired from the Islesburgh Trust	1,448	(321)	1,127
93,917	Net Cost of Services	150,673	(52,573)	98,100
66	(Gain)/Loss on disposal of fixed assets			(44)
4,399	Interest payable and similar charges			3,047
(13,291)	Interest and investment income			(14,770)
(404)	Net Surplus trading undertakings			(277)
177	Pension interest cost & expected asset return			(1,182)
84,864	NET OPERATING EXPENDITURE			84,874
(7,465)	Council Tax			(7,860)
(67,482)	Revenue Support Grant			(68,473)
(8,204)	Contribution from non-domestic rate pool			(8,138)
1,713	(SURPLUS)/DEFICIT FOR THE YEAR			403

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE.

The Income and Expenditure Account shows the actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 £000		2006/07 £000
1,713	(Surplus)/Deficit on Income and Expenditure Account	403
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	
<u>(1,650)</u>		<u>(403)</u>
63	Decrease in General Fund balance for the year	0
(63)	General Fund balance brought forward	0
<u><u>0</u></u>	General Fund balance carried forward	<u><u>0</u></u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2005/06 £000		2006/07 £000	2006/07 £000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(9,106)	Depreciation	(10,433)	
201	Government Grants deferred amortisation	350	
(2,825)	Deferred charges written off in year	0	
(66)	Net gain on sale of fixed assets	44	
(2,165)	Net charge made for retirement benefits in accordance with FRS17	2,337	
(13,961)			(7,702)
	Amount not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
2,282	Principal repayments	1,989	
1,688	Capital Expenditure financed from revenue	1,640	
(9,991)			3,629
	Transfers to and from the General Fund Balances that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
5,419	Transfer to Capital Fund		2,515
2,715	Transfer to Repair & Renewals Fund		5,460
932	Transfer from Reserve Fund		(4,074)
4,686	Transfer from Housing Repair & Renewal Fund		(393)
(13)	Transfer to Insurance Fund		50
(41)	Transfer to Marine Fund		112
(5,357)	Transfer from Equalisation Funds		0
(1,650)			(403)

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06 £000		2006/07 £000
1,713	(Surplus)/Deficit on Income and Expenditure Account	403
5,907	Surplus arising on revaluation of fixed assets	4,579
5,591	Actuarial (gains)/losses on pension fund assets and liabilities.	(17,986)
(3,024)	Interest on Reserves	(2,998)
<u>10,187</u>	Total recognised gains for the year	<u>(16,002)</u>

SHETLAND ISLANDS COUNCIL**2006/07 Abstract of Accounts****BALANCE SHEET****AS AT 31 MARCH 2007**

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	TANGIBLE FIXED ASSETS		
	Operational assets		
41,786	Council dwellings	40,833	
90,324	Other land and buildings	96,913	
29,567	Vehicles, plant and equipment	34,988	
114,783	Infrastructure assets	115,610	
5,066	Community assets	5,153	
<u>281,526</u>			293,497
	Non-operational assets:		
4,199	Investment properties	4,193	
13,165	Assets under construction	9,120	
-	Surplus assets, held for disposal	239	
		<u>239</u>	13,552
<u>298,890</u>	TOTAL FIXED ASSETS		<u>307,049</u>
237,473	Long-term investments		231,417
6	Long-term debtors:Housing Loans		4
26	Long-term debtors:Other		22
<u>536,395</u>	TOTAL LONG-TERM ASSETS		<u>538,492</u>
	CURRENT ASSETS		
2,428	Stocks and work in progress	2,819	
8,170	Debtors, less bad debt provisions	11,131	
20,134	Short term investments	15,934	
27,811	Cash and bank	6,470	
<u>58,543</u>		<u>6,470</u>	36,354
<u>594,938</u>	TOTAL ASSETS		<u>574,846</u>
	CURRENT LIABILITIES		
(32,825)	Creditors		(14,754)
<u>562,113</u>	TOTAL ASSETS LESS CURRENT LIABILITIES		<u>560,092</u>
	LONG-TERM LIABILITIES		
-	Provision	(342)	
(5,775)	Government Grants-deferred	(7,783)	
(50)	Deferred liabilities	0	
(55,456)	Pension Asset/ (Liability)	(35,133)	
<u>(61,281)</u>		<u>(35,133)</u>	(43,258)
<u>500,832</u>	TOTAL ASSETS LESS LIABILITIES		<u>516,834</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

BALANCE SHEET

AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	<u>FINANCED BY:</u>		
(77,720)	Fixed Asset Restatement Account		(71,928)
(167,515)	Capital Financing Account		(176,104)
(32)	Deferred Capital Receipts		(26)
0	Usable Capital Receipts Reserve		0
55,456	Pension Reserve		35,133
<u>(189,811)</u>			<u>(212,925)</u>
(127,242)	Capital Fund	(118,471)	
(92,522)	Repairs and Renewals Fund	(97,896)	
(91,038)	Reserve Fund	(87,273)	
(219)	Insurance Fund	<u>(269)</u>	
<u>(311,021)</u>			<u>(303,909)</u>
	Balances		
0	General Fund		0
<u><u>(500,832)</u></u>	TOTAL NET WORTH		<u><u>(516,834)</u></u>

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Graham Johnston B.Sc (Hons.) C.P.F.A.
HEAD OF FINANCE

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

CASHFLOW STATEMENT

2005/06		2006/07	2006/07
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
76,745	Cash paid to and on behalf of employees	82,273	
36,388	Other operating cash payments	60,210	
343	Housing Benefit paid out	368	
<u>1,861</u>	National Non-Domestic Rate payments to national Pool	<u>4,482</u>	
115,337			147,333
	Cash Inflows		
(3,396)	Rents (after rebates)	(3,405)	
(6,877)	Council Tax receipts	(7,047)	
(12,463)	Non-domestic rate receipts	(10,363)	
(66,877)	Revenue Support Grant	(68,488)	
(362)	DSS grants for benefits	(364)	
(13,180)	Other government grants	(19,397)	
(25,954)	Cash received for goods & services	(24,685)	
<u>(8,370)</u>	Other operating cash receipts	<u>(8,535)</u>	
(137,479)			(142,284)
<u>(22,142)</u>	NET REVENUE CASH (IN)/OUTFLOW		<u>5,049</u>
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Cash Outflows		
939	Interest element of finance lease rental payments		0
	Cash Inflows		
(4,390)	Dividends received	(3,709)	
<u>(8,437)</u>	Interest received	<u>(6,172)</u>	
(12,827)			(9,881)
<u>(34,030)</u>	BALANCE c/f		<u>(4,832)</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

CASHFLOW STATEMENT (continued)

2005/06		2006/07	2006/07
£000		£000	£000
(34,030)	BALANCE b/f		(4,832)
	CAPITAL ACTIVITIES		
	Cash Outflows		
37,817	Purchase of fixed assets	40,954	
213,692	Purchase of long-term investments	149,353	
<u>2,827</u>	Other capital cash payments	<u>0</u>	
254,336			190,307
	Cash Inflows		
(1,685)	Sale of fixed assets	(1,258)	
(239,720)	Sale of long-term investments	(160,108)	
(2,927)	Capital grants received	(2,212)	
<u>(13)</u>	Other capital cash receipts	<u>(6)</u>	
(244,345)			(163,584)
	ACQUISITIONS AND DISPOSALS		
	Cash Outflows		
3,600	Investment in subsidiary undertakings		0
<u>(20,439)</u>	Net cash inflow/outflow before financing		<u>21,891</u>
	MANAGEMENT OF LIQUID RESOURCES		
(4,385)	Net Increase/decrease in short term deposits		(600)
	FINANCING		
	Cash Outflows		
334	Capital element of finance lease rental payments		50
<u><u>(24,490)</u></u>	NET INCREASE/DECREASE IN CASH		<u><u>21,341</u></u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Service Expenditure Analysis of Services

The service lines within the Net cost of services section of the Income and Expenditure account are as per the Service Expenditure Analysis set out in the Best Value Accounting Code of Practice. The Police and Fire categories mainly relate to the payment of requisitions to respectively the Northern Joint Police Committee and the Highlands & Islands Fire Board.

The current service cost, as required under FRS17, is contained within the service lines.

2. Revenue effects of acquiring assets using finance and operating leases

Finance leases are agreements where the major features of ownership of the asset pass to the Council. These leases are distinguished by longer duration, options to buy at the end of the primary period, and maintenance being the Council's responsibility. Assets under such leases are included in Other Land and Buildings in the Council's Balance Sheet.

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

The following table summarises 2006/07 payments made for assets acquired under finance and operating leases.

Finance and Operating Lease Payments:

2005/06		2006/07 Land & Buildings	2006/07 Other Assets	2006/07 Total
£000		£000	£000	£000
1,274	Finance leases	50	0	50
2,487	Operating leases	1,284	214	1,498
<u>3,761</u>	Total	<u>1,334</u>	<u>214</u>	<u>1,548</u>

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2007/08	£1,240,357	£442,900	£1,683,257
2008/09- 2011/12	£4,288,695	£1,360,004	£5,648,699
2012/13 onwards	£11,442,916	£1,455,519	£12,898,435

3. Publicity expenditure

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2006/07 expenditure.

Publicity expenditure

2005/06		2006/07
£000		£000
132	Recruitment advertising	207
217	Other advertising	176
<u>349</u>	Total	<u>383</u>

4. Agency expenditure

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 Income and Expenditure Account):

Net Income 2005/06 £000		Expenditure 2006/07 £000	Income 2006/07 £000	Net Income 2006/07 £000
(52)	Scottish Water	0	(54)	(54)
<u>(52)</u>	<u>Total</u>	<u>0</u>	<u>(54)</u>	<u>(54)</u>

5. Expenditure and Income under Goods and Services Act

Section 2 (2) of the Local Authorities (Goods and Services) Act 1970 allows the Council to provide goods and services to other public bodies and keep a separate account of agreements entered into under this legislation. 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 2005/06 £000		Expenditure 2006/07 £000	Income 2006/07 £000	Net Expenditure 2006/07 £000
0	Northern Joint Police Committee	27	(27)	0
<u>0</u>	<u>Total</u>	<u>27</u>	<u>(27)</u>	<u>0</u>

6. Significant Trading Operations

Section 10 of the Local Government in Scotland Act 2003 requires the Council to maintain trading accounts for significant trading operations and that they should break even over a three year rolling period.

The Council has deemed as significant trading operations its Highways construction and repair undertaking and its Building Maintenance undertaking, concerned with the repair and maintenance of council houses, schools and public buildings.

The three year rolling basis cumulative total is shown in the table below and both operations have met the target.

	2005/06 £000	2006/07 £000	Cumulative Total £000
Highways			
Turnover	(6,676)	(7,561)	
(Surplus)/Deficit	(272)	(219)	(662)
Building Maintenance			
Turnover	(4,106)	(4,131)	
(Surplus)/Deficit	(163)	(218)	(250)

The figures for 2006/07 exclude notional interest in accordance with the SORP and the 2005/06 comparatives have been restated accordingly. However the cumulative total includes notional interest as this was properly chargeable in 2004/05 and 2005/06.

7. Audit Costs

Audit Scotland's own staff replaced PricewaterhouseCoopers as the Council's auditor from 1 April 2006. The fees for audit services undertaken in accordance with the 'Code of Audit Practice' are paid to Audit Scotland and were as follows:-

2005/06 £000		2006/07 £000
179	External Audit fees	186
64	Audit Scotland Recharge	60
<u>243</u>		<u>246</u>

8. Members' Allowances and Expenses

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.

2005/06 £000		2006/07 £000
385	Allowances	392
150	Expenses	128
<u>535</u>		<u>520</u>

9. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:

Remuneration Band	2005/06 No.	2006/07 No.
£50,000 - £59,999	26 (12)	41 (6)
£60,000 - £69,999	4 (2)	12 (7)
£70,000 - £79,999	- (-)	1
£80,000 - £89,999	1	1
£90,000 - £99,999	-	-

The figures in brackets show the number of pilots, employed at the Sullom Voe Harbour operation, included in the totals. The increase in the £50,000-£59,999 bracket is due to the inclusion of 19 former Shetland Towage staff.

10. Related Parties

Related parties are organisations that the Council can control or influence or who can control or influence the Council. Central Government has effective control over the general operations of the Council, providing the statutory framework within which the Council operates and also providing the majority of funding in the form of various grants.

<u>Central Government Grants</u>	£'000
Revenue Support Grant	68,473
Non-domestic rates	8,138
Housing Benefit Subsidy	2,663
Council Tax Benefits Subsidy	830
Housing Support Grant	2,147
Other Government Grants	9,515
<u>Other Public Bodies Grants</u>	£'000
Scottish Further & Higher Education Council	2,157
Highlands & Islands Enterprise	449
Communities Scotland	436
Sports Scotland	210
Shetland Transport Partnership	125
Lottery Grants	102
Scottish Arts Council	96

During the year, the Council made payments of £4.4m to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £3.87m to bodies on which Council members are represented or for which they have declared an interest.

The Council is Trustee for its Pension Fund. During the year, it paid £6.42m in employers contributions and strain costs and charged the Fund £0.14m in administration costs.

11. **Summary of Capital Expenditure and Fixed Asset Disposal**

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

Movements in fixed assets in 2006/07 were:

Operational Assets	Council Dwellings	Other Land and Buildings	Vehicles, Vessels, Plant & Equipment	Infrastructure	Community Assets	Investment Assets	Assets Under Construction	Surplus Assets	Total All Assets
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Certified valuation at 31 March 2006	41,739	96,489	37,114	127,766	5,072	4,379	13,165	0	325,724
Accumulated Depreciation & Impairment	47	(6,165)	(7,547)	(12,983)	(6)	(180)	0	0	(26,834)
Net book Value of assets at 31 March 2006	41,786	90,324	29,567	114,783	5,066	4,199	13,165	0	298,890
Movement in 2006/07									
Additions	2,207	3,518	4,630	3,850	17	0	6,796	0	21,018
Disposals	(1,159)	(257)	(228)	0	0	(22)	0	0	(1,666)
Revaluations	(2,004)	(5,866)	2,841	0	70	60	0	28	(4,871)
Depreciation in year	(1,609)	(3,111)	(2,627)	(3,023)	0	(63)	0	0	(10,433)
Depreciation written back	1,612	1,709	771	0	0	19	0	0	4,111
Transfers/Appropriations	0	10,596	34	0	0	0	(10,841)	211	0
Net Book Value of Assets at 31 March 2007	40,833	96,913	34,988	115,610	5,153	4,193	9,120	239	307,049

The table below analyses the sources of finance utilised in 2006/07 to provide for the expenditure incurred.

Sources of finance for capital accounts in 2006/07:

2005/06 £000		2006/07 £000
(259)	Loans	1,977
1,697	Capital receipts	1,264
2,503	Grant receipts	2,358
36,393	Revenue/Other	15,419
<u>40,334</u>	Total	<u>21,018</u>

12. **Significant commitments under capital contracts beyond 31 March 2007:**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2007. These amounts relate to contracts commenced but not concluded by the end of the financial year.

	Outstanding Contractual Liability beyond 31/3/07 £000
Various ICT projects	1,004
Water based facilities (marinas)	835
Feasibility Studies	331
Peerie Dock Symbister	212
Scord Quarry plant	205
Toft demolition	119
Scalloway Oil support	100
Care homes Fire upgrade	98
Other projects	171
Total	<u>3,075</u>

13. **Progress of Valuation Rolling Programme**

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets.

The valuations of the Operational and Non-operational properties have been carried out by Alan Rolfe MRICS of the Asset and Property Unit.

The basis for valuation is set out in the statement of accounting policies.

GBV as at 31/03/07	Council Dwellings	Other land and Buildings	Vehicles, Vessels, Plant & Equipment	Non-Operational Assets	Total All Assets
	£000s	£000s	£000s	£000s	£000s
Valued at historical cost	0	0	N/A	10,114	10,114
Valued at current value in:					
2006/07	40,783	25,114	N/A	775	66,672
2005/06	41,739	2,200	N/A	0	43,939
2004/05	43,151	60,012	N/A	1,875	105,038
2003/04	42,976	8,659	N/A	187	51,822
2002/03	46,034	6,948	N/A	1,712	54,694
2001/02	49,792	2,667	N/A	549	53,008
2000/01	N/A	N/A	N/A	N/A	N/A

Council Dwellings are revalued each year on an average cost calculated following the disposal of individual properties during the year. This method was refined to take account of geographical variations along the lines of the 'Beacon Principle'.

The figure valued at historical cost under Non-operational assets is in respect of work in progress assets.

14. **Information on Assets Held**

The Table below gives information on the numbers of some of the Fixed Assets held by the Council as at 31 March 2007.

2006		2007
1,994	Council Dwellings	1,994
	Community Assets	
32	Burial Grounds	32
18	Museum Exhibits:	20
1	Other Community Assets	1
	Non Operational Assets	
42	General Non Operational Assets	43
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	Operational Land and Buildings	
1	Airstrips	1
1	Bus Stations	1
4	Car Parks	4
1	Town Hall	1
1	Leisure Facilities	1
1	Libraries	1
3	Museums	3
15	Offices	16
26	Public Conveniences	26
35	Schools	35
7	Social Services Homes	8
27	Other Misc Land and Bldgs	29
2	Finance leases	0
	Vehicles Plant and Equipment	
0	Aircraft	1
219	Vehicles	241
132	Plant	137
13	Ferries	13
6	Boats/Tugs	11
20	Computer Equipment	20
15	Other Equipment	22
	Infrastructure Assets	
1,045	Roads (km)	1,047
	Investment Properties	
250	Strategic Land Holdings (acres)	250

The entry for computer equipment reflects the fact that individual computers are not held within the Asset Register unless they are over the de-minimis sum.

15. Depreciation Methodologies

The Council provides for depreciation on all fixed assets with a finite useful life.

Depreciation is provided on a straight line basis over the useful life of the asset. Depreciation was charged on Council Dwellings for the first time in 2002/03. There are a number of non-operational assets that are not depreciated as the asset has not yet been brought into use.

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 MRICS of the Asset and Property Unit.

The useful lives of various classes of assets are given below:

Asset	Years
Council Dwellings	30
Community Assets	100
Infrastructure Assets	0- 60
Operational Land & Buildings	0- 120
Vehicles, plant, ferries, boats & equipment	0- 50
Non-operational Land & Buildings	0- 60

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

Asset	Depreciation 2006/07 £000	Cumulative Depreciation £000
Council Dwellings	1,609	(50)
Community Assets	0	7
Infrastructure assets	3,023	16,006
Operational Land & Buildings	3,111	7,567
Vehicles, plant, ferries, boats & equip	2,626	9,403
Non operational assets	64	224
	<u>10,433</u>	<u>33,157</u>

16. **Analysis of Debtors and Creditors**

This note shows the main constituents of debtors and creditors in the Balance Sheet.

31 March 2006 £000		31 March 2007 £000
Debtors:		
3,272	Sundry Debtors	3,010
131	Recoverable Costs	66
755	Value Added Tax	1,325
676	Council Tax	671
357	Non Domestic Rates	548
398	Rents	451
6	Payroll	47
3,161	Other Debtors	5,731
8,756	Gross debtors	11,849
(166)	Bad debt provision - Sundry Debtors	(237)
(195)	Bad debt provision - Council Tax	(197)
(105)	Bad debt provision - Non domestic Rates	(135)
(120)	Bad debt provision - Rents	(149)
8,170	Net Debtors	11,131
Creditors:		
(25,657)	Sundry Creditors	(9,796)
(2,525)	Non Domestic Rates	(459)
(1,045)	Government Grants	(1,966)
(370)	Employee	(691)
(559)	Council Tax	(524)
(2,669)	Other Creditors	(1,318)
(32,825)		(14,754)

17. **Movements in Provisions**

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

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

The tables below show the movement in the provision.

2005/06 £000		2006/07 £000
(552)	Opening balance-General Fund	(446)
28	Miscellaneous Invoices written off	43
48	Non-domestic Rates written off	9
47	Council Tax written off	42
0	Community Charge written off	1
(3)	Cash received on debts written off	0
(14)	Charge to General Fund for new provision	(193)
(446)		(544)
(201)	Opening balance-Housing Revenue Account	(140)
6	Miscellaneous Income written off	10
37	Rents written off	24
18	Charge to HRA for new provision	(68)
(140)		(174)

The Council has also made a provision of £0.342m in respect of equal pay claims where the offer of settlement by the Council was rejected. The provision covers possible claims made by staff to a Tribunal in respect of the years up to 31 March 2007 in respect of possible bonus payments.

18. **Analysis of net assets employed by the various funds**

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 2006 £000		31 March 2007 £000
77,720	Fixed Asset Restatement Account	71,928
167,515	Capital Financing Account	176,104
32	Deferred Capital Receipts	26
(55,456)	Pension Reserve	(35,133)
0	Usable Capital Receipts Reserve	0
206,620	General Fund	203,419
88,392	Reserve Fund	84,515
12,581	Housing Revenue Account	12,398
3,428	Harbour Accounts	3,577
<u>500,832</u>	Total	<u>516,834</u>

19. **Movements in Reserves**

	Balance as at 1/04/06	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/07
	£000	£000	£000	£000
Fixed Asset Restatement Account	(77,720)	5,792	0	(71,928)
Capital Financing Account	(167,515)	8,094	(16,683)	(176,104)
Deferred Capital Receipts	(32)	0	6	(26)
Usable Capital Receipts Reserve	0	(1,258)	1,258	0
Pension Reserve	55,456	(20,323)	0	35,133
Capital Fund	(126,460)	(4,964)	13,772	(117,652)
Pilot Boat Renewal Fund	(782)	(37)	0	(819)
Repairs & Renewals Fund	(79,817)	(5,551)	0	(85,368)
Housing Repairs & Renewals Fund	(12,581)	(768)	951	(12,398)
Quarry Repairs & Renewals Fund	(124)	(6)	0	(130)
Reserve Fund	(88,392)	(5,142)	9,019	(84,515)
Marine Superannuation Fund	(2,646)	(154)	42	(2,758)
Insurance Fund	(219)	(12)	(38)	(269)
General Fund	0	8,793	(8,793)	0
Housing Revenue Account	0	111	(111)	0
	(500,832)	(15,425)	(577)	(516,834)

The Fixed Asset Restatement Account and the Capital Financing Account 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 account is available for use by the Council for its purposes.

Deferred capital receipts were created by the Capital Fund reimbursing the Loans Fund and are released to the Usable Capital receipts reserve as repayments are received. Receipts of £0.006m were released in the year.

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. All receipts received in the year were applied to fund £1.17m of Housing Revenue Account and £0.09m of General Fund capital expenditure.

The Pension Reserve shows the surplus or deficit on pensions as calculated according to Financial Reporting Standard No 17 (Retirement Benefits). This balance is not available for use by the Council but it does give an indication of the long term solvency of the pension fund.

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. £13.77m of capital expenditure was funded during the year.

The Pilot Boat Renewal Fund was established by the Council, as Pilotage Authority in 1983 to defray expenditure on the building of vessels for boarding and landing duties. It has been funded by contributions from the Harbour Account. There was no expenditure during the year.

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. There was no expenditure during the year.

The Housing 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's Housing Revenue Account. During the year, a contribution of £0.951m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.84m to the Capital financing account to fund capital expenditure and covered a deficit of £0.111m on the overall account.

The Quarry Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act, 1975 to fund environmental works at Council quarries. There was no expenditure during the year.

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. During the year, a Harbour Account surplus of £4.35m was transferred to the fund and a transfer of £0.42m was made to the Capital Financing Account to fund capital expenditure. A transfer of £12.95m was made to the General Fund, consisting of £8.03m to cover a planned expenditure programmes and £4.92m to cover the General Fund's deficit for the year.

The Marine Superannuation Fund was established by contributions from the Harbour Account for the purpose of covering the unfunded element of pensions of Harbour staff. It made a contribution of £0.042m to the Harbour Account during the year.

The Insurance Fund may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk. It received a contribution from the General Fund in the year of £0.038m.

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund. In the year, other than the various fund contributions listed above to the general Fund and Harbour Account, the General Fund also made a contribution of £0.39m to the Capital Financing Account to fund capital expenditure.

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund. A contribution of £0.111m was received for that purpose.

20. **Analysis of borrowing repayable in excess of 12 months**

The Council has no borrowings repayable in excess of 12 months.

21. **Trust fund and third party funds administered by the Council**

The Council administers, as sole trustee, 8 trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over a great many years. Funds are in the main held in deposit accounts with local banks. The funds do not represent assets of the Council and are not included in the Balance Sheet.

Trust funds:

Fund Balance at 31/3/06		Fund Balance at 31/3/07
£000		£000
(619)	Zetland Educational Trust	(630)
(47)	Gilbertson Trust	(49)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(4)	Other	(4)
<u>(675)</u>	Total	<u>(688)</u>

The Zetland Educational Trust, with an income of £30,501 and expenditure of £19,039, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,500, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £140 whilst the William Strong Bequest makes an annual payment to the ten oldest persons in Fair Isle. These and the Samuel Mullay Bequest are registered with the Office of the Scottish Charity Regulator. The other trusts are, due to their low annual income, dormant.

22. **Events after the Balance Sheet Date**

There are no events occurring after the Balance Sheet date that should be reflected in the statement of accounts.

23. **Statement of Authorisation of Issue**

The accounts were issued on 27 September 2007 and were authorised for issue by Graham Johnston B.Sc. (Hons) C.P.F.A., Head of Finance for the Council.

24. **Details of insurance provisions and the risk carried**

The Council operates an insurance fund to offset any uninsured losses and excesses on claims. The authority assesses its likely funding needs and this is reflected in the internal recharges, which take account of insurance premia, and all other permitted insurance costs incurred. The Council carries some uninsured risks. These are:

- Theft cover (with the exception of computers and some specialised equipment);
- Gradually occurring pollution;
- Terrorism damage in excess of £100,000 per building.

25. **Contingent Assets and Liabilities**

The Council made a Single Status offer in 2006/07 proposing annual costs of £0.5m and one-off costs of £10m over the next five years for the settlement of Single Status. That offer was subsequently withdrawn after rejection in Union ballots. The Council is currently investigating alternative routes to progress Single Status with a current planning timetable of March/April 2008 and a potential annual cost of £2-4m.

Whilst the Council has made provision for possible further costs in relation to Equal Pay claims where an offer had been made but not accepted, the uncertainty over the date of implementation of a Single Status agreement makes the Council vulnerable to further claims that cannot as yet be quantified.

26. Pension Costs (Teachers)

In 2006/07 the Council paid an employer's contribution of £2.0m (£1.9m in 2005/06) to the Scottish Public Pension Agency in respect of teachers' pension costs, which represented 12.5% 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 2006/07 these amounted to £0.64m (£0.56m in 2005/06), representing 4.0% of teachers pensionable pay (2005/06 3.68%).

27. Pension Costs (Other Employees)

The Local Government Pension Scheme is a funded defined benefit scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets.

The Council is required to recognise the cost of retirement benefits when they are earned by employees, rather than when the benefits are eventually paid. The following transactions have been included in the Income and Expenditure Account.

2005/06 £000		2006/07 £000
7,246	Current service costs	9,971
642	Past service costs	(4,438)
625	Curtailments and settlements	529
(9,407)	Expected return on assets	(12,258)
9,584	Interest cost	11,076
6,525	Actual employers contributions payable	7,217

28. Pension Assets and Liabilities

In accordance with Financial Reporting Standard No.17 (Retirement Benefits) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to the pension scheme for its employees. Although these benefits will not actually be paid until employees retire, the Council's commitment to make such payments requires to be disclosed at the time employees earn their future entitlement.

The Council participates in two formal pension schemes, the Local Government Superannuation Scheme which it itself administers and the Teachers Pension Scheme administered by the Scottish Executive. In addition, the Council has liabilities for discretionary pension payments outside the main schemes.

The Local Government Superannuation (Scotland) Scheme is a funded scheme to which the Council and its employees contribute at a rate determined by actuaries to the scheme such that the pension liabilities are balanced with investment assets. In 2006/07, pension costs have been charged to the Income and Expenditure Account on the basis of the contributions payable for the year to the Pension Fund, based on the formal actuarial valuation as at 31 March 2005.

The net pension liability of £35.1m exceeds the General Fund balance of £0.00m by £35.1m. The actuarial valuation sets the appropriate employer's contribution rates and this, together with returns on investments, will be utilised to meet the fund's commitments.

Net Pension Liability

The Council's assets and liabilities amounted to:

2006		2007
£'000		£'000
168,551	Share of Pension Fund Assets	187,924
(204,497)	Less: Estimated liabilities in Pension Fund	(202,373)
<u>(19,510)</u>	Estimated liabilities for discretionary pensions	<u>(20,684)</u>
<u>(55,456)</u>	Net pension asset/(liability)	<u>(35,133)</u>

Assets are valued at fair value, principally market value for quoted investments and an estimate for unquoted investments, and consist of:

2006			2007			
%	Market Value £'000	Expected rate of return %		%	Market Value £'000	Expected rate of return %
91.5	154,176	7.4	Equity Investments	89.9	168,823	7.8
6.4	10,817	4.6	Bonds	7.3	13,795	4.9
0.0	0	5.5	Property	0.0	0	5.8
2.1	<u>3,558</u>	4.6	Cash	2.8	<u>5,306</u>	4.9
	<u>168,551</u>				<u>187,924</u>	

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value. The main assumptions used in the calculation are:

2006		2007
%		%
3.1	Price Increases	3.2
4.6	Salary Increases	4.7
3.1	Pension Increases	3.2
4.9	Discount Rate	5.4

The actuarial gains and losses shown as movements on the Pension Reserve can be analysed as follows, measured as absolute amounts and as a percentage of assets and liabilities.

2006		2007
£000		£000
22,138	Difference between the expected and actual return on assets	1,773
168,551	Value of assets	187,924
13.1%	Percentage of assets	0.9%
102	Experience gain/(loss) on liabilities	(1,128)
224,007	Present value of liabilities	223,057
0%	Percentage of the present value of liabilities	0.5%
(27,831)	Change in financial assumptions underlying the present value of liabilities	17,341
12.4%	Percentage of the present value of liabilities	7.8%

29. **Reconciliation of the movement in cash to the movement in Net Debt**

Reconciliation to Net Debt

2005/06 £000		2006/07 £000
(24,490)	(Increase)/decrease in Cash	21,341
0	Decrease in Debt Financing	0
785	(Increase)/decrease in Liquid Resources	4,200
(23,705)		25,541
(24,240)	Opening Net Debt as at 01/04/06	(47,945)
(47,945)	Closing Net Debt as at 31/03/07	(22,404)

Analysis of Net Debt

	Balance at 01/4/06 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/07 £000
Cash and bank	(27,811)	21,341	0	(6,470)
Overdraft	0	0	0	0
	(27,811)	21,341	0	(6,470)
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
	0	0	0	0
Current Investments	(20,134)	4,200	0	(15,934)
Total	(47,945)	25,541	0	(22,404)

30. **Reconciliation of the net deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Cash Flow Statement**

2005/06		2006/07	2006/07
£000		£000	£000
1,713	(Surplus)/Deficit for Year	403	
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance	<u>(403)</u>	
<u>(1,650)</u>			
63			0
	<u>Non cash transactions</u>		
3,580	Contributions to/from reserves	9,598	
(1,947)	Loans Fund principal repayments	(1,939)	
<u>(1,688)</u>	Capital from current revenue	<u>(1,640)</u>	6,019
	<u>Items on an accruals basis</u>		
77	Movement in stocks	391	
(3,176)	Movement in debtors	2,232	
<u>(15,850)</u>	Movement in creditors	<u>(1,557)</u>	1,066
	<u>Items classified elsewhere</u>		
(334)	Finance lease capital	(50)	
(939)	Finance lease interest	0	
(2,583)	Interest paid	(2,571)	
655	Other	585	(2,036)
<u>(22,079)</u>			<u>5,049</u>

31. **Reconciliation of Relevant Movements within Financing and Management of Liquid Resources**

	Balance at 01/04/06 £000	Balance at 31/3/07 £000	Movement 2006/07 £000
Management of Liquid Resources			
Short Term Investments	20,134	15,934	4,200
Financing			
Bank Loans	0	0	0
Building Society Loans	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Principal element of finance lease rental			<u>50</u>
			<u>50</u>

Definition of Liquid Resources

Liquid resources are defined as short term investments.

32. **Analysis of government grants in the Cash Flow Statement**

Government grants received in 2006/07:

2005/06		2006/07	2006/07
£000		£000	£000
(66,877)	Revenue Support Grant		(68,488)
	Rebates Grants		
(782)	Council Tax Rebate	(831)	
(2,210)	Rent Rebate	(2,368)	
<u>(362)</u>	Rent Allowance	<u>(364)</u>	
(70,231)			(3,563)
	Other Revenue Grants		
(2,446)	Housing Support Grant	(2,147)	
(1,542)	Further Education Grant	(1,874)	
(388)	Training Grants	(383)	
(15)	Milk Subsidy	(12)	
(39)	Housing Benefit Administration	(79)	
(46)	Council Tax Administration	(41)	
<u>(5,713)</u>	Other	<u>(11,662)</u>	
(10,189)			(16,198)
<u>(80,420)</u>	Total Revenue Grants		<u>(88,249)</u>
(2,927)	Capital Grants		(2,212)
<u><u>(83,347)</u></u>	Total		<u><u>(90,461)</u></u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

2005/06		2006/07	2006/07
£000		£000	£000
	INCOME		
(5,017)	Dwelling rents (gross)	(4,993)	
(491)	Non-dwelling rents (gross)	(372)	
(2,446)	Housing Support Grant	(2,147)	
(4,141)	Other income	(94)	
<u>(12,095)</u>	Total Income	<u>(94)</u>	(7,606)
	EXPENDITURE		
2,481	Repairs and maintenance	2,392	
375	Supervision and management	381	
1,620	Depreciation & fixed assets	1,613	
(18)	Bad or doubtful debts	68	
430	Other expenditure	512	
<u>4,888</u>	Total Expenditure	<u>512</u>	4,966
(7,207)	Net cost of HRA services per Authority Income and Expenditure Account		(2,640)
(66)	Gain on sale of assets		(71)
2,505	Interest payable and similar charges		2,489
17	Pension interest cost & expected return on assets		(21)
<u>(4,751)</u>	Surplus for the year on HRA services		<u>(243)</u>

STATEMENT OF MOVEMENT ON THE HRA BALANCE

2005/06		2006/07
£000		£000
(4,751)	Surplus on the HRA Income and Expenditure Account	(243)
4,751	Net additional amount required by statute to be debited or credited to the HRA balance for the year	243
<u>0</u>	(Increase)/decrease in the HRA balance	<u>0</u>
0	Housing Revenue account balance brought forward	0
<u>0</u>	Housing Revenue Account balance carried forward	<u>0</u>

NOTES TO THE HOUSING REVENUE ACCOUNT CORE FINANCIAL STATEMENTS

Note to the Statement of Movement on HRA Balance

2005/06		2006/07	2006/07
£000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year.		
(1,620)	Depreciation of fixed assets	(1,627)	
66	Gain on sale of assets	71	
(32)	Net charge for external benefits under FR317	(29)	
(1,586)			(1,585)
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,946	Loans Fund principal	1,939	
0	Transfer to Capital Financing Account	841	
4,391	Transfer to Housing Repair & Renewal Fund	(952)	
4,751			1,828
4,751			243

Number and types of dwelling

Housing stock:

31 March 2006		31 March 2007
No.		No.
91	1 Apartment	84
414	2 Apartment	409
577	3 Apartment	572
763	4 Apartment	741
39	5 Apartment	40
2	6 Apartment	1
1	8 Apartment	1
1,887	Total	1,848

Amount of rent arrears

The table below summarises the rent arrears position for Housing Revenue Account dwellings and the Ladies Drive hostel.

The trend shown below is of an increase in the number of properties in arrears by 43 but the total amount of arrears has remained stable. This means that the average amount owed per property dropped by £40.

Rent arrears:

31 March 2006		31 March 2007
142	Amount (£000)	141
374	Number of properties in arrears (No.)	417
19.8	Properties in arrears as share of total stock (%)	22.6
379	Average amount per property in arrears (£)	339

Provision for bad debts

The following table summarises the movements on the bad debt provision during 2006/07

Bad debt provision:

2005/06 £000		2006/07 £000	2006/07 £000
(201)	Balance as at 1st April		(140)
	Bad rent debt written off		
22	Over £1,000 (Council approved)	12	
15	Under £1,000 (delegated authority)	12	
<u>37</u>			24
6	Miscellaneous bad debt written off		10
<u>(158)</u>			<u>(106)</u>
18	Contribution to/(from) Housing Revenue Account		(68)
<u>(140)</u>	Balance as at 31st March		<u>(174)</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

COUNCIL TAX INCOME ACCOUNT

2005/06		2006/07
£000		£000
(8,622)	Gross Council Tax levied and contributions in lieu	(9,009)
<u>(8,622)</u>		<u>(9,009)</u>
10	Council Tax benefits (net of Government grant)	(41)
56	Provision for bad and doubtful debts	45
1,053	Other discounts and reductions	1,114
38	Adjustment to previous years' Council Tax	31
<u>(7,465)</u>	Transfer to General Fund	<u>(7,860)</u>

1. **Council tax base**

Overleaf is the analysis of the Council Tax base used to set the 2006/07 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.

2. **Charge setting**

The analysis then sets out the tax yield and the charge per property in each band for the General Fund.

3. **Deductions**

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

Exemptions

Council Tax will be payable on almost all houses. A few however will be exempt. Houses where all the residents are students or are under 18 years old or are persons with a severe mental impairment will be exempt. So will some classes of empty property though in many cases only for a limited period.

Discounts

Council Tax bills can be reduced by discounts for dwellings with less than two adults. If only one adult lives there, the bill may be cut by 25%. If the property is unoccupied and is no ones sole or main residence, the bill may be cut by up to 50%. If the property is a second home or long term empty the discount will only be 10%. Certain persons will not be counted when establishing the number of residents, these are; students, student nurses, apprentices, YTS trainees, persons with a severe mental impairment, adults for whom child benefit is still payable, people absent in nursing homes or hospitals, prisoners, care workers, and members of religious communities.

Reliefs

If a house has been structurally altered for a disabled person, the Council Tax bill may be set at the next band lower in value than that shown in the Valuation List. A reduction is also available for houses in band A.

COUNCIL TAX VALUATION BANDS 2006/07

	BAND A Subject to Disabled Relief	BAND A (£0 to £26,999.99)	BAND B (£27,000.00 to £34,999.99)	BAND C (£35,000.00 to £44,999.99)	BAND D (£45,000.00 to £57,999.99)	BAND E (£58,000.00 to £79,999.99)	BAND F (£80,000.00 to £105,999.99)	BAND G (£106,000.00 to £211,999.99)	BAND H (£212,000.00 to infinity)	TOTAL
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (No.)		3,170	1,774	2,499	1,502	991	180	39	2	10,157
Gross Tax Base (Properties x Weighting)		19,020	12,418	19,992	13,518	10,901	2,340	585	36	78,810
Adjusted Properties (Band D Equivalents)		2113.33	1379.78	2221.33	1502.00	1211.22	260.00	65.00	4.00	8,757
Vacant Properties (No.):										
Mandatory Standard Exemptions		(160)	(80)	(51)	(25)	(7)	(3)	(1)	(1)	(328)
Chargeable Dwellings subject to Disabled Reduction (No.)		(9)	(9)	(14)	(9)	(6)	0	(1)	0	(48)
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	10	9	14	9	6	0	1	0	0	49
Class 18 (MoD) Dwellings (No.)	0	24	22	7	0	1	0	0	0	54
Revised Total Properties (No.)	10	3,034	1,721	2,450	1,474	979	178	37	1	9,884
Types of Property (No.):										
Single Discount (25%)	4	1,260	681	906	303	131	11	5	0	3,301
Double Discount (50%)	0	377	103	59	33	21	5	1	0	599
No Discount (0%)	6	1,373	915	1,478	1,138	826	162	31	1	5,930
	10	3,010	1,699	2,443	1,474	978	178	37	1	9,830
Properties Subject to Council Tax (No.)	9.00	2,506.50	1,477.25	2,187.00	1,381.75	934.75	172.75	35.25	1.00	8,705.25
Net Tax Base (Properties x Weighting)	45	15,039	10,341	17,496	12,436	10,282	2,246	529	18	68,431
Adjusted Properties (Band D Equivalents)	5.00	1,671.00	1,148.97	1,944.00	1,381.75	1,142.47	249.53	58.75	2.00	7,603.47
COUNCIL TAX 2006/07:										
General Fund Charge										
Tax Yield (£)	6,102	1,699,407	1,168,505	1,977,048	1,405,240	1,161,894	253,770	59,749	2,034	7,733,748
Charge per Property (£)	678.00	678.00	791.00	904.00	1,017.00	1,243.00	1,469.00	1,695.00	2,034.00	

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

NON-DOMESTIC RATE INCOME ACCOUNT

2005/06		2006/07
£000		£000
(14,466)	Gross rates levied and contributions in lieu	(14,806)
<u>(14,466)</u>		<u>(14,806)</u>
45	Provision for bad and doubtful debts	39
3	Payment of interest	0
2,341	Reliefs and other deductions (net)	2,422
<u>(12,077)</u>	Contribution to national non-domestic rate pool	<u>(12,345)</u>

1. Analysis of rateable values

The table below sets out the number of subjects liable for General Rates and the rateable values at start of the year.

The amount paid for Non-Domestic Rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Executive. The national Non-Domestic Rate poundage set for 2006/07 was £0.449 (2005/06 £0.461). The Small Business Rates Relief Scheme was introduced in April 2003 and currently applies to properties with a rateable value of £11,500 or less. It is funded by a supplement to the rate poundage of businesses with a rateable value of more than £29,000. For 2006/07, the supplement was 0.40p (0.45p in 2005/06).

Category	No. of Subjects	Rateable Value
		£000
Commercial	568	6,283
Industrial	483	19,351
Other	766	7,292
TOTAL	<u>1,817</u>	<u>32,926</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

PENSION FUND ACCOUNT 2006/07

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06	Notes	2006/07	2006/07
£000		£000	£000
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable			
From Employers			
(6,675)	6	(7,089)	
(692)		(414)	
<u>(7,367)</u>			(7,503)
From Members			
(2,763)	6		(2,988)
Transfers in			
0		(629)	
(1,247)		(1,280)	
<u>(1,247)</u>			(1,909)
Other income			
(21)			(20)
Benefits Payable			
3,612	6	3,965	
979	6	1,530	
105	6	99	
4,696			5,594
Payments to and on account of leavers			
25		16	
0		300	
471		963	
496			1,279
Administrative expenses			
208	8		182
<u>(5,998)</u>			<u>(5,365)</u>
NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS			

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

PENSION FUND ACCOUNT 2006/07

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06	Notes	2006/07	2006/07
£000		£000	£000
RETURNS ON INVESTMENTS			
Investment income			
(543)		(230)	
(4,180)		(6,559)	
(91)		0	
(219)		(245)	
(52)		(45)	
<u>(5,085)</u>		<u>(45)</u>	(7,079)
(31,450)			(9,042)
62			65
802	8		901
<u>(35,671)</u>			<u>(15,155)</u>
(41,669)			(20,520)
(149,529)			(191,198)
<u>(191,198)</u>			<u>(211,718)</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

PENSION FUND ACCOUNT 2006/07

NET ASSETS STATEMENT AS AT 31 MARCH 2007

2005/06	Notes	2006/07	2006/07
£000		£000	£000
INVESTMENT ASSETS			
(4,441) Fixed interest securities (Public sector)		(5,323)	
(162,743) Equities		(175,097)	
Unit Trusts-			
(10,562) Equities		(5,315)	
<u>(7,717) Bonds</u>		<u>(17,856)</u>	
<u>(185,463)</u>	5	<u>(203,591)</u>	
Other investment balances-			
(42) Interest receivable		(72)	
(914) Dividends receivable		(886)	
<u>(19) Tax recoverable</u>		<u>(14)</u>	
		(972)	
(186,438) Total investment assets			(204,563)
Net current assets and liabilities			
(4,000) Bank and cash - external		(6,081)	
(421) Bank and cash - internal		(1,002)	
(979) Debtors	10	(1,044)	
<u>640 Creditors</u>	11	<u>972</u>	
(4,760) Net current assets			(7,155)
<u>(191,198) Net Assets</u>			<u>(211,718)</u>

.....
 Graham Johnston B.Sc (Hons.) C.P.F.A.
 HEAD OF FINANCE

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

NOTES TO PENSION FUND ACCOUNT

1. Introduction

The Pension Fund is a pool into which employees' and employers' contributions and income from investments are paid and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations.

The Council is Trustee for a Pension Fund covering 3,127 members (2005/06 3,034) including 336 (2005/06 378) who are members of other admitted bodies and 13 (2005/06 12) who are members of a scheduled body, 703 (2005/06 657) pensioners, 149 (2005/06 144) dependents and 838 (2005/06 784) deferred members. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

The scheduled body is:

Orkney and Shetland Valuation Joint Board

The admitted bodies are:

Lerwick Port Authority
Shetland Amenity Trust
Shetland Arts Development Agency
Shetland Recreational Trust
Shetland Fisheries Training Centre Trust
Shetland Islands Tourism
Shetland Enterprise Company
Shetland Alcohol Trust
ABA Services
Shetland Youth Information Service
Islesburgh Trust (until 30/6/2006)
Shetland Seafood Quality Control Ltd
Advocacy Shetland
Shetland Voluntary Care Forum
Disability Shetland
Shetland Development Trust
Shetland Charitable Trust
Atlantic Ferries (closed Agreement)

The Council manages the Fund in terms of the Local Government Pension Scheme (Scotland) Regulations 1998. The Council discharges this duty by appointing a Pension Fund Management Consultative 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 approximately twice a year.

At a special meeting of the Council held on 22 March 2007, Schroders and Record Currency Management were appointed to run a new property and a new currency mandate respectively. Along with a change of benchmarks due to take place in July 2007, this will ultimately result in the portfolio being split on the following lines: U.K. Equities 38.75%; Overseas Equities 38.75%; Bonds 10%; Property 10%; and Currency 2.5%.

2. Accounting Policies

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 2006/07.

Valuations of all the investments have been carried out by the custodian, The Northern Trust Company, at mid market values on 31 March 2007.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2007.

3. Accounting treatment

The accounts, which have been prepared with regard to statute and the Code of Practice on Local Authority Accounting in the United Kingdom (which includes all the presentational and disclosure requirements contained in Section 2 of the Pension SORP), 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.

4. **Administration, operation, management of the Fund**

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 2006/07, an additional £2.40 (admitted bodies paying between £2.00 and £3.40) for every £1 paid by employees. The last actuarial valuation of the Fund carried out as at 31st March 2005 indicated a funding level of 99%. As a result, the rate of employer's contribution for Shetland Islands Council will be £2.40 for the three years commencing 1 April 2006 and the rate of employer's contribution for admitted bodies will vary according to certain circumstances peculiar to the individual employers (in line with the Funding Strategy Statement.) 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 following 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	4.0% p.a.
Salary increases	2.8% p.a.
Pension increases	2.5% p.a.
Inflation	2.5% p.a.

Actuarial valuations and fund management advice are provided by Hymans Robertson. At the date of the last actuarial valuation (31 March 2005) the market value of the Scheme's assets was £149.5m.

5. **Investments**

The Fund's investments are currently managed by Capital International. 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. The Fund also uses the services of a custodian, The Northern Trust Company.

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

Investments held:

	Market Value at 31/3/06	Net (Purchases) /Sales during 2006/07	Realised (Profits)/ Losses	Unrealised (Profits)/ Losses	Market Value at 31/3/07
	£000	£000	£000	£000	£000
Fixed interest - public sector					
UK	(4,441)	(1,074)	116	76	(5,323)
Fixed interest - other					
Equities					
Quoted - U.K.	(114,840)	1,944	(5,905)	(2,609)	(121,410)
- Foreign	(47,903)	(5,084)	(4,828)	4,128	(53,687)
Index linked					
Unit Trusts Equity					
UK	(3,520)	(406)	0	40	(3,886)
Foreign	(7,042)	0	0	5,613	(1,429)
Unit Trusts Bonds					
UK	(5,983)	0	0	5,983	0
Foreign	(1,734)	(4,465)	47	(11,704)	(17,856)
Total investment assets	<u>(185,463)</u>	<u>(9,085)</u>	<u>(10,570)</u>	<u>1,527</u>	<u>(203,591)</u>

6. **Contributions receivable and benefits payable**

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

	Administering Authority		Scheduled Body		Admitted Bodies	
	£000	£000	£000	£000	£000	£000
	2007	2006	2007	2006	2007	2006
Contributions receivable						
employers	(6036)	(5,460)	(62)	(52)	(991)	(1,163)
members	(2563)	(2,317)	(20)	(20)	(405)	(426)
Benefits payable						
pensions	3702	3,409	16	10	247	193
lump sums	1378	799	-	20	152	160
lump sum	99	60	-	-	-	45
death benefits						

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

The value of purchases and sales in 2006/07 were £76.3m and £68.0m respectively as compared to £83.2m and £74.8m in 2005/06.

8. **Fund administration costs**

Expenses of the Fund in 2006/07 include an administration charge from the Council of £139,755 (2005/06 £163,413). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2006/07 amounted to £755,367 (2005/06 £678,717).

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them for 2006/07 amounted to £77,743 (2005/06 £89,234). This is calculated on the basis of the number of transactions undertaken during the period and also a charge levied on the basis of the assets held per country.

9. **Investment return**

Capital International achieved a return for 2006/07 of 8.2% versus the benchmark return of 7.8%

10. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £216,590 for employee contributions (2005/06 £207,024) and £500,645 for employer contributions (2005/06 £489,383).

11. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £139,755 for administration recharge costs (2005/06 £163,413).

12. **Statement of Investment Principles**

The Council has prepared and approved a Statement of Investment Principles in relation to investments made by its fund manager for the Pension Fund. The Statement is made available to Pension Fund members in a Pension Fund report sent to them.

13. **Funding Strategy Statement**

The Council has prepared and approved a Funding Strategy Statement, which is a summary of the Pension Fund's approach to funding liabilities.

14. **Additional Voluntary Contributions**

Prudential and Equitable Life manage the Additional Voluntary Contributions investments. The market value of these investments at 31 March 2007 was £2,481,750 and total purchases for the 2006/07 were £268,477.

SHETLAND ISLANDS COUNCIL

Abstract of Accounts 2006/07

STATEMENT OF GROUP ACCOUNTING POLICIES

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP) requires Councils to consider their interests in external organisations including limited companies and other statutory bodies. Where such interests are considered material, the Council is required to prepare group financial statements in addition to those of Shetland Islands Council.

2. Combining Entities

The Council has identified three bodies where, according to the definitions in the SORP, the Council exerts a significant influence over them without support from other participants. These bodies are:

- Northern Joint Police Board
- Highlands and Islands Fire Board
- Orkney and Shetland Valuation Joint Board

Accordingly, the Council has treated these bodies as 'associates' and included them in its Group Statements.

The Council also identified two companies in which the Council holds a majority of equity capital. These are:

- Shetland Towage
- Viking Energy

Although both these companies would normally be consolidated into the Group Statements as 'subsidiaries', they have been excluded as neither company is currently operational or holds significant assets. During the year, the Council made a payment of £0.6m to Shetland Towage and wrote off its shareholding in the company which was valued at £3.6m. The Council also took formal ownership of the assets of Shetland Towage which were valued at £5.75m.

The Trusts that the Council manages have not been included in the Group Statements on the grounds of materiality. Information on these can be found in Note 21 on page 30.

3. Basis of Consolidation

The three bodies are all subject to the SORP, as is the Council, and so their single entity accounts were already in a SORP compliant format. These associates have been incorporated using the equity method where an opening investment is recognised in the Group Balance Sheet and is adjusted each year by the Council's share of the associate's operating results and other gains and losses.

The opening investment in 2005/06 was established by taking the Council's share in the same percentage as its share of voting rights in each body. Its share of the operating results for the year was determined by its share of the total requisitions paid to fund each body by their constituent members.

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2007

2005/06		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
£000				
2,625	Central services	3,028	(252)	2,776
35,974	Education services	45,884	(8,007)	37,877
4,802	Environmental services	8,144	(3,220)	4,924
953	Housing services	6,783	(6,118)	665
4,982	Cultural and related services	6,513	(507)	6,006
5,938	Planning and development services	6,188	(1,531)	4,657
9,711	Roads and transport services	10,981	(908)	10,073
9,915	Trading services	26,434	(17,376)	9,058
15,192	Social work	24,045	(6,726)	17,319
5,679	Corporate and democratic core	6,049	0	6,049
1,267	Non distributed costs	(3,909)	0	(3,909)
1,685	Police	2,077	(1)	2,076
2,402	Fire	2,042	0	2,042
(7,208)	Housing revenue account	4,966	(7,606)	(2,640)
-	Services acquired from the Islesburgh Trust	1,448	(321)	1,127
150	Share of operating results of Associates	6,417	(6,216)	201
<u>94,067</u>	Net Cost of Services	<u>157,090</u>	<u>(58,789)</u>	<u>98,301</u>
66	(Gain)/Loss on disposal of fixed assets			(44)
(82)	Loss on disposal of fixed assets of Associates			0
4,399	Interest payable and similar charges			3,047
161	Interest payable and similar charges of Associates			166
(13,291)	Interest and investment income			(14,770)
(17)	Interest and investment income of Associates			(33)
(404)	Net Surplus trading undertakings			(277)
177	Pension interest cost & expected asset return			(1,182)
1,312	Pension interest cost & expected asset return of Associates			1,442
<u>86,388</u>	NET OPERATING EXPENDITURE			<u>86,650</u>
(7,465)	Council Tax			(7,860)
(67,482)	Revenue Support Grant			(68,473)
(8,204)	Contribution from non-domestic rate pool			(8,138)
<u><u>3,237</u></u>	(SURPLUS)/DEFICIT FOR THE YEAR			<u><u>2,179</u></u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06 £000		2006/07 £000
3,237	(Surplus)/Deficit on Income and Expenditure Account	2,179
5,992	Surplus arising on revaluation of fixed assets	3,691
8,175	Actuarial (gains)/losses on pension fund assets and liabilities.	(19,672)
(3,024)	Interest on Reserves	(2,998)
<u>14,380</u>	Total recognised gains for the year	<u>(16,800)</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

**GROUP BALANCE SHEET
AS AT 31 MARCH 2007**

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	TANGIBLE FIXED ASSETS		
	Operational assets		
41,786	Council dwellings	40,833	
90,324	Other land and buildings	96,913	
29,567	Vehicles, plant and equipment	34,988	
114,783	Infrastructure assets	115,610	
5,066	Community assets	5,153	
<u>281,526</u>			293,497
	Non-operational assets:		
4,199	Investment properties	4,193	
13,165	Assets under construction	9,120	
-	Surplus assets, held for disposal	239	
			<u>13,552</u>
<u>298,890</u>	TOTAL FIXED ASSETS		<u>307,049</u>
(38,446)	Investments in Associates		(37,648)
237,473	Long-term investments		231,417
6	Long-term debtors:Housing Loans		4
26	Long-term debtors:Other		22
<u>497,949</u>	TOTAL LONG-TERM ASSETS		<u>500,844</u>
	CURRENT ASSETS		
2,428	Stocks and work in progress	2,819	
8,170	Debtors, less bad debt provisions	11,131	
20,134	Short term investments	15,934	
27,811	Cash and bank	6,470	
<u>58,543</u>			36,354
556,492	TOTAL ASSETS		<u>537,198</u>
	CURRENT LIABILITIES		
(32,825)	Creditors		(14,754)
<u>523,667</u>	TOTAL ASSETS LESS CURRENT LIABILITIES		<u>522,444</u>
	LONG-TERM LIABILITIES		
-	Provision	(342)	
(5,775)	Government Grants-deferred	(7,783)	
(50)	Deferred liabilities	0	
(55,456)	Pension Asset/ (Liability)	(35,133)	
<u>(61,281)</u>			(43,258)
<u>462,386</u>	TOTAL ASSETS LESS LIABILITIES		<u>479,186</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP BALANCE SHEET

AS AT 31 MARCH 2007

31 March 2006 £000		31 March 2007 £000	31 March 2007 £000
	<u>FINANCED BY:</u>		
(79,415)	Fixed Asset Restatement Account		(74,395)
(168,147)	Capital Financing Account		(176,832)
(32)	Deferred Capital Receipts		(26)
(247)	Usable Capital Receipts		(343)
<u>96,853</u>	Pension Reserve		<u>76,657</u>
(150,988)			(174,939)
(127,242)	Capital Fund	(118,471)	
(92,522)	Repairs and Renewals Fund	(97,896)	
(91,038)	Reserve Fund	(87,273)	
<u>(219)</u>	Insurance Fund	<u>(269)</u>	
(311,021)			(303,909)
	Balances		
(377)	General Fund		(338)
<u><u>(462,386)</u></u>	TOTAL NET WORTH		<u><u>(479,186)</u></u>

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Graham Johnston B.Sc (Hons.) C.P.F.A.
HEAD OF FINANCE

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP CASHFLOW STATEMENT

2005/06		2006/07	2006/07
£000		£000	£000
	REVENUE ACTIVITIES		
	Cash Outflows		
76,745	Cash paid to and on behalf of employees	82,273	
36,388	Other operating cash payments	60,210	
343	Housing Benefit paid out	368	
<u>1,861</u>	National Non-Domestic Rate payments to national Pool	<u>4,482</u>	
115,337			147,333
	Cash Inflows		
(3,396)	Rents (after rebates)	(3,405)	
(6,877)	Council Tax income (after rebates)	(7,047)	
(12,463)	Non-domestic rate receipts	(10,363)	
(66,877)	Revenue Support Grant	(68,488)	
(362)	DSS grants for benefits	(364)	
(13,180)	Other government grants	(19,397)	
(8,370)	Cash received for goods & services	(24,685)	
<u>(25,954)</u>	Other operating cash receipts	<u>(8,535)</u>	
(137,479)			(142,284)
<u>(22,142)</u>	NET REVENUE CASH (IN)/OUTFLOW		<u>5,049</u>
	RETURNS ON INVESTMENTS ANDSERVICING OF FINANCE		
	Cash Outflows		
939	Interest element of finance leases		0
	Cash Inflows		
(4,390)	Dividends received	(3,709)	
<u>(8,437)</u>	Interest received	<u>(6,172)</u>	
(12,827)			(9,881)
<u>(34,030)</u>	BALANCE c/f		<u>(4,832)</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

GROUP CASHFLOW STATEMENT (continued)

2005/06		2006/07	2006/07
£000		£000	£000
(34,030)	BALANCE b/f		(4,832)
CAPITAL ACTIVITIES			
Cash Outflows			
37,817	Purchase of fixed assets	40,954	
213,692	Purchase of long-term investments	149,353	
<u>2,827</u>	Other capital cash payments	<u>0</u>	
254,336			190,307
Cash Inflows			
(1,685)	Sale of fixed assets	(1,258)	
(239,720)	Sale of long-term investments	(160,108)	
(2,927)	Capital grants received	(2,212)	
<u>(13)</u>	Other capital cash receipts	<u>(6)</u>	
(244,345)			(163,584)
ACQUISITIONS AND DISPOSALS			
3,600	Investment in subsidiary undertakings		0
<u>(20,439)</u>	Net cash inflow/outflow before financing		<u>21,891</u>
MANAGEMENT OF LIQUID RESOURCES			
(4,385)	Increase/(decrease) in short term investments		(600)
FINANCING			
Cash Outflows			
334	Repayments of amounts borrowed-finance leases		50
<u>(24,490)</u>	(INCREASE)/DECREASE IN CASH		<u>21,341</u>

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

RECONCILIATION OF COUNCIL DEFICIT TO GROUP DEFICIT

2005/06 £000		2006/07 £000
1,713	Deficit on Council's Income and Expenditure Account	403
<u>0</u>	Adjustments for transactions with group entities (Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Council	<u>0</u>
1,713		403
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to group entities	
1,524	Associates	1,776
<u>3,237</u>	Deficit for the year on Group Income and Expenditure Account	<u>2,179</u>

NOTES TO THE GROUP ACCOUNTS

The notes required for the accounts of Shetland Islands Council itself are disclosed in the preceding pages. The following notes provide additional information where required on the other group entities.

1. Details of other Group Entities

The following entities have been included as associates within the Group Accounts:

Orkney and Shetland Valuation Joint Board
Northern Joint Police Board
Highlands and Islands Fire Board

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government reorganisation. The Board provides the valuation service for Orkney and Shetland and is funded by the two Councils who share running costs and any surpluses or deficits. In 2006/07, Shetland contributed 49.5% (2005/06 48.4%) of the Board's costs and its share of the year-end net liability of £0.22m (2005/06 £0.48m) is included in the Group Balance Sheet.

Northern Joint Police Board was established at local government reorganisation in 1975 and provides a range of policing services to the four local authorities in the Highlands and Islands. In 2006/07, Shetland contributed 6.88% (2005/06 7.19%) of the Board's costs and its share of the year-end net liability of £316.2m (2005/06 £325.8m) is included in the Group Balance Sheet.

Highlands and Islands Fire Board was established at local government reorganisation in 1975 and provides fire services on behalf of the four local authorities in the Highlands and Islands. In 2006/07, Shetland contributed 9.66% (2005/06 6.35%) of the Board's costs and its share of the year-end net liability of £56.2m (2005/06 £56.2m) is included in the Group Balance Sheet.

Under Financial Reporting Standard 9, the following information has to be disclosed, showing the Council's share of the results of the other entities:

2005/06		2006/07
£000	Northern Joint Police Board	£000
3,865	Turnover	3,873
241	Profit before Tax	264
0	Taxation	0
241	Profit after Tax	264
3,739	Fixed assets	4,624
773	Current assets	836
(379)	Liabilities due within one year	(414)
(36,726)	Liabilities due after one year or more	(36,966)

2005/06		2006/07
£000	Highlands and Islands Fire Board	£000
1,441	Turnover	2,058
(92)	Profit before Tax	(63)
0	Taxation	0
(92)	Profit after Tax	(63)
3,549	Fixed assets	3,712
291	Current assets	387
(310)	Liabilities due within one year	(388)
(9,151)	Liabilities due after one year or more	(9,333)

2005/06		2006/07
£000	Orkney and Shetland Valuation Joint Board	£000
271	Turnover	286
0	Profit before Tax	0
0	Taxation	0
0	Profit after Tax	0
0	Fixed assets	0
5	Current assets	7
(5)	Liabilities due within one year	(7)
(232)	Liabilities due after one year or more	(106)

2. Financial Impact of Consolidation

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £37.6m, representing the Council's share of the entities net liabilities. These liabilities mainly arise due to the pension liabilities of these bodies calculated under FRS17.

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. **The Council's Responsibility**

The Council is required:

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 Head of Finance.

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

2. **The Head of Finance's Responsibilities**

The Head of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this statement of accounts, the Head of Finance has:

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the local authority SORP;

The Head of Finance has also:

kept proper accounting records which were up to date;

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

The statement of accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

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Graham Johnston B.Sc. (Hons) C.P.F.A.
Head of Finance

SHETLAND ISLANDS COUNCIL

2006/07 Abstract of Accounts

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for Shetland Islands Council. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a reasonable period.

The system of internal financial control is based on a framework of guidance and management information. Key aspects include:

- Comprehensive and up to date financial regulations
- Comprehensive budgeting systems
- Regular review of financial data
- Targeted reporting of budget against actual to managers
- Close management of capital expenditure

The Head of Finance is responsible for Internal Audit within the Council. The Service Manager-Internal Audit is responsible to the Head of Finance for the day to day discharge of the internal audit function. In accordance with the Council's Internal Audit Charter, it is the responsibility of Internal Audit to assist management in establishing an operating environment which is controlled, efficient and effective. Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, the Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing and operates in accordance with the ISO 9001:2000 quality standard for systems based audit work.

As required by the Audit Charter, Internal Audit plan and perform their work in accordance with an annual audit plan. This plan is a prioritised schedule of assignments to be performed during the year within the framework of a 6-year risk based Strategic Audit Plan. The plan requires the approval of the Management Team and the Council's Audit & Scrutiny Committee. Six monthly reports are made to the Committee to monitor progress against the annual audit plan.

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2006/07 was that the Council's system of internal control was adequate and effective.

The effectiveness of internal financial control is also informed by:

- The work of managers within the Council
- The work of Internal Audit, as mentioned above
- The external auditors in their annual audit letter and other reports

At my request, Internal Audit conducted an investigation during the year into Additional Support Needs, undertaken following large overspends and a lack of budgetary control, In their report issued in October 2006, Internal Audit raised a number of serious issues such as a lack of accountability, little definition of roles and responsibilities, a lack of management information and policy. A satisfactory action plan has yet to be developed to address these concerns and a follow-up investigation will be done in 2007/08.

Internal Audit also identified issues at Social Work concerning the lack of disclosure checks for both Social Work staff and external carers and at Building Services where the Council is being served a notice over non-compliance with the CDM regulations.

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Graham Johnston B.Sc. (Hons) C.P.F.A.
Head of Finance

Independent Auditor's Report

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

I certify that I have audited the financial statements of Shetland Islands Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account, and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from disagreement about accounting treatment

The 2006 SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position.

The Council's group accounts do not include the Shetland Development Trust and the Shetland Charitable Trust, and their related subsidiaries. In my opinion, the substance of the Council's relationship with these bodies represents a significant interest and their omission results in a material miss-statement of the group accounts. Based on prior year financial statements, I estimate that these bodies would contribute:

- a deficit position of approximately £5 million to the Group Income and Expenditure Account (resulting from income of £12.7 million and expenditure of £17.7 million);
- net assets of approximately £265 million to the Group Balance Sheet (resulting from fixed assets of £22 million, investments and loans of £211 million, net current assets of £33 million and long term liabilities of £1 million).

Except for the omission of these amounts from the group accounts, in my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Fiona Kordiak CPFA, Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

27 September 2007