

# **SHETLAND ISLANDS COUNCIL**

## **Abstract of Accounts**

**2007/08**

**SHETLAND ISLANDS COUNCIL - 2007/08 ABSTRACT OF ACCOUNTS**

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## **SHETLAND ISLANDS COUNCIL**

### **2007/08 Abstract of Accounts**

#### **EXPLANATORY FOREWORD**

1. **Introduction**

The Council's accounts and the Group accounts for the year ended 31st March 2008 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 2007.

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 £108.2m.

**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 Surplus to Group Surplus 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 budget for the year on the General Fund envisioned a draw on reserves of £5m. In the event the draw was limited to £3.57m which included an unbudgeted cost of £1.72m in respect of Equal Pay settlements. Equal pay costs were not included in the original budget as it was expected that the single status agreement would have been implemented by April 2007, and therefore extinguish the need to make ongoing equal pay payments. The equal pay costs and the need for a reduced draw on reserves were due to under-spends on Education and Social Care staffing budgets where there were delays in recruitment and obtaining sufficient staff, a higher than expected level of income from fees and charges of £1.6m and a general focus by budget responsible officers on providing services more efficiently.

Housing Revenue Account net expenditure was £0.75m over budget due mainly to overspends on maintenance. This was offset by less spend on house purchases financed from revenue, resulting in the contribution from the Housing Repair and Renewal Fund of £1.52m being £0.22m under budget.

Harbour Account income was £2.85m higher than expected, including £1.4m extra on the Jetty Maintenance contract, but this was partly offset by increased capital and jetty maintenance costs. Income from the smaller harbours' dues was £0.65m greater than budget and there were revenue expenditure savings of £0.5m as a consequence of the drive for greater efficiencies. This resulted in a contribution to the Reserve Fund being £1.3m more than budget.

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 2007/08 included work on the new AHS (£1.4m) and other major capital spend included work on the re-instatement of the Rova Head dump (£1.2m).

## 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 2007/08 which consists of:

continuing to have external management arrangements for all major funds;

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 disposals during 2007/08 occurred on Council house sales.

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

The Council has prudently built up extensive reserves of £305m 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 2008 of £289m (£287.5m at 31 March 2007). 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 £79.9m of general funding, consisting of revenue support grant and a share of non-domestic rates levied, and £2m to fund the Housing Revenue Account. The Council also receives a large number of specific grants including £2.5m 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 £8.2m, £5.4m from rents and charges to Council house and hostel tenants and £13.1m 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 2008. This indicated a net pension liability of £18.1m compared to a net liability of £35.1m as at 31 March 2007.

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 2008.

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 7 to the Core Financial Statements.

10. **Trusts**

The Council's 2006/07 Accounts were qualified in respect of a failure, in the Auditor's opinion, of the Council to group its accounts with those of Shetland Development Trust and Shetland Charitable Trust. The Auditor's view was based upon the close relations between these organisations, whereas the Council's position was based upon the separation which exists between these bodies. The debate

on this difference of view has continued, but in practice changes in the governance of the Shetland Development Trust (which have brought it into closer connection with the Council) mean that the Council now accepts the need to group Council and Development Trust accounts, and that will be done at the earliest opportunity (in practice, in the 2008/09 Accounts). The difference of view about grouping Council and Charitable Trust accounts remains unresolved, and remains a practical impossibility while the Charitable Trust exercises its independence and withholds its cooperation.

11. **Change in Accounting Policies**

The Code of Practice on Local Authority Accounting in the United Kingdom 2007, usually referred to as the SORP, brought in three changes that affect the accounting policies of the Council. These are explained below with an indication of their effect on the accounts.

The system for capital accounting was again changed with the Fixed Asset Restatement Account and Capital Financing Account being replaced respectively by the Revaluation Reserve and the Capital Adjustments Account. The operation of these new reserves are similar to those they replace although the accounting entries required are now more UK GAAP compliant than previously. In particular, the Council is required to maintain a record of the depreciated historical cost of individual assets and the Revaluation Reserve records the gains on fixed assets arising from increase in value together with the part of depreciation charges that have been incurred as a consequence of revaluation. The Capital Adjustment Account records the write down of the historical cost of assets as they are consumed by depreciation and the resources set aside to finance capital expenditure. No prior year adjustment was required on the introduction of these new reserves but the closing balances of the Fixed Asset Restatement Account and the Capital Financing Account as at 31 March 2007 were combined to form the opening balance of the Capital Adjustment Account. Although these changes affect the capital accounting entries in the Council's Income and Expenditure Account and Balance Sheet, they have no effect on the available resources of the Council to provide services.

The SORP brought in a new treatment of financial assets and liabilities that in particular affected how the Council accounts for its investments, mainly held through external fund managers. These financial assets were previously shown at historic cost (i.e. what they cost to buy) in the Council's Balance Sheet but are now shown at fair or market value with the difference from historic cost held in a new reserve, the Available-for-sale financial instruments reserve.

The Council has for the first time disclosed intangible assets within its Balance Sheet. These are assets such as software or software licences that provide benefits beyond the year in which they are purchased. They are accounted for, written down and revalued in a manner similar to tangible fixed assets. As for tangible assets, the accounting entries have no ultimate effect on the resources the Council has available to provide services.

## STATEMENT OF ACCOUNTING POLICIES

### 1. **Introduction**

The accounting policies presented below apply to all statements, including the Group Accounts unless replaced by a separate group accounting policy, 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 2008.

### 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 depreciation for the use of assets.

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. The £10,000 applies to individual assets or planned programmes where individual assets are below £10,000 but the programme exceeds £10,000, e.g. plant purchases.

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.

Intangible assets have been included in the balance sheet for the first time. These are assets such as software that have no tangible existence but provide benefit to the Council beyond the year in which they are purchased. They have been included as a result of a change in the SORP and are included at historic cost.

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 2008, and the effective date for the valuation was 1 April 2007 unless the property became operational after that date. There are a number of properties with a value of £5,000 or less where the effective date of valuation remains at 1 April 1996. These are being included within the programme of revaluations as resources permit.

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 have all been revalued as at 1 April 2007 based on 'beacon properties' in ward/geographical areas, adjusted for different numbers of apartments. The valuation has also been adjusted to reflect all disposals during 2007/08. 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 the non-operational and operational properties (including Council dwellings) were carried out by Alan Rolfe MRICS of the Asset and Property Unit of the Council's Legal and Administrative 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). The Ferry and Port stock is not valued in accordance with the SORP due to the stock system used being unable to provide such a valuation. However, the high value of items combined with a slow turnover is likely to mean that the valuation will not be significantly different from that required by the SORP.

8. **Financial Assets**

All investments are classified as Available-for-sale and are shown at fair value which is based on the quoted market bid price provided by the Council's external fund managers. Changes in fair value are balanced by an entry in the Available-for-sale financial instruments reserve and the gain/loss is recognised in the Statement of Recognised Gains and Losses.

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. Viking Energy has no assets and is not currently operational. The functions of Shetland Towage were transferred to the Council and it is also no longer operational. It has current assets of £0.2m but is likely to incur costs in the wind up of its pension scheme. As these assets are regarded as immaterial, its shares as well as those of Viking Energy have been 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 made equal pay offers to staff but a number of them declined to accept these offers. The Council has accordingly made provision for possible costs should the staff who did not accept an offer pursue the matter at an Employment tribunal.

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 20 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 Revaluation Reserve and Capital Adjustment Account, which replaced the Fixed Asset Restatement Account and the Capital Financing Account because of a change in accounting guidance, 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 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. **Contingent Assets and Liabilities**

The Council has identified and disclosed any contingent assets and liabilities where the inflow of a receipt or economic benefit is probable or if there is a possible obligation which may require a payment or a transfer of economic benefits. The Council discloses the nature of the contingency, a brief description, an estimate of its financial effect where possible and any uncertainties relating to the amount or timing of any outflow.

Contingent assets and liabilities are shown as a note and are not recognised within the accounting statements.

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2008**

2006/07		2007/08	2007/08	2007/08
£000		Expenditure £000	Income £000	Net £000
2,776	Central services	3,056	(317)	2,739
37,877	Education services	46,257	(8,009)	38,248
4,924	Environmental services	9,951	(4,664)	5,287
665	Housing services	5,377	(3,652)	1,725
6,006	Cultural and related services	6,834	(1,364)	5,470
4,657	Planning and development services	9,116	(1,128)	7,988
10,073	Roads and transport services	12,006	(2,430)	9,576
9,058	Trading services	28,212	(18,437)	9,775
17,319	Social work	27,076	(7,878)	19,198
6,049	Corporate and democratic core	5,745	0	5,745
(3,909)	Non distributed costs	414	0	414
2,076	Police	1,947	(1)	1,946
2,042	Fire	2,099	0	2,099
(2,640)	Housing revenue account	5,437	(7,451)	(2,014)
1,127	Services acquired from the Islesburgh Trust	0	0	0
<b>98,100</b>	<b>Net Cost of Services</b>	<b>163,527</b>	<b>(55,331)</b>	<b>108,196</b>
(44)	(Gain)/Loss on disposal of fixed assets			(30)
3,047	Interest payable and similar charges			3,501
(14,770)	Interest and investment income			(25,803)
(277)	Net Surplus trading undertakings			(84)
<b>(1,182)</b>	<b>Pension interest cost &amp; expected asset return</b>			<b>(2,063)</b>
<b>84,874</b>	<b>NET OPERATING EXPENDITURE</b>			<b>83,717</b>
(7,860)	Council Tax			(8,216)
(68,473)	Revenue Support Grant			(71,842)
(8,138)	Contribution from non-domestic rate pool			(8,031)
<b>403</b>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<b>(4,372)</b>

## SHETLAND ISLANDS COUNCIL

### 2007/08 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.

2006/07 £000		2007/08 £000
403	(Surplus)/Deficit on Income and Expenditure Account	(4,372)
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund balance for the year	
<u>(403)</u>		<u>4,372</u>
0	Decrease in General Fund balance for the year	0
0	General Fund balance brought forward	0
<u><u>0</u></u>	General Fund balance carried forward	<u><u>0</u></u>

**SHETLAND ISLANDS COUNCIL**

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**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

2006/07 £000		2007/08 £000
403	(Surplus)/Deficit on Income and Expenditure Account	(4,372)
4,579	Surplus arising on revaluation of fixed assets	(29,519)
0	Surplus arising on revaluation of available-for-sale financial assets	(7,825)
(17,986)	Actuarial (gains)/losses on pension fund assets and liabilities	(16,970)
(2,998)	Interest on Reserves	0
<u>(16,002)</u>	Total recognised gains for the year	<u>(58,686)</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**BALANCE SHEET**

**AS AT 31 MARCH 2008**

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
0	Intangible Assets		1,424
	<b><u>TANGIBLE FIXED ASSETS</u></b>		
	Operational assets		
40,833	Council dwellings	60,440	
96,913	Other land and buildings	97,409	
34,988	Vehicles, plant, furniture and equipment	39,331	
115,610	Infrastructure assets	115,784	
5,153	Community assets	<u>5,104</u>	
<u>293,497</u>			318,068
	Non-operational assets:		
4,193	Investment properties	4,444	
9,120	Assets under construction	15,360	
239	Surplus assets, held for disposal	<u>245</u>	
			<u>20,049</u>
<u>307,049</u>	<b>TOTAL FIXED ASSETS</b>		<u>339,541</u>
231,417	Long-term investments		241,125
4	Long-term debtors:Housing Loans		4
22	Long-term debtors:Other		18
<u>538,492</u>	<b>TOTAL LONG-TERM ASSETS</b>		<u>580,688</u>
	<b><u>CURRENT ASSETS</u></b>		
2,819	Stocks and work in progress	3,092	
11,131	Debtors, less bad debt provisions	11,243	
15,934	Short term investments	16,141	
6,470	Cash and bank	<u>5,196</u>	
<u>36,354</u>			<u>35,672</u>
<u>574,846</u>	<b>TOTAL ASSETS</b>		<u>616,360</u>
	<b><u>CURRENT LIABILITIES</u></b>		
(14,754)	Creditors		(12,312)
<u>560,092</u>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>604,048</u>
	<b><u>LONG-TERM LIABILITIES</u></b>		
(342)	Provision	(214)	
(7,783)	Government Grants-deferred	(10,207)	
<u>(35,133)</u>	Pension Asset/ (Liability)	<u>(18,107)</u>	
<u>(43,258)</u>			<u>(28,528)</u>
<u><u>516,834</u></u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u><u>575,520</u></u>

**SHETLAND ISLANDS COUNCIL**

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**BALANCE SHEET**

**AS AT 31 MARCH 2008**

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
	<b><u>FINANCED BY:</u></b>		
(248,032)	Capital Adjustment Account		(252,323)
-	Revaluation Reserve		(28,012)
-	Available-for-sale Financial Instruments Reserve		(7,825)
35,133	Pension Reserve		18,107
0	Capital Receipts Reserve		0
<u>(26)</u>	Deferred Capital Receipts		<u>(22)</u>
(212,925)			(270,075)
(118,471)	Capital Fund	(116,545)	
(97,896)	Repairs and Renewals Fund	(101,413)	
(87,273)	Reserve Fund	(87,220)	
<u>(269)</u>	Insurance Fund	<u>(267)</u>	
(303,909)			(305,445)
	<b>Balances</b>		
0	General Fund		0
<u><u>(516,834)</u></u>	<b>TOTAL NET WORTH</b>		<u><u>(575,520)</u></u>

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

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

**SHETLAND ISLANDS COUNCIL**

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**CASHFLOW STATEMENT**

2006/07		2007/08	2007/08
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
82,273	Cash paid to and on behalf of employees	85,088	
60,210	Other operating cash payments	68,061	
368	Housing Benefit paid out	398	
<u>4,482</u>	National Non-Domestic Rate payments to national Pool	<u>4,210</u>	
147,333			157,757
	<b>Cash Inflows</b>		
(3,405)	Rents (after rebates)	(3,561)	
(7,047)	Council Tax receipts	(7,526)	
(10,363)	Non-domestic rate receipts	(12,180)	
(68,488)	Revenue Support Grant	(71,273)	
(364)	DSS grants for benefits	(417)	
(19,397)	Other government grants	(16,455)	
(24,685)	Cash received for goods & services	(27,404)	
<u>(8,535)</u>	Other operating cash receipts	<u>(10,002)</u>	
(142,284)			(148,818)
<u>5,049</u>	<b>NET REVENUE CASH (IN)/OUTFLOW</b>		<u>8,939</u>
	<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>		
	<b>Cash Inflows</b>		
(3,709)	Dividends received		(2,214)
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(6,172)	Interest received		(6,413)
<u>(4,832)</u>	<b>BALANCE c/f</b>		<u>312</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**CASHFLOW STATEMENT (continued)**

2006/07		2007/08	2007/08
£000		£000	£000
(4,832)	BALANCE b/f		312
<b>CAPITAL EXPENDITURE &amp; FINANCIAL INVESTMENT</b>			
<b>Cash Outflows</b>			
40,954	Purchase of fixed assets	18,582	
<u>149,353</u>	Purchase of long-term investments	<u>401,700</u>	
190,307			420,282
<b>Cash Inflows</b>			
(1,258)	Sale of fixed assets	(1,767)	
(160,108)	Sale of long-term investments	(413,763)	
(2,212)	Capital grants received	(2,893)	
<u>(6)</u>	Other capital cash receipts	<u>(4)</u>	
(163,584)			(418,427)
<u>21,891</u>	Net cash inflow/outflow before financing		<u>2,167</u>
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
(600)	Net Increase/decrease in short term deposits		(893)
<b>FINANCING</b>			
<b>Cash Outflows</b>			
50	Capital element of finance lease rental payments		0
<u><u>21,341</u></u>	NET INCREASE/DECREASE IN CASH		<u><u>1,274</u></u>



**SHETLAND ISLANDS COUNCIL**

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**NOTES TO THE CORE FINANCIAL STATEMENTS**

**1. RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

2006/07 £000		2007/08 £000	2007/08 £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		
(10,433)	Depreciation	(13,221)	
350	Government Grants deferred amortisation	566	
44	Net gain/(loss) on sale of fixed assets	30	
2,337	Net charge made for retirement benefits in accordance with FRS17	56	
(7,702)			(12,569)
	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		
1,989	Principal repayments	2,023	
1,640	Capital Expenditure financed from revenue	1,781	
(4,073)			3,804
	Transfers to and from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
2,515	Transfer to Capital Fund		5,149
0	Transfer to Pilot Boat Renewal Fund		48
5,460	Transfer to Repair & Renewals Fund		8,421
(393)	Transfer from Housing Repair & Renewal Fund		(432)
0	Transfer to Quarry Repair & Renewal Fund		8
(4,074)	Transfer from Reserve Fund		(363)
112	Transfer to Marine Fund		308
50	Transfer from Insurance Fund		(2)
(403)			4,372

## SHETLAND ISLANDS COUNCIL

### 2007/08 Abstract of Accounts

#### 2. 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.

#### 3. 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 2007/08 payments made for assets acquired under finance and operating leases.

##### Finance and Operating Lease Payments:

2006/07		2007/08	2007/08	2007/08
£000		Land & Buildings £000	Other Assets £000	Total £000
50	Finance leases	0	0	0
1,498	Operating leases	1,727	193	1,920
<u>1,548</u>	Total	<u>1,727</u>	<u>193</u>	<u>1,920</u>

The future cash payments under operating leases are as follows:

	Land & Buildings	Other Assets	Total
2008/09	£1,231,298	£99,162	£1,330,460
2009/10- 2012/13	£4,317,979	£292,089	£4,610,068
2013/14 onwards	£10,577,461	£154,398	£10,731,859

#### 4. Publicity expenditure

Expenditure on publicity must be recorded under Section 5 of the Local Government Act 1986. The table below summarises 2007/08 expenditure.

##### Publicity expenditure

2006/07		2007/08
£000		£000
207	Recruitment advertising	133
176	Other advertising	209
<u>383</u>	Total	<u>342</u>

5. **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 2006/07 £000		Expenditure 2007/08 £000	Income 2007/08 £000	Net Income 2007/08 £000
(54)	Scottish Water	0	(57)	(57)
<u>(54)</u>	<u>Total</u>	<u>0</u>	<u>(57)</u>	<u>(57)</u>

6. **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 2006/07 £000		Expenditure 2007/08 £000	Income 2007/08 £000	Net Expenditure 2007/08 £000
0	Northern Joint Police Committee	35	(35)	0
0	Highlands & Islands Fire Board	9	(9)	0
<u>0</u>	<u>Total</u>	<u>44</u>	<u>(44)</u>	<u>0</u>

## 7. 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	2006/07	2007/08	Cumulative Total
	£000	£000	£000	£000
Highways				
Turnover	(6,676)	(7,561)	(6,618)	
(Surplus)/Deficit	(272)	(219)	(64)	(479)
Building Maintenance				
Turnover	(4,106)	(4,131)	(4,278)	
(Surplus)/Deficit	(163)	(218)	(83)	(440)

The figures for 2007/08 and 2006/07 exclude notional interest in accordance with the SORP. However the cumulative total includes notional interest as this was properly chargeable in 2005/06.

## 8. Audit Costs

The fees for audit services undertaken in accordance with the 'Code of Audit Practice' are paid to Audit Scotland and were as follows:-

2006/07		2007/08
£000		£000
186	External Audit fees	198
60	Audit Scotland Recharge	61
<u>246</u>		<u>259</u>

## 9. Members' Allowances/Remuneration and Expenses

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

2006/07 £000		2007/08 £000
392	Allowances/Remuneration	365
<u>128</u>	Expenses	<u>82</u>
<u><u>520</u></u>		<u><u>447</u></u>

#### 10. Officers' Emoluments

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

Remuneration Band	2006/07 No.	2007/08 No.
£50,000 - £59,999	41 (6)	47 (1)
£60,000 - £69,999	12 (7)	14 (10)
£70,000 - £79,999	1	2
£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.

#### 11. 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	71,842
Non-domestic rates	9,342
Housing Benefit Subsidy	2,503
Council Tax Benefits Subsidy	791
Housing Support Grant	2,012
Other Government Grants	9,301
<u>Other Public Bodies Grants</u>	£'000
Scottish Further & Higher Education Council	1,984
Highlands & Islands Enterprise	324
Communities Scotland	353
Sports Scotland	332
Shetland Transport Partnership	447
Lottery Grants	65
Scottish Arts Council	158
Scottish Natural Heritage	61

During the year, the Council made payments of £4.33m to the Police, Fire and Valuation Joint Boards. The Council also made payments totalling £4.87m 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 £7.39m in employers contributions and strain costs and charged the Fund £0.14m in administration costs.

12. **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 2007/08 were:**

<b>Operational Assets</b>	<b>Intangible Assets</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Investment Assets</b>	<b>Assets Under Construction</b>	<b>Surplus Assets</b>	<b>Total All Assets</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Certified valuation at 31 March 2007	0	40,783	104,480	44,391	131,616	5,159	4,417	9,120	239	340,205
Accumulated Depreciation & Impairment	0	50	(7,567)	(9,403)	(16,006)	(6)	(224)	0	0	(33,156)
Net book Value of assets at 31 March 2007	0	40,833	96,913	34,988	115,610	5,153	4,193	9,120	239	307,049

**Movement in 2007/08**

Additions	1,864	1,628	2,091	3,835	3,162	9	0	7,915	0	20,504
Disposals	0	(1,465)	(6)	(53)	0	0	(17)	(282)	0	(1,823)
Revaluations	0	19,664	149	(445)	0	(57)	218	0	0	19,529
Depreciation in year	(440)	(664)	(3,168)	(2,808)	(3,158)	0	(68)	0	(4)	(10,310)
Depreciation written back	0	(40)	702	3,813	0	0	118	0	0	4,593
Transfers/Appropriations	0	485	728	0	170	0	0	(1,393)	10	0
Net Book Value of Assets at 31 March 2008	1,424	60,441	97,409	39,330	115,784	5,105	4,444	15,360	245	339,542

The intangible assets consist of purchased software and software licences.

The table below analyses the sources of finance utilised in 2007/08 to provide for the expenditure incurred.

**Sources of finance for capital accounts in 2007/08:**

2006/07 £000		2007/08 £000
1,977	Loans	0
1,264	Capital receipts	1,771
0	Capital receipts-used to repay debt	(211)
2,358	Grant receipts	2,989
15,419	Revenue/Other	14,236
<u>21,018</u>	Total	<u>18,785</u>

13. **Significant commitments under capital contracts beyond 31 March 2008:**

The following table sets out the amount of outstanding contractual commitments on capital projects as at 31 March 2008. These amounts relate to contracts commenced but not concluded by the end of the financial year.

	Outstanding Contractual Liability beyond 31/3//08 £000
Uyeasound Pier	2,500
Rova Head Reinstatement	1,900
Anderson High School	700
Sandwick ASN	500
Marinas	475
Cinema & music venue	300
Knab dyke	271
Oversund Junction	260
Mid Yell JHS	200
Feasability Studies	200
Total	<u>7,306</u>

14. **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.

<b>GBV as at 31/03/08</b>	<b>Council Dwellings</b>	<b>Other land and Buildings</b>	<b>Vehicles, Vessels, Plant &amp; Equipment</b>	<b>Non-Operational Assets</b>	<b>Total All Assets</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Valued at historical cost	0	0	N/A	15,358	15,358
Valued at current value in:					
2007/08	60,321	8,448	N/A	1,380	70,149
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

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.



15. **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 2008.

<b>2007</b>		<b>2008</b>
1,956	<b>Council Dwellings</b>	1,920
	<b>Community Assets</b>	
32	Burial Grounds	32
20	Museum Exhibits:	16
1	Other Community Assets	1
	<b>Non Operational Assets</b>	
43	General Non Operational Assets	43
13	Industrial Estate	13
6	Commercial Properties	6
4	Non Operational - Other	4
1	Land awaiting development	1
	<b>Other Land and Buildings</b>	
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
16	Offices	17
26	Public Conveniences	26
35	Schools	35
8	Social Services Homes	8
29	Other Misc Land and Bldgs	29
	<b>Intangible Assets</b>	
0	Software	25
	<b>Vehicles Plant, Furniture and Equipment</b>	
1	Aircraft	1
241	Vehicles	270
137	Plant	151
13	Ferries	13
11	Boats/Tugs	11
20	Computer Equipment	80
22	Other Equipment	0
	<b>Infrastructure Assets</b>	
1,047	Roads (km)	1,047
	<b>Investment Properties</b>	
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.

## 16. 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:

<b>Asset</b>	<b>Years</b>
Intangible Assets	3-7
Council Dwellings	30-45
Community Assets	100
Infrastructure Assets	0- 60
Other Land & Buildings	0- 120
Vehicles, plant, furniture & equipment	0- 50
Non-operational Land & Buildings	0- 60

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

<b>Asset</b>	<b>Depreciation 2007/08 £000</b>	<b>Cumulative Depreciation £000</b>
Intangible Assets	440	440
Council Dwellings	664	655
Community Assets	0	7
Infrastructure assets	3,158	19,164
Other Land & Buildings	3,168	10,033
Vehicles, plant, furniture & equip	2,808	8,397
Non operational assets	72	178
	<u>10,310</u>	<u>38,874</u>

## 17. Analysis of Debtors and Creditors

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

31 March 2007 £000		31 March 2008 £000
<b>Debtors:</b>		
3,010	Sundry Debtors	3,156
66	Recoverable Costs	122
1,325	Value Added Tax	1,628
671	Council Tax	646
548	Non Domestic Rates	376
451	Rents	505
47	Payroll	485
0	Government Grants	2,050
5,731	Other Debtors	2,966
11,849	Gross debtors	11,934
(237)	Bad debt provision - Sundry Debtors	(197)
(197)	Bad debt provision - Council Tax	(180)
(135)	Bad debt provision - Non domestic Rates	(137)
(149)	Bad debt provision - Rents	(177)
11,131	Net Debtors	11,243
<b>Creditors:</b>		
(9,796)	Sundry Creditors	(6,812)
(459)	Non Domestic Rates	(454)
(1,966)	Government Grants	(41)
(691)	Employee	(1,018)
(524)	Council Tax	(580)
(1,318)	Other Creditors	(3,407)
(14,754)		(12,312)

## 18. 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.

2006/07 £000		2007/08 £000
(446)	Opening balance-General Fund	(544)
43	Miscellaneous Invoices written off	7
9	Non-domestic Rates written off	46
42	Council Tax written off	38
1	Community Charge written off	0
0	Cash received on debts written off	0
(193)	Charge to General Fund for new provision	(42)
(544)		(495)
(140)	Opening balance-Housing Revenue Account	(174)
10	Miscellaneous Income written off	14
24	Rents written off	10
(68)	Charge to HRA for new provision	(46)
(174)		(196)

The Council has also made a provision in respect of equal pay claims where the offer of settlement by the Council was not accepted. Equal pay offers were made to certain groups of staff, in particular those who had not received bonus payments. However some staff declined to accept these offers and have the right to take their case to an Employment Tribunal. The provision covers the anticipated payment the Council may have to make if it were to lose a Tribunal case in respect of the years up to 31 March 2008 for possible bonus payments.

2006/07		2007/08
£000		£000
0	Opening balance	(342)
(342)	Charge for new provision	0
0	Release of provision no longer required	128
<u>(342)</u>		<u>(214)</u>

19. **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		31 March
2007		2008
£000		£000
248,032	Capital Adjustment Account	252,323
0	Revaluation Reserve	28,012
0	Available-for-sale Financial Instruments Reserve	7,825
(35,133)	Pension Reserve	(18,107)
0	Capital Receipts Reserve	0
26	Deferred Capital Receipts	22
203,419	General Fund	205,390
84,515	Reserve Fund	84,152
12,398	Housing Revenue Account	11,967
3,577	Harbour Accounts	3,936
<u>516,834</u>	Total	<u>575,520</u>

20. **Movements in Reserves**

	Balance as at 1/04/07	Gains or losses transferred from revenue or credited/ debited direct to reserve	Transactions with other reserves	Balance as at 31/03/08
	£000	£000	£000	£000
Capital Adjustment Account	(248,032)	12,457	(16,748)	(252,323)
Revaluation Reserve	0	(28,753)	741	(28,012)
Available-for-sale Financial Instruments Reserve	0	(7,825)	0	(7,825)
Pension Reserve	35,133	(17,026)	0	18,107
Capital Receipts Reserve	0	(1,767)	1,767	0
Deferred Capital Receipts	(26)	0	4	(22)
Capital Fund	(117,652)	(5,148)	7,123	(115,677)
Pilot Boat Renewal Fund	(819)	(49)	0	(868)
Repairs & Renewals Fund	(85,368)	(8,421)	4,577	(89,212)
Housing Repairs & Renewals Fund	(12,398)	(1,089)	1,520	(11,967)
Quarry Repairs & Renewals Fund	(130)	(8)	0	(138)
Central Energy Efficiency Fund	0	(96)	0	(96)
Reserve Fund	(84,515)	(9,370)	9,733	(84,152)
Marine Superannuation Fund	(2,758)	(353)	43	(3,068)
Insurance Fund	(269)	(22)	24	(267)
General Fund	0	7,733	(7,733)	0
Housing Revenue Account	0	1,051	(1,051)	0
	<b>(516,834)</b>	<b>(58,686)</b>	<b>0</b>	<b>(575,520)</b>

The Fixed Asset Restatement Account and the Capital Financing Account were replaced by a Revaluation Reserve and Capital Adjustment Account, with the closing balance on both transferred to the Capital Adjustment Account. 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 £0.004m were released in the year.

The 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 £1.62m of Housing Revenue Account and £0.15m 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. £7.12m 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. £4.58m of capital expenditure was funded 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 £1.52m was made to cover repairs expenditure. This effectively allowed the HRA to contribute £0.47m to the Capital adjustment account to fund capital expenditure and covered a deficit of £1.051m 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 £4.55m was transferred to the fund and a transfer of £0.76m was made to the Capital Adjustment Account to fund capital expenditure. A transfer of £13.525m was made to the General Fund, consisting of £9.955m to cover a planned expenditure programmes and £3.57m 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 £0.043m 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 made a contribution to the General Fund in the year of £0.024m.

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

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 £1.051m was received for that purpose.

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 31/3/07		Fund Balance at 31/3/08
£000		£000
(630)	Zetland Educational Trust	(642)
(49)	Gilbertson Trust	(50)
(3)	William Strong Bequest	(3)
(2)	Samuel Mullay Bequest	(2)
(4)	Other	(5)
<u>(688)</u>	Total	<u>(702)</u>

The Zetland Educational Trust, with an income of £35,433 and expenditure of £23,589, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £1,358, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £120 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**

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £257m for the Council's accounts. An estimate of the effect of the fall in investment values for the Council cannot be reliably made due to the ongoing volatility within the markets.

23. **Statement of Authorisation of Issue**

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008 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 progressing an alternative approach to Single Status involving grouping similar types of posts in Job Families and re-designing jobs to mitigate possible loss of pay. Latest estimates indicate this approach may add around £4m to the Council's annual pay bill.

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.

The Council has provided security cover, in the form of a irrevocable letter of credit for £244,704, to National Grid Electricity Transmission plc in respect of its agreement with Viking Energy in relation to an inter connector cable to Shetland. The sum would only be payable if Viking Energy withdrew from the wind farm project and therefore would not need a grid connection.

**26. Pension Costs (Teachers)**

In 2007/08 the Council paid an employer's contribution of £2.2m (£2.0m in 2006/07) 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 2007/08 these amounted to £0.67m (£0.64m in 2006/07), representing 4.0% of teachers pensionable pay (2006/07 4.0%).

**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.

2006/07 £000		2007/08 £000
9,971	Current service costs	9,082
(4,438)	Past service costs	224
529	Curtailements and settlements	190
(12,258)	Expected return on assets	(14,311)
11,076	Interest cost	12,248
7,217	Actual employers contributions payable	7,489

**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 2007/08, 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.

Although the net pension liability of £18.1m exceeds the General Fund balance which, by Council policy, is balanced to zero each year, the Council has other funds available including a Reserve Fund of £83.5m. 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:

<b>2007</b>		<b>2008</b>
<b>£'000</b>		<b>£'000</b>
187,924	Share of Pension Fund Assets	179,810
(202,373)	Less: Estimated liabilities in Pension Fund	(178,602)
(20,684)	Estimated liabilities for discretionary pensions	(19,315)
<u>(35,133)</u>	Net pension asset/(liability)	<u>(18,107)</u>

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

<b>2007</b>			<b>2008</b>			
%	Market Value £'000	Expected rate of return %		%	Market Value £'000	Expected rate of return %
89.9	168,823	7.8	Equity Investments	83.6	150,389	7.7
7.3	13,795	4.9	Bonds	5.8	10,452	5.7
0.0	0	5.8	Property	4.7	8,394	5.7
2.8	5,306	4.9	Cash	5.9	10,575	4.8
	<u>187,924</u>				<u>179,810</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:

<b>2007</b>		<b>2008</b>
%		%
3.2	Price Increases	3.6
4.7	Salary Increases	5.1
3.2	Pension Increases	3.6
5.4	Discount Rate	6.9

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.

31 March		31 March
<b>2007</b>		<b>2008</b>
£000		£000
1,773	Difference between the expected and actual return on assets	(28,053)
187,924	Value of assets	179,810
0.9%	Percentage of assets	15.6%
(1,128)	Experience gain/(loss) on liabilities	(112)
223,057	Present value of liabilities	197,917
0.5%	Percentage of the present value of liabilities	0.1%
17,341	Change in financial assumptions underlying the present value of liabilities	45,135
7.8%	Percentage of the present value of liabilities	22.8%

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

**Reconciliation to Net Debt**

2006/07 £000		2007/08 £000
21,341	(Increase)/decrease in Cash	1,274
0	Decrease in Debt Financing	0
4,200	(Increase)/decrease in Liquid Resources	<u>(207)</u>
<u>25,541</u>		<u>1,067</u>
<u>(47,945)</u>	Opening Net Debt as at 01/04/07	<u>(22,404)</u>
<u><u>(22,404)</u></u>	Closing Net Debt as at 31/03/08	<u><u>(21,337)</u></u>

**Analysis of Net Debt**

	Balance at 01/4/07 £000	Cash Flow £000	Other Non Cash £000	Balance at 31/3/08 £000
Cash and bank	(6,470)	1,274	0	(5,196)
Overdraft	0	0	0	0
	<u>(6,470)</u>	<u>1,274</u>	<u>0</u>	<u>(5,196)</u>
Debt due after 1 year	0	0	0	0
Debt due within 1 year	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Current Investments	(15,934)	(1,323)	1,116	(16,141)
Total	<u>(22,404)</u>	<u>(49)</u>	<u>1,116</u>	<u>(21,337)</u>

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

2006/07		2007/08	2007/08
£000		£000	£000
403	(Surplus)/Deficit for Year	(4,372)	
	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance	4,372	
<u>(403)</u>		<u>4,372</u>	
0			0
	<b><u>Non cash transactions</u></b>		
9,598	Contributions to/from reserves	11,968	
(1,939)	Loans Fund principal repayments	(2,023)	
<u>(1,640)</u>	Capital from current revenue	<u>(2,537)</u>	7,408
	<b><u>Items on an accruals basis</u></b>		
391	Movement in stocks	272	
2,232	Movement in debtors	1,236	
<u>(1,557)</u>	Movement in creditors	<u>1,919</u>	3,427
	<b><u>Items classified elsewhere</u></b>		
(50)	Finance lease capital	0	
0	Finance lease interest	0	
(2,571)	Interest paid	(2,721)	
<u>585</u>	Other	<u>825</u>	(1,896)
<u>5,049</u>			<u>8,939</u>

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

	Balance at 01/04/07 £000	Balance at 31/3/08 £000	Movement 2007/08 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	15,934	16,141	(207)
<b>Financing</b>			
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>0</u>
			<u>0</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 2007/08:**

2006/07 £000		2007/08 £000	2007/08 £000
(68,488)	Revenue Support Grant		(71,273)
	Rebates Grants		
(831)	Council Tax Rebate	(781)	
(2,368)	Rent Rebate	(2,066)	
(364)	Rent Allowance	(417)	
<u>(72,051)</u>		<u></u>	(3,264)
	Other Revenue Grants		
(2,147)	Housing Support Grant	(2,012)	
(1,874)	Further Education Grant	(1,511)	
(383)	Training Grants	(267)	
(12)	Milk Subsidy	(14)	
(79)	Housing Benefit Administration	(88)	
(41)	Council Tax Administration	(46)	
(11,662)	Other	(9,670)	
<u>(16,198)</u>		<u></u>	(13,608)
<u>(88,249)</u>	Total Revenue Grants		<u>(88,145)</u>
(2,212)	Capital Grants		(2,893)
<u>(90,461)</u>	Total		<u>(91,038)</u>

### 33. Risks arising from Financial Instruments

The authority's investments and financial activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Service, under policies approved by the Council in the annual Treasury Management Strategy Statement.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks or financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least a –AA long term Fitch IBCA rating
- Bank of Scotland – Council's own bank
- Any bank which is a wholly owned subsidiary of the above
- Any Local Authority

The –AA long term rating is defined by Fitch IBCA (International Bank Credit Association) as a "low expectation of investment risk ..... adverse changes in business, economic or financial conditions may increase risk, albeit not very significantly".

The authority has a policy of not lending more than £3 million of its surplus balances to any single organisation at any one time, apart from the Council's own bank.

At the 31<sup>st</sup> March 2008 the Council only had deposits with the Council's own bank, amounting to £12.3 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial years experience, where no default or loss has occurred. No credit limits were exceeded during the reporting period and the authority does not expect any losses or default in relation to these current deposits.

#### Liquidity Risk

The authority has external investments with fund managers amounting to £257 million at the 31<sup>st</sup> March 2008. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

There are no current capital borrowings and there is no requirement for capital borrowings during 2008/09. All trade and other payables are due to be paid in less than one year.

#### Market Risk

The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31<sup>st</sup> March 2008 is diversified between the following markets:

UK Equities	36%
Overseas Equities	20%
UK Government Bonds	31%
Overseas Bonds	5%
Corporate Bonds	2%
Cash	6%

Overseas equities comprise investments in North America, Europe, Japan, Pacific (ex Japan) and Emerging Markets.

The authority's external investments are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised by the Statement of Total Recognised Gains and Losses (STRGL). The largest investment is in UK Equities and any movement of the UK market will have the greatest impact on any gains or losses. A general shift of 5% in the UK Stock Market (positive or negative) would result in a gain or loss being recognised in the STRGL in the region of £4.6 million for 2007/08.

#### Foreign Exchange Risk

The authority has £62 million invested in overseas equities and bonds which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates are greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

### 34. Financial Investments

The investments disclosed in the Balance Sheet are made up of the following categories of financial investment.

	<b>Long-term</b>	<b>Current</b>
	31 March	31 March
	2008	2008
	£000	£000
Available - for-sale financial assets	241,125	16,141

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT**

2006/07		2007/08	2007/08
£000		£000	£000
	<b>INCOME</b>		
(4,993)	Dwelling rents (gross)	(4,999)	
(372)	Non-dwelling rents (gross)	(371)	
(2,147)	Housing Support Grant	(2,012)	
<u>(94)</u>	Other income	<u>(69)</u>	
(7,606)	Total Income		(7,451)
	<b>EXPENDITURE</b>		
2,392	Repairs and maintenance	2,790	
381	Supervision and management	359	
1,613	Depreciation & impairment of fixed assets	1,643	
68	Bad or doubtful debts	47	
<u>512</u>	Other expenditure	<u>424</u>	
4,966	Total Expenditure		5,263
(2,640)	Net cost of HRA services per Authority Income and Expenditure Account		(2,188)
0	HRA share of Corporate & Democratic Core		174
<u>(2,640)</u>	Net Cost of HRA Services		<u>(2,014)</u>
(71)	Gain on sale of assets		(126)
2,489	Interest payable and similar charges		2,791
<u>(21)</u>	Pension interest cost & expected return on assets		<u>(54)</u>
<u>(243)</u>	(Surplus)/Deficit for the year on HRA services		<u>597</u>

## **STATEMENT OF MOVEMENT ON THE HRA BALANCE**

2006/07		2007/08
£000		£000
(243)	(Surplus)/Deficit on the HRA Income and Expenditure Account	597
243	Net additional amount required by statute to be debited or credited to the HRA balance for the year	(597)
<u>0</u>	(Increase)/decrease in the HRA balance	<u>0</u>
0	Housing Revenue account balance brought forward	0
<u><u>0</u></u>	Housing Revenue Account balance carried forward	<u><u>0</u></u>

## **NOTES TO THE HOUSING REVENUE ACCOUNT CORE FINANCIAL STATEMENTS**

### **Note to the Statement of Movement on HRA Balance**

2006/07		2007/08	2007/08
£000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the revenue on the HRA balance for the year.		
(1,627)	Depreciation of fixed assets	(1,647)	
0	Government Grants deferred amortisation	14	
71	Gain on sale of assets	126	
(29)	Net charge for external benefits under FRS17	12	
<u>(1,585)</u>		<u></u>	<u>(1,495)</u>
	Items not included in the HRA Income and Expenditure Account but included in the revenue on HRA balance for the year		
1,939	Loans Fund principal	1,949	
841	Transfer to Capital Adjustment Account	469	
(952)	Transfer to Housing Repair & Renewal Fund	(1,520)	
<u>243</u>		<u></u>	<u>898</u> <u>(597)</u>



## **Number and types of dwelling**

### **Housing stock:**

31 March 2007		31 March 2008	
No.		No.	
84	1 Apartment	84	
409	2 Apartment	406	
572	3 Apartment	561	
741	4 Apartment	720	
40	5 Apartment	40	
1	6 Apartment	1	
1	8 Apartment	2	
<u>1,848</u>	Total	<u>1,814</u>	

### **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 a drop in the number of properties in arrears by 85 and the total amount of arrears has fallen considerably.

### **Rent arrears:**

31 March 2007		31 March 2008	
141	Amount (£000)	126	
417	Number of properties in arrears (No.)	332	
22.6	Properties in arrears as share of total stock (%)	18.3	
339	Average amount per property in arrears (£)	379	

### **Provision for bad debts**

The following table summarises the movements on the bad debt provision during 2007/08

#### **Bad debt provision:**

2006/07		2007/08	2007/08
£000		£000	£000
(140)	Balance as at 1st April		(174)
	Bad rent debt written off		
12	Over £1,000 (Council approved)	8	
12	Under £1,000 (delegated authority)	2	
<u>24</u>		<u></u>	10
10	Miscellaneous bad debt written off		14
<u>(106)</u>		<u></u>	<u>(150)</u>
(68)	Contribution to/(from) Housing Revenue Account		(46)
<u>(174)</u>	Balance as at 31st March	<u></u>	<u>(196)</u>

## SHETLAND ISLANDS COUNCIL

### 2007/08 Abstract of Accounts

#### COUNCIL TAX INCOME ACCOUNT

2006/07		2007/08
£000		£000
(9,009)	Gross Council Tax levied and contributions in lieu	(9,460)
<u>(9,009)</u>		<u>(9,460)</u>
(41)	Council Tax benefits (net of Government grant)	(14)
45	Provision for bad and doubtful debts	21
1,114	Other discounts and reductions	1,189
31	Adjustment to previous years' Council Tax	48
<u>(7,860)</u>	Transfer to General Fund	<u>(8,216)</u>

#### 1. **Council tax base**

Overleaf is the analysis of the Council Tax base used to set the 2007/08 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 2007/08

	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.)		3,149	1,781	2,517	1,524	1,023	183	41	1	<b>10,219</b>
Gross Tax Base (Properties x Weighting)		18,894	12,467	20,136	13,716	11,253	2,379	615	18	<b>79,478</b>
Adjusted Properties (Band D Equivalents)		2099.33	1385.22	2237.33	1524.00	1250.33	264.33	68.33	2.00	<b>8,831</b>
Vacant Properties (No.):										
Mandatory Standard Exemptions		(188)	(74)	(53)	(27)	(16)	(2)	(1)	(1)	<b>(362)</b>
Chargeable Dwellings subject to Disabled Reduction (No.)		(10)	(7)	(13)	(11)	(6)	(1)	(1)	0	<b>(49)</b>
Dwellings Effectively Subject to Tax by Virtue of										
Disabled Relief (No.)	10	7	13	11	6	1	1	0	0	<b>49</b>
Class 18 (MoD) Dwellings (No.)	0	24	22	7	0	1	0	0	0	<b>54</b>
Revised Total Properties (No.)	<b>10</b>	<b>2,982</b>	<b>1,735</b>	<b>2,469</b>	<b>1,492</b>	<b>1,003</b>	<b>181</b>	<b>39</b>	<b>0</b>	<b>9,911</b>
Types of Property (No.):										
Single Discount (25%)	3	1,294	685	890	324	139	11	8	0	<b>3,354</b>
Double Discount (50%)	0	328	100	75	34	17	4	1	0	<b>559</b>
No Discount (0%)	7	1,336	928	1,497	1,134	846	166	30	0	<b>5,944</b>
	<b>10</b>	<b>2,958</b>	<b>1,713</b>	<b>2,462</b>	<b>1,492</b>	<b>1,002</b>	<b>181</b>	<b>39</b>	<b>0</b>	<b>9,857</b>
Properties Subject to Council Tax (No.)	9.25	2,470.50	1,491.75	2,202.00	1,394.00	958.75	176.25	36.50	0.00	<b>8,739.00</b>
Net Tax Base (Properties x Weighting)	46	14,823	10,442	17,616	12,546	10,546	2,291	548	0	<b>68,858</b>
Adjusted Properties (Band D Equivalents)	5.14	1,647.00	1,160.25	1,957.33	1,394.00	1,171.81	254.58	60.83	0.00	<b>7,650.94</b>
<b>COUNCIL TAX 2007/08:</b>										
<b>General Fund Charge</b>										
Tax Yield (£)	6,494	1,734,291	1,221,743	2,061,072	1,467,882	1,233,911	268,076	64,058	0	<b>8,057,527</b>
<b>Charge per Property (£)</b>	<b>702.00</b>	<b>702.00</b>	<b>819.00</b>	<b>936.00</b>	<b>1,053.00</b>	<b>1,287.00</b>	<b>1,521.00</b>	<b>1,755.00</b>	<b>2,103.00</b>	

## SHETLAND ISLANDS COUNCIL

### 2007/08 Abstract of Accounts

#### NON-DOMESTIC RATE INCOME ACCOUNT

2006/07		2007/08
£000		£000
(14,806)	Gross rates levied and contributions in lieu	(14,555)
<u>(14,806)</u>		<u>(14,555)</u>
39	Provision for bad and doubtful debts	48
0	Payment of interest	2
2,422	Reliefs and other deductions (net)	2,346
<u>(12,345)</u>	Contribution to national non-domestic rate pool	<u>(12,159)</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 Government. The national Non-Domestic Rate poundage set for 2007/08 was £0.441 (2006/07 £0.449). 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 2007/08, the supplement was 0.30p (0.40p in 2006/07).

Category	No. of Subjects	Rateable Value
		£000
Commercial	570	6,270
Industrial	485	18,257
Other	795	8,467
TOTAL	<u>1,850</u>	<u>32,994</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**PENSION FUND ACCOUNT 2007/08**

**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008**

2006/07		Notes	2007/08	2007/08
£000			£000	£000
	<b>Dealings with members, employers and others directly involved in the scheme</b>			
	<b>Contributions receivable</b>			
	From Employers			
(7,089)	Normal	6	(7,385)	
(414)	Additional		(278)	
<u>(7,503)</u>				(7,663)
	From Members			
(2,988)	Normal	6		(3,111)
	<b>Transfers in</b>			
(1,909)	Individual transfers in from other schemes		(2,356)	
<u>(1,909)</u>				(2,356)
	<b>Other income</b>			
(20)	Other income			(21)
	<b>Benefits Payable</b>			
3,965	Pensions	6	4,363	
1,530	Commutation of pension and lump sum retirement benefits	6	1,691	
99	Lump sum death benefits	6	13	
5,594				6,067
	<b>Payments to and on account of leavers</b>			
16	Refunds of contributions		16	
16	State Scheme Premiums		22	
300	Group transfers out to other schemes		0	
947	Individual transfer out to other schemes		422	
1,279				460
	<b>Administrative expenses</b>			
182	Administrative expenses	8		172
<u>(5,365)</u>	<b>NET (ADDITIONS)/WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>			<u>(6,452)</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**PENSION FUND ACCOUNT 2007/08**

**NET ASSETS STATEMENT AS AT 31 MARCH 2008**

2006/07	Notes	2007/08	2007/08
£000		£000	£000
<b>RETURNS ON INVESTMENTS</b>			
<b>Investment income</b>			
(230)	Quoted UK - interest on fixed interest securities	(167)	
(5,597)	Quoted UK - dividends from equities	(4,521)	
(962)	Quoted overseas - dividends from equities	(1,640)	
0	Unquoted UK - income from pooled investment vehicles	(51)	
(245)	Interest on cash deposits	(688)	
(45)	Other	(154)	
(7,079)			(7,221)
(9,042)	<b>Change in market value of investments</b>		24,481
65	<b>Taxation - irrecoverable withholding tax</b>		78
901	<b>Investment management expenses</b>	8	1,071
(15,155)	<b>Net returns on investments</b>		18,409
(20,520)	<b>Net (increase)/decrease in the fund during the year</b>		11,957
(191,198)	Add : Opening net assets of the scheme		(211,718)
(211,718)	<b>Closing net assets of the scheme</b>		(199,761)

SHETLAND ISLANDS COUNCIL

2007/08 Abstract Accounts

PENSION FUND ACCOUNT 2007/08

NET ASSETS STATEMENT AS AT 31 MARCH 2008

2006/07	Notes	2007/08	2007/08
£000		£000	£000
<b>INVESTMENT ASSETS</b>			
(5,323)		(3,147)	
(175,097)		(152,283)	
(23,171)		(11,934)	
0		(9,030)	
0		(3,293)	
<u>(203,591)</u>	5	<u>(179,687)</u>	
Other investment balances-			
(72)		(27)	
(886)		(1,018)	
<u>(14)</u>		<u>(68)</u>	
		(1,113)	
(204,563)			(180,800)
Net current assets and liabilities			
(6,081)		(12,446)	
(1,002)		(5,870)	
(1,044)	10	(1,196)	
<u>972</u>	11	<u>551</u>	
(7,155)			(18,961)
<u>(211,718)</u>			<u>(199,761)</u>

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

## **SHETLAND ISLANDS COUNCIL**

### **2007/08 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 3,206 members (2006/07 3,127) including 361 (2006 /07 336) who are members of other admitted bodies and 14 (2006/07 13) who are members of a scheduled body, 756 (2006/07 703) pensioners, 153 (2006/07 149) dependents and 939 (2006/07 838) deferred members. These figures do not include teachers, who are covered by the Scottish Teachers Pension Scheme.

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  
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.

##### **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 2007/08.

Valuations of all the investments have been carried out by the custodian, The Northern Trust Company, at mid market values on 31 March 2008.

Items denominated in foreign currency have been translated into sterling at the closing exchange rate as at 31 March 2008.

##### **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 2007/08, 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

Record Currency Management and Schroders who were appointed 28 June 2007 and 11 July 2007 respectively and Capital International currently manage the Fund's investments. 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 investment strategy which has been adopted is to invest in a portfolio that aims for a split along the following guidelines: U.K. Equities 38.75%; Overseas Equities 38.75%; Bonds 10%; Property 10%; and Currency 2.5%.

This is reflected in the investments held, with the introduction of Property Unit Trusts and Currency Unit Trust during this financial year.

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 31.3.07 £'000	Investment Sector	Market Value at 31.3.08 £'000
(5,323)	Fixed interest securities - public sector Quoted - UK	(3,147)
(121,410)	Equities Quoted - UK	(75,540)
(53,687)	Quoted - Overseas	(76,743)
(12,383)	Pooled Investment Vehicles (Unit Trusts) Unquoted - UK	(8,604)
(10,788)	Unquoted - Overseas	(3,330)
0	Pooled Investment Vehicles (Property Unit Trusts) Unquoted - UK	(6,164)
0	Unquoted - Overseas	(2,866)
0	Other Investments UK	(3,293)
<u>(203,591)</u>		<u>(179,687)</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	
	2008	2007	2008	2007	2008	2007
Contributions receivable						
employers	(6,336)	(6,036)	(63)	(62)	(986)	(991)
members	(2,670)	(2,563)	(20)	(20)	(421)	(405)
Benefits payable						
pensions	3,856	3,702	17	16	261	247
lump sums	1,563	1,378	-	-	127	152
lump sum	13	99	-	-	-	-
death benefits						

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

The value of purchases and sales in 2007/08 were £155.0m and £154.0m respectively as compared to £76.3m and £68.0m in 2006/07.

8. **Fund administration costs**

Expenses of the Fund in 2007/08 include an administration charge from the Council of £142,947 (2006/07 £139,755). This represents the time spent by the staff of the Council (principally in Finance) in administering the Fund.

Capital International's management fee for 2007/08 amounted to £800,130 (2006/07 £755,367).

The fees for Recorder Currency Management Limited were £105,183 and Schroder Fund £21,583

There are also management fees to be paid to The Northern Trust Company as the Fund's custodian. The total paid to them in 2007/08 amounted to £100,348 (2006/07 £77,743). 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 2007/08 of -8.8% versus the benchmark return of -4.2%. Recorder Currency Management achieved a return of -34.5% versus the benchmark of +4.4%. Schroders achieved a return of +1.2% versus the benchmark of -11.8%.

10. **Debtors**

The figure for debtors includes amounts due by Shetland Islands Council of £229,019 for employee contributions (2006/07 £216,590) and £542,750 for employer contributions (2006/07 £500,645).

11. **Creditors**

The figure for creditors includes an amount due to Shetland Islands Council of £142,947 for administration recharge costs (2006/07 £139,755).

12. **Statement of Investment Principles**

The Council has prepared and approved a Statement of Investment Principles in relation to investments made by its fund managers 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 2008 was £2,746,818 (2006/07 £2,481,750) and total purchases for the 2007/08 were £351,400 (2006/07 £268,477). The amounts are not included in the Pension Fund Accounts in

accordance with regulation 5 (2) (c) of the Pension Scheme (Management and Investment of Funds) regulations 1998 (SI 1998 No. 1831).

15. Events after the Balance Sheet Date

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £180.8m for the Pension Fund's accounts. An estimate of the effect of the fall in investment values for the Pension Fund cannot be reliably made due to the ongoing volatility within the markets.

## **SHETLAND ISLANDS COUNCIL**

### **Abstract of Accounts 2007/08**

#### **STATEMENT OF GROUP ACCOUNTING POLICIES**

##### **1. Introduction**

The Code of Practice on Local Authority Accounting in the United Kingdom 2007: 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 four 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
- Shetland Transport Partnership (ZetTrans)

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.

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 31.

The position regarding the grouping of Council accounts with the Shetland Development Trust and the Shetland Charitable Trust, which has been the subject of disagreement between the Council and its Auditors, is detailed in note 10 on page 5.

##### **3. Basis of Consolidation**

The four 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. ZetTrans was only established in 2006/07 and the opening investment in it was determined by the percentage funding provided by the Council.

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP INCOME AND EXPENDITURE ACCOUNT**

**YEAR ENDED 31 MARCH 2008**

2006/07		2007/08	2007/08	2007/08
£000		Expenditure £000	Income £000	Net £000
2,776	Central services	3,056	(317)	2,739
37,877	Education services	46,257	(8,009)	38,248
4,924	Environmental services	9,951	(4,664)	5,287
665	Housing services	5,377	(3,652)	1,725
6,006	Cultural and related services	6,834	(1,364)	5,470
4,657	Planning and development services	9,116	(1,128)	7,988
10,073	Roads and transport services	12,006	(2,430)	9,576
9,058	Trading services	28,212	(18,437)	9,775
17,319	Social work	27,076	(7,878)	19,198
6,049	Corporate and democratic core	5,745	0	5,745
(3,909)	Non distributed costs	414	0	414
2,076	Police	1,947	(1)	1,946
2,042	Fire	2,099	0	2,099
(2,640)	Housing revenue account	5,437	(7,451)	(2,014)
1,127	Services acquired from the Islesburgh Trust	0	0	0
201	Share of operating results of Associates	7,693	(7,528)	165
<u>98,301</u>	Net Cost of Services	<u>171,220</u>	<u>(62,859)</u>	<u>108,361</u>
(44)	(Gain)/Loss on disposal of fixed assets			(30)
0	Loss on disposal of fixed assets of Associates			(28)
3,047	Interest payable and similar charges			3,501
166	Interest payable and similar charges of Associates			153
(14,770)	Interest and investment income			(25,803)
(33)	Interest and investment income of Associates			(72)
(277)	Net Surplus trading undertakings			(84)
(1,182)	Pension interest cost & expected asset return			(2,063)
1,442	Pension interest cost & expected asset return of Associates			1,571
86,650	NET OPERATING EXPENDITURE			85,506
(7,860)	Council Tax			(8,216)
(68,473)	Revenue Support Grant			(71,842)
(8,138)	Contribution from non-domestic rate pool			(8,031)
<u>2,179</u>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<u><b>(2,583)</b></u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

2006/07 £000		2007/08 £000
2,179	(Surplus)/Deficit on Income and Expenditure Account	(2,583)
3,691	Surplus arising on revaluation of fixed assets	(29,458)
0	Surplus arising on revaluation of Available-for-sale Financial Instruments	(7,825)
(19,672)	Actuarial (gains)/losses on pension fund assets and liabilities.	(20,368)
(2,998)	Interest on Reserves	0
<u>(16,800)</u>	Total recognised gains for the year	<u>(60,234)</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP BALANCE SHEET  
AS AT 31 MARCH 2008**

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
0	Intangible assets		1,424
	<b><u>TANGIBLE FIXED ASSETS</u></b>		
	Operational assets		
40,833	Council dwellings	60,440	
96,913	Other land and buildings	97,409	
34,988	Vehicles, plant, furniture and equipment	39,331	
115,610	Infrastructure assets	115,784	
5,153	Community assets	5,104	
<u>293,497</u>			318,068
	Non-operational assets:		
4,193	Investment properties	4,444	
9,120	Assets under construction	15,360	
239	Surplus assets, held for disposal	245	
		<u>20,449</u>	20,049
<u>307,049</u>	<b>TOTAL FIXED ASSETS</b>		<u>339,541</u>
(37,648)	Investments in Associates		(36,100)
231,417	Long-term investments		241,125
4	Long-term debtors:Housing Loans		4
22	Long-term debtors:Other		18
<u>500,844</u>	<b>TOTAL LONG-TERM ASSETS</b>		<u>544,588</u>
	<b><u>CURRENT ASSETS</u></b>		
2,819	Stocks and work in progress	3,092	
11,131	Debtors, less bad debt provisions	11,243	
15,934	Short term investments	16,141	
6,470	Cash and bank	5,196	
<u>36,354</u>			<u>35,672</u>
537,198	<b>TOTAL ASSETS</b>		<u>580,260</u>
	<b><u>CURRENT LIABILITIES</u></b>		
(14,754)	Creditors		(12,312)
<u>522,444</u>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>567,948</u>
	<b><u>LONG-TERM LIABILITIES</u></b>		
(7,783)	Government Grants-deferred	(10,207)	
(342)	Provision	(214)	
<u>(35,133)</u>	Pension Asset/ (Liability)	<u>(18,107)</u>	
<u>(43,258)</u>			<u>(28,528)</u>
<u>479,186</u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>539,420</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP BALANCE SHEET**

**AS AT 31 MARCH 2008**

31 March 2007 £000		31 March 2008 £000	31 March 2008 £000
	<b><u>FINANCED BY:</u></b>		
(251,227)	Capital Adjustment Account		(255,232)
0	Revaluation Reserve		(28,281)
0	Available-for-sale Financial Instruments Reserve		(7,825)
76,657	Pension Reserve		58,220
(343)	Capital Receipts Reserve		(381)
(26)	Deferred Capital Receipts		(22)
<u>(174,939)</u>			<u>(233,521)</u>
(118,471)	Capital Fund	(116,545)	
(97,896)	Repairs and Renewals Fund	(101,413)	
(87,273)	Reserve Fund	(87,220)	
(269)	Insurance Fund	<u>(267)</u>	
<u>(303,909)</u>			<u>(305,445)</u>
	<b>Balances</b>		
(338)	General Fund		(454)
<u><u>(479,186)</u></u>	<b>GROUP BALANCES AND RESERVES</b>		<u><u>(539,420)</u></u>

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



**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT**

2006/07		2007/08	2007/08
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
82,273	Cash paid to and on behalf of employees	85,088	
60,210	Other operating cash payments	68,061	
368	Housing Benefit paid out	398	
<u>4,482</u>	National Non-Domestic Rate payments to national Pool	<u>4,210</u>	
147,333			157,757
	<b>Cash Inflows</b>		
(3,405)	Rents (after rebates)	(3,561)	
(7,047)	Council Tax income (after rebates)	(7,526)	
(10,363)	Non-domestic rate receipts	(12,180)	
(68,488)	Revenue Support Grant	(71,273)	
(364)	DSS grants for benefits	(417)	
(19,397)	Other government grants	(16,455)	
(24,685)	Cash received for goods & services	(27,404)	
<u>(8,535)</u>	Other operating cash receipts	<u>(10,002)</u>	
(142,284)			(148,818)
<u>5,049</u>	<b>NET REVENUE CASH (IN)/OUTFLOW</b>		<u>8,939</u>
	<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>		
	<b>Cash Inflows</b>		
(3,709)	Dividends received		(2,214)
	<b>RETURNS ON INVESTMENTS ANDSERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(6,172)	Interest received		(6,413)
<u>(4,832)</u>	<b>BALANCE c/f</b>		<u>312</u>

**SHETLAND ISLANDS COUNCIL**

**2007/08 Abstract of Accounts**

**GROUP CASHFLOW STATEMENT (continued)**

2006/07		2007/08	2007/08
£000		£000	£000
(4,832)	BALANCE b/f		312
<b>CAPITAL EXPENDITURE &amp; FINANCIAL INVESTMENT</b>			
<b>Cash Outflows</b>			
40,954	Purchase of fixed assets	18,582	
<u>149,353</u>	Purchase of long-term investments	<u>401,700</u>	
190,307			420,282
<b>Cash Inflows</b>			
(1,258)	Sale of fixed assets	(1,767)	
(160,108)	Sale of long-term investments	(413,763)	
(2,212)	Capital grants received	(2,893)	
<u>(6)</u>	Other capital cash receipts	<u>(4)</u>	
(163,584)			(418,427)
<u>21,891</u>	Net cash inflow/outflow before financing		<u>2,167</u>
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
(600)	Increase/(decrease) in short term investments		(893)
<b>FINANCING</b>			
<b>Cash Outflows</b>			
50	Repayments of amounts borrowed-finance leases		0
<u>21,341</u>	(INCREASE)/DECREASE IN CASH		<u>1,274</u>

## **SHETLAND ISLANDS COUNCIL**

### **2007/08 Abstract of Accounts**

#### **RECONCILIATION OF COUNCIL SURPLUS TO GROUP SURPLUS**

£000		£000
403	(Surplus)/Deficit on Council's Income and Expenditure Account	(4,372)
<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>
403		(4,372)
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to:	
1,776	Associates	1,789
<u>2,179</u>	(Surplus)/Deficit for the year on Group Income and Expenditure Account	<u>(2,583)</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  
Shetland Transport Partnership (ZetTrans)

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 2007/08, Shetland contributed 51.8% (2006/07 49.5%) of the Board's costs and its share of the year-end net liability of £0.55m (2006/07 £0.22m) 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 2007/08, Shetland contributed 6.77% (2006/07 6.88%) of the Board's costs and its share of the year-end net liability of £300.9m (2006/07 £316.2m) 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 2007/08, Shetland contributed 9.34% (2006/07 9.66%) of the Board's costs and its share of the year-end net liability of £51.7m (2006/07 £56.2m) is included in the Group Balance Sheet.

Shetland Transport Partnership (ZetTrans) was established in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005. In 2007/08 Shetland contributed 64.1% (2006/07 67.4%) and net year-end liability was zero.

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

2006/07 £000	<b>Northern Joint Police Board</b>	2007/08 £000
3,873	Turnover	3,963
264	Profit before Tax	36
0	Taxation	0
264	Profit after Tax	36
4,624	Fixed assets	4,476
836	Current assets	1,098
(414)	Liabilities due within one year	(520)
(36,966)	Liabilities due after one year or more	(35,939)
2006/07 £000	<b>Highlands and Islands Fire Board</b>	2007/08 £000
2,058	Turnover	2,099
(63)	Profit before Tax	116
0	Taxation	0
(63)	Profit after Tax	116
3,712	Fixed assets	3,939
387	Current assets	349
(388)	Liabilities due within one year	(311)
(9,333)	Liabilities due after one year or more	(9,173)
2006/07 £000	<b>Orkney and Shetland Valuation Joint Board</b>	2007/08 £000
286	Turnover	291
0	Profit before Tax	3
0	Taxation	0
0	Profit after Tax	3
0	Fixed assets	0
7	Current assets	9
(7)	Liabilities due within one year	(9)
(106)	Liabilities due after one year or more	(18)
2006/07 £000	<b>Shetland Transport Partnership (ZetTrans)</b>	2007/08 £000
612	Turnover	1,176
3	Profit before Tax	9
0	Taxation	0
3	Profit after Tax	9
0	Fixed assets	0
540	Current assets	1,324
(540)	Liabilities due within one year	(1,324)
0	Liabilities due after one year or more	0

## 2. Financial Impact of Consolidation

The effect of inclusion of these bodies in the Group Balance Sheet is to reduce the net worth by £36.1m, 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.

### 3. **Events after the Balance Sheet Date**

Recently the value of investments has fallen significantly. Investments made through external fund managers are reflected in these statements at a value of £257m for the Group's accounts. An estimate of the effect of the fall in investment values for the Group cannot be reliably made due to the ongoing volatility within the markets.

**SHETLAND ISLANDS COUNCIL**

**2007/08 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 2008.

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

## **SHETLAND ISLANDS COUNCIL**

### **2007/08 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 and report on key audit findings.

The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2007/08 was that the Council's system of internal control was adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

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

Notwithstanding the above, issues surrounding disclosure checks continue to be a problem. However, the situation is gradually improving. Controls around school funds and comfort funds are causing concern and are currently under review. It is also intended to review Register of Interests processes. Issues surrounding standing orders being applied in relation to contractible services have also been identified. Due to a lack of progress as a result of a follow up audit on Social Care, the Executive Director has agreed to provide a 6-month progress report in October 2008. There was also during the year a major revision of the risk registers by the Safety and Risk service. These identify areas where the Council runs significant risks and will inform the allocation of resources towards the management of these risks and audit of the system of control.

The Council identified four entities that it treats as 'associates' and has included them within its Group Accounts. Two of these entities, the Orkney and Shetland Valuation Joint Board and the Shetland Transport Partnership (ZetTrans) are operated by the officers of the Council using the systems of the Council and are therefore effectively covered by its systems of internal financial control. The other two entities, the Northern Joint Police Board and Highlands and Islands Fire Board, are operated by Highland Council and so the Council's influence over their systems of internal financial control is limited to the involvement of the members that represent the Council on these boards.

.....  
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 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements 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, Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account, and the related notes and the Statement of Accounting Policies, together with the Group Accounts. 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 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you, if in my opinion, 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 compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or 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. My 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 most appropriate to the local authority's and its group 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 2007 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 both of these bodies represents a significant interest and their omission results in a material miss-statement of the group accounts.

In March 2008, the Council obtained legal advice which recommends that the results of the Shetland Development Trust should be included in the group accounts, whilst the position of the Shetland Charitable Trust required further consideration. Despite this advice, for 2007/08 the Council has not included either of the trusts in the group accounts.

Based on prior year financial statements, I estimate that these bodies would contribute:

- a deficit position of approximately £3 million to the Group Income and Expenditure Account (resulting from income of £13 million and expenditure of £16 million);
- net assets of approximately £277 million to the Group Balance Sheet (resulting from fixed assets of £29 million, investments and loans of £232 million, net current assets of £18 million and long term liabilities of £2 million).

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

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Shetland Islands Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Fiona Mitchell-Knight FCA  
Assistant Director of Audit (Local Government)  
Audit Scotland  
7<sup>th</sup> Floor Plaza Tower  
East Kilbride, G74 1LW

**30 September 2008**